Annual Report 2005

Post.at

Österreichische Post AG

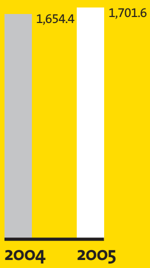
Austrian Post is going far.

Contents

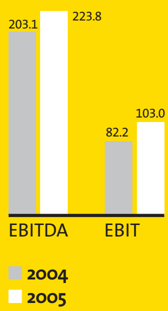
Key indicators

		2004	2005	Change %
Income statement				
Revenue	EUR m	1,654.4	1,701.6	+2.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)	EUR m	203.1	223.8	+10.2
EBITDA margin	%	12.3	13.2	—
Earnings before interest and tax (EBIT)	EUR m	82.2	103.0	+25.3
EBIT margin	%	5.0	6.1	—
Earnings before tax (EBT)	EUR m	76.7	100.9	+31.6
Profit for the period	EUR m	50.0	99.9	+99.8
Employees (full-time basis, annual average)		26,342	25,192	–4.4
Cash flow				
Operating cash flow before changes in working capital	EUR m	248.3	283.9	+14.3
Cash flow from operating activities	EUR m	193.6	279.4	+44.3
Free cash flow	EUR m	98.3	205.4	+109.0
Investment in property, plant and equipment	EUR m	88.5	73.6	–16.8
Balance Sheet				
Total assets	EUR m	1,795.7	1,563.0	–13.0
Non-current assets	EUR m	1,011.4	997.4	–1.4
Current assets	EUR m	393.7	542.6	+37.8
Non-current assets held for sale and discontinued operations	EUR m	390.6	23.0	–94.1
Capital and reserves	EUR m	712.5	762.1	+7.0
Non-current liabilities	EUR m	287.5	361.3	+25.7
Current liabilities	EUR m	421.0	439.6	+4.4
Liabilities of discontinued operations	EUR m	374.7	0.0	—
Key balance sheet indicators				
Interest-bearing liabilities	EUR m	293.1	369.1	+25.9
Interest-bearing assets	EUR m	196.6	397.1	+102.0
Net debt/Net cash position	EUR m	96.5	–28.0	–129.0
Equity ratio	%	39.7	48.8	—

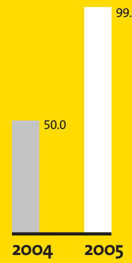
Revenue
(EUR m)



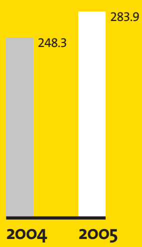
EBITDA and EBIT
(EUR m)



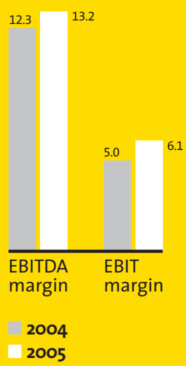
Profit for the period
(EUR m)



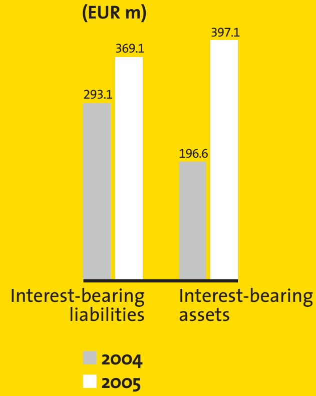
Operating cash flow before changes in working capital
(EUR m)



EBITDA margin and EBIT margin
(%)

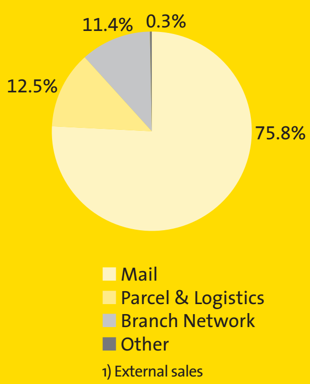


Net debt/Net cash
(EUR m)



Divisions

Revenue by division[1)]



1) External sales

Divisional highlights

		Mail Division	Parcel & Logistics Division	Branch Network Division	Other and Consolidation	Group total
Revenue 2005[1)]	EUR m	1,290.8	211.8	193.8	5.2	1,701.6
Total revenue 2005[2)]	EUR m	1,357.1	257.6	401.9	–314.9	1,701.6
EBIT 2005	EUR m	268.9	10.4	8.7	–184.9	103.0
Revenue 2004[1)]	EUR m	1,255.3	199.0	196.2	3.9	1,654.4
Total revenue 2004[2)]	EUR m	1,329.5	241.2	396.8	–313.1	1,654.4
EBIT 2004	EUR m	235.3	–16.7	–10.2	–126.2	82.2

1) External sales
2) External sales plus internal sales

Dispatch and deliver –
may sound so simple
but it's the key to our success.

Good customer relationships drive our customers' business. And their success is crucial to our own. "Our customers' success is at the heart of everything we do."

We provide quality postal services throughout Austria.

Our branch network and delivery staff ensure that Austrian Post is present wherever it's needed.

We operate a highly efficient infrastructure that gives us one of Europe's most modern distribution systems.

We regularly test and enhance our quality of service.

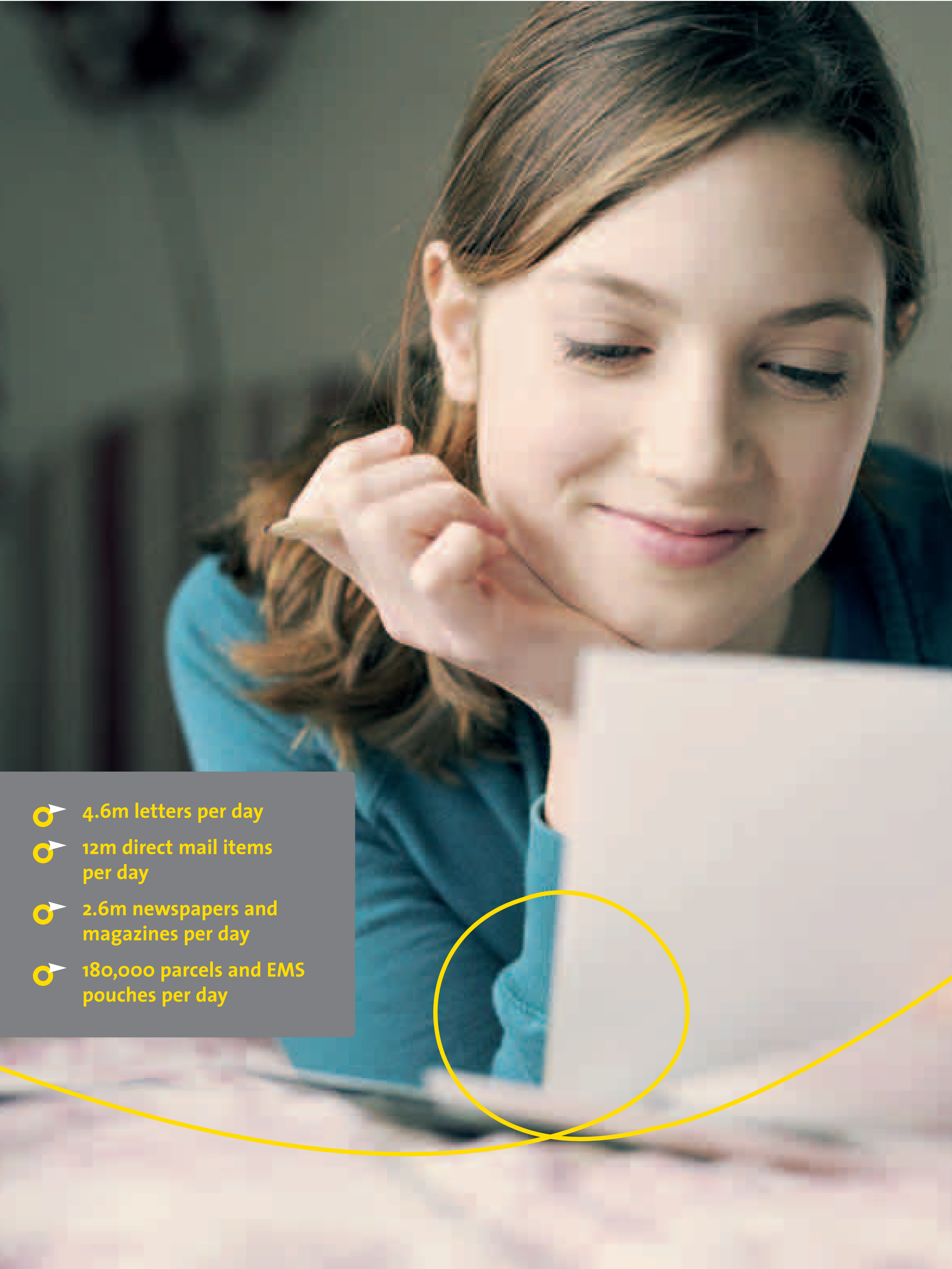
We are constantly developing new services.

We are investing in growth and expanding into promising markets abroad.

We are embracing competition with open arms.

Austrian Post in *2005*

- Austrian Post has transformed itself into a successful, modern service business
- The Group is among the top quality performers in the European postal industry
- Austrian Post is the Austrian market leader and has successfully entered neighbouring markets
- The Group is strongly rooted in the postal market, and revenue rose by 2.9% to EUR 1,701.6m in 2005
- The Mail Division has a stable core business and recorded a 2.8% increase in revenue in 2005
- The Parcel & Logistics Division continued to grow, and its revenue rose by 6.4%
- The Branch Network Division achieved a turnaround due to a wide-ranging restructuring and modernisation programme
- Earnings improved in 2005:
  EBITDA up by 10.2% to EUR 223.8m
  EBIT up by 25.3% to EUR 103.0m
  Profit for the period almost doubled to EUR 99.9m
- Operating cash flow before changes in working capital up more than 14.3% at EUR 283.9m
- Austrian Post has a sound financial structure



- 4.6m letters per day
- 12m direct mail items per day
- 2.6m newspapers and magazines per day
- 180,000 parcels and EMS pouches per day

11,300 postmen and women serve 3.9m households and businesses – every day, to every door.

We deliver for you.

- 1,338 company owned branches across Austria (including 378 with financial service centres)
- 612 third-party operated outlets (191 post partner offices, 349 postal service points and 72 postal pick up points)
- Two mobile post offices (Post.Mobil)

Our branch network provides top-quality service which customers trust.

We deliver for you.

- Over 95% of all domestic letters delivered on the next working day
- 94% of all domestic parcels delivered within two working days
- State-of-the-art logistics infrastructure
- Six letter and seven parcel sorting centres
- 420 delivery bases

Austrian Post delivers an average of 4.6m letters per day. Over 95% arrive on the next working day.

We deliver for you.

Statement by the Management Board

Austrian Post continued its positive development in 2005. Our Group's revenue rose further, by 2.9% to EUR 1,701.6m, and the improvement in earnings was even more significant. EBITDA was up by 10.2% to EUR 223.8m, and EBIT increased by 25.3% to EUR 103.0m, providing impressive proof of the success of the restructuring programme that has been carried out since 2000. Today, Austrian Post is a modern, dynamic, customer driven service business – and a profitable company. We are in good shape for the planned initial public offering (IPO).

Market led restructuring and modernisation

Over the past five years we have implemented many measures to prepare for the EU's liberalisation programme. For instance, we have invested a total of over EUR 300m in modernising our logistics infrastructure, resulting in the setting up of an efficient, state-of-the-art network.

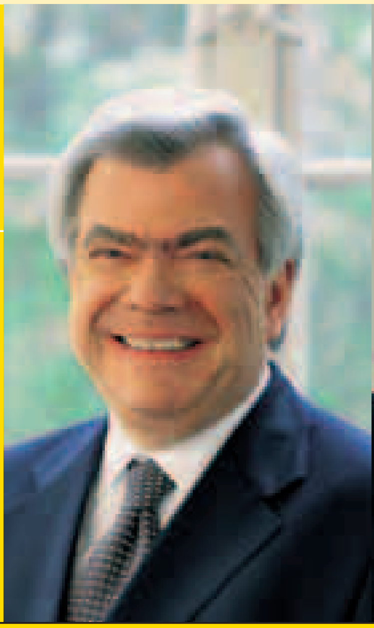
We have also streamlined our branch network to align it with market demands and our customers' needs, and enable it to provide nationwide service of high quality on a sustainable basis. In 2005, closures of unprofitable branches cut the number of sites from 1,639 to 1,338, but at the same time we expanded our network of third-party operated outlets – Post.Partner (post partner offices), Post.Servicestellen (postal services points) and Post.Abholstellen (postal pick up points) – from 390 to 612. We also opened up a wealth of new opportunities for customer contact and service provision by extending the role of our 5,000 rural delivery staff.

Delivering top quality service

Over the past few years we have unremittingly focused on quality – in the logistics which support our services, in our innovative product portfolio and in our customer care. Increased delivery quality and customer satisfaction are the main indicators of the success of our efforts. We constantly monitor both by means of independent performance measurement and surveys.

The significant improvements achieved in recent years demonstrate that we have been working in the right direction. For example, the speed of letter deliveries – the key quality metric for a postal service provider – has steadily risen. The proportion of domestic letters delivered on the next working day – still only 68% in 2002 – is now consistently above 95%. We are also overfulfilling the regulatory requirements for parcel delivery by a wide margin, with 94% of all items arriving on the second working day after posting. The quality index for our branches generated by a broad-based mystery shopping programme has also risen sharply, climbing from 79% in 2001 to 94% last year.

The 11,300 letter and parcel delivery staff play an integral part in maintaining our high standards. They are interacting with our customers every day, delivering mail to addresses throughout Austria. Together with our modern logistics infrastructure and the high performance of our staff at branches and sorting centres, their efforts are central to our ability to remain among the European quality leaders in our industry.



Anton Wais
Chairman of the
Management Board

Rudolf Jettmar
Deputy Chairman of the
Management Board

Herbert Götz
Member of the
Management Board

Walter Hitziger
Member of the
Management Board

High growth potential despite stiffening competition

Austrian Post has transformed into a stronger and leaner organisation, and it is holding its own well in a challenging environment. At the start of 2006, the reserved area for letters was restricted to letters weighing up to 50 grams. The Postal Services Act 2005, which became effective on 1 March 2006, provides for full market opening in accordance with the timetable to be set by the EU. The Act also defines universal postal service and establishes quality requirements for market participants. The European Commission envisages full liberalisation of the European letter market in 2009, provided that the findings of various studies are favourable.

The changing legal environment offers considerable potential for our industry. While personal letter mail volumes are in decline, business correspondence, direct mail and e-commerce deliveries are all on the increase. At the same time the trend towards outsourcing is generating increased demand for business-to-business (B2B) logistics services.

Clear road map

Austrian Post has responded to this scenario by mapping out an ambitious strategy aimed at strengthening its position as the leader on its home market and establishing the company as an international specialist service provider. The modernisation drive of the past few years has put us in an excellent position to face growing competition at home, and we intend to exploit our strong customer relationships, our nationwide presence and our high quality standards to defend our leadership. We are confident that an innovative portfolio of products and services, continuous improvement of our service standards, and selective expansion into new areas further along the value chain will enable us to do so. For instance, we would like to make life easier for our customers by taking on the task of managing letter dispatch from their in-house mailrooms and printing centres.

Expanding our postal and logistics services also provides good future prospects. Our main target here is the B2B area, which we see as a way of growing along with our customers by providing innovative services. We will be looking to enter this market by making acquisitions and forming joint ventures with international networks. An important breakthrough in this respect was the conclusion of a cooperation agreement under which we began collecting, transporting and delivering parcels and pallets in Austria for the German logistics specialist trans-o-flex in January 2006. We plan to continue to widen our geographical reach, and following the initial steps in this direction in Croatia, Hungary and Slovakia, we believe that additional opportunities will arise in the future.

Added impetus from IPO

On 30 January 2006 the Supervisory Board of our owner, Österreichische Industrieholding AG (ÖIAG), resolved to float Austrian Post, having been authorised by the Austrian government to privatise up to 49% of our company by means of an Initial Public Offering.

The planned IPO will give us additional momentum by making it considerably easier to gain access to capital. Following the transformation of the past few years, we are well prepared for this move, which will underpin our position as one of Austria's leading companies. We intend to press ahead with our successful strategy and invest in further expansion, thereby also contributing significantly to employment. At the same time the offer will help us to maintain top-quality nationwide postal services in Austria in a fully liberalised market.

Employees crucial to success

The dynamic approach we have adopted highly depends on our people's support. Their commitment, acceptance of change and sense of responsibility were the key to renewal, and are indispensable to the implementation of our ambitious plans. Because of this we will continue to pay close attention to employee training and motivation. We are also conscious of the Company's social responsibility, and have therefore sought the agreement of the workforce and employee representatives to all of the restructuring actions of the past few years. Our Career- and Development Centre, which is helping the staff members affected by restructuring to strike out in new directions, is just one example of this.

The significant improvement in the Company's performance would not have been possible without the broad consensus and common effort that were achieved. We would like to take this opportunity to thank all our employees for their contribution. We share their pleasure in the fact that it has been possible to increase the EBIT bonus once again, thanks to last year's excellent results. We hope that we can continue to count on their full support in the future.

Outlook

Going forward, in the light of the many initiatives taken to optimise and grow the business, we are thoroughly optimistic about the outlook for 2006. We are proud and delighted that investors will get the opportunity to participate in our company's development, and this will spur us to achieve further improvements in performance.

Vienna, March 2006

Anton Wais
Chairman of the
Management Board

Rudolf Jettmar
Deputy Chairman of the
Management Board

Herbert Götz
Member of the
Management Board

Walter Hitziger
Member of the
Management Board

Statement by the Chairman of the Supervisory Board

Peter Michaelis

The Company's performance in 2005 was further proof that it had taken the right course by opting for root and branch restructuring. The figures, in the shape of further growth in mail volumes and revenue, and another healthy profit, tell the same story. Moreover, the acquisition of feibra Hungary and the cooperation agreement reached with trans-o-flex shortly before the end of the year marked further strides towards widening the Company's portfolio of activities and its geographical focus.

Austrian Post has put its house in order, and actively embraced the challenges of liberalisation. With ultra-modern infrastructure, a branch network that has been overhauled to reflect market realities and customer needs, and a lean organisation, the Austrian core business is profitable and is set to expand. At the same time the Company is pursuing an ambitious growth strategy, and is well on the way to tapping new revenue and earnings streams both at home and in selected markets abroad.

On 12 January 2006 the Cabinet instructed the current sole owner, ÖIAG, to privatise Austrian Post, which is excellently placed for the impending initial public offering. A renowned international investment bank has attested to the Company's readiness for market, and its assessment is shared by leading Austrian stock market personalities. While the precise timing and details of the listing have not yet been settled, experts believe that the market will be receptive to the stock's attractiveness and potential.

Like many other former state owned enterprises before it, Austrian Post can look forward to new perspectives as a result of the IPO. In the longer term, going public should enable the Company to realise its expansion plans by simplifying access to capital. Virtually all of the businesses that have been partially or wholly floated by ÖIAG in recent years have gone on to grow rapidly and increase their head counts.

All this means that the future looks very bright for Austrian Post – and the IPO will give the Austrian public a chance of profiting from its progress. It goes without saying that this also applies to the work force, who have played a big part in the Company's rapid transformation, and are to be offered an attractive employee share ownership scheme. On behalf of the entire Supervisory Board, I should like to thank them for their excellent performance in the past and for their continued sense of commitment.

Finally, I should also like to note that the proceeds of the offering will go to supporting and expanding the Austrian research and development effort, thereby contributing to economic growth and employment.

Vienna, March 2006

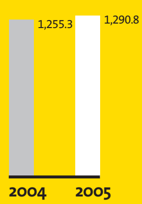
Peter Michaelis
Chairman of the Supervisory Board

Divisions
and business areas

Mail

The Mail Division is divided into three business areas: Letter Mail, Infomail and Media Post. The division's core business is dispatching letters and postcards, addressed direct mail (Info.Mail) and unaddressed direct mail (Info.Post), national and regional newspapers worldwide, delivering items from around the globe to every delivery point in Austria, and providing an extensive portfolio of direct marketing services.

Revenue Mail Division (EUR m)[1]

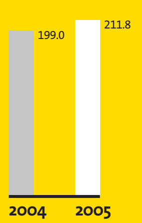


Key indicators		2005
Revenue[1]	EUR m	1,290.8
Total revenue[2]	EUR m	1,357.1
EBIT	EUR m	268.9
Employees		15,556

Parcel & Logistics

The Parcel & Logistics Division markets a wide range of domestic and international parcel and express services in this fully liberalised market segment, in which it is the Austrian market leader. Parcel & Logistics has so far mainly focused on deliveries to households, but plans to develop the business-to-business (B2B) segment and exploit related growth opportunities. Apart from the Austrian home market, the division is active in Croatia and Slovakia.

Revenue Parcel & Logistics Division (EUR m)[1]

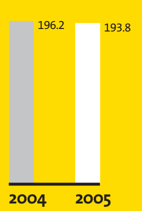


Key indicators		2005
Revenue[1]	EUR m	211.8
Total revenue[2]	EUR m	257.6
EBIT	EUR m	10.4
Employees		2,461

Branch Network

The Branch Network Division operates one of Austria's largest nationwide retail chains, with 1,338 company owned branches and 612 third-party operated outlets. The network mainly distributes postal services, BAWAG P.S.K. banking services and a wide selection of retail products. The division's strengths lie in its nationwide reach, the expertise and customer driven approach of its staff, as well as the quality of the products and services it offers.

Revenue Branch Network Division (EUR m)[1]



Key indicators		2005
Revenue[1]	EUR m	193.8
Total revenue[2]	EUR m	401.9
EBIT	EUR m	8.7
Employees		5,446

1) External sales
2) External sales plus internal sales

Austrian Post's three divisions – Mail, Parcel & Logistics and Branch Network – provide a wide range of top-quality services.

Letter Mail

- Collection of letters from 27,000 locations in Austria
- Letter deliveries to 3.9m delivery points in Austria
- Daily, nationwide, top quality service
- Acceptance and forwarding of international letter mail

- Average of 4.6m letters per day
- Peak volume 6–7m letters per day
- Over 1.1 billion (bn) letters in 2005

Infomail

- Delivery of addressed direct mail and unaddressed advertising
- Geomarketing distribution plans
- Address management
- Lettershop services

- 12m items per day
- 3.1bn items per year
- 60% of revenue generated by addressed direct mail
- 40% accounted for by unaddressed advertising

Media Post

- Delivery of print media (newspapers and magazines)
- Nationwide
- Premium service
- Fiercely competitive market

- 2.6m newspapers per day
- 10% of total accounted for by daily papers
- 45% weeklies and monthlies
- 45% national, regional and local papers and publications of non-profit organisations

Parcel & Logistics

Austria
- Processing of some 45m and delivery of about 43m parcels per year in Austria
- Delivery to a total of 3.9m delivery points including 3.3m households by Austrian Post's dedicated parcel delivery organisation and the nationwide letter carrier network (total of about 11,300 letter and parcel delivery staff)
- 1,338 branches as pick-up points for parcel and Express Mail Service (EMS) deliveries
- Average of around 180,000 parcel and EMS deliveries per day
- 90% of revenue contributed by parcel, 10% by EMS

International business (volume in 2005)
- Slovakia 3.4m parcels
- Slovenia 1.0m parcels
- Croatia 1.4m parcels

Postal services

Handling of the Mail and Parcel & Logistics Divisions' products and services (PO boxes, holiday mail holding service and franking)

Financial services

Sale of BAWAG P.S.K. financial services (savings, account, loan, insurance, fund and home loan savings products)

Retail products

Wide range of retail products: Telecommunication products, stationery, IT and entertainment products (CDs, DVDs and VHS cassettes) and lottery products

Branch Network

• 1,338 company owned branches (including 378 financial service centres) • 191 post partner offices operated by retailers, local authorities and tourist boards, providing selected postal and financial services as contract partners of Austrian Post • 349 postal service points, mainly at local council offices, accepting letters, parcels and payment orders and acting as pick up points for mail • 72 postal pick up points at local council offices • Two mobile post offices (Post.Mobile) providing customers in rural areas with postal and financial services and selected retail products • One philatelic shop

Status: 31 December 2005

Turning 500 years' experience into a bright future

Milestones in Austrian postal history

1490
Europe's first standardised postal service, between Innsbruck in Austria and Mechelen in Belgium, is established by order of Emperor Maximilian I; the mail is carried by mounted couriers.

1750
Regular passenger carrying mail coach services begin in the mid-18th century.

1787
An Austrian postmaster, Johann Georg Khumer of Friesach, Carinthia, wins a place in European postal history by introducing the use of place and date stamps (postmarks). However, it will take until 1867 for postmarks bearing precise date and place information to become mandatory.

1817
A reorganisation of the postage rates system – also bringing payment by the recipient of the charge for the carriage of inland mail – leads to the introduction of letterboxes throughout the country in 1817. Collect on delivery services and postal orders will become common in the mid-19th century.

1850
The first stamps are affixed to postal items in Austria. The year also witnesses the advent of mail deliveries by rail when the first "Imperial Mobile Branch" enters service on the route between Vienna and Oderberg, Germany.

1863
An international postal conference attended by delegates from 15 countries including Austria agrees guidelines for international postal treaties. The foundation of the Universal Postal Union (UPU), which establishes the principle of a single postal territory for all member countries is to follow in 1874. Today 190 countries belong to the UPU.

1869
The first postcards – an Austrian invention – are issued during the year. Still blank "correspondence cards", they will only conquer the world when they become picture postcards some time later.

1875
A pneumatic capsule pipeline system for transporting telegrams is developed and commissioned in Vienna. By 1913 the tube network will have grown to 82.5 kilometres (km); it will remain in operation until 1956.

1916
The first indoor cluster box units are installed as a special customer service. The landlords must pay a charge for them as they are the property of Austrian Post.

1918
Austria becomes the first country in the world to introduce a civil air mail service. Aircraft have been carrying military orders and despatches since 1915. Overseas air mail services will start in 1928.

1966
Austria is one of the first countries to introduce a standardised national system of postal codes which replace district postmarks.

The postal service between the Residence in Innsbruck and Mechelen in the Habsburg Netherlands, established by the later Emperor Maximilian I in 1490, is generally regarded as marking the birth of Austrian Post.

1986
The new Express Mail Service (EMS) gives priority to letter and parcel mail at every forwarding stage, including customs clearance.

1996
Post und Telekom Austria (PTA) is founded as the legal successor to the Post- und Telegraphenverwaltung (Postal and Telegraph Administration).

1998
The postal and telecommunications businesses are demerged, though a common holding company is retained.

1999
Austrian Post becomes legally independent as the indirect successor of the postal and post bus operations of the former Post- und Telegraphenverwaltung (Postal and Telegraph Administration).

2000
The post bus business is spun off into a new company, Österreichische Postbus AG, leaving Austrian Post free to concentrate on its core business.

2001
Entry to the Slovenian market marks the start of expansion into neighbouring countries. This will be followed by Austrian Post's acquisitions of Slovakian companies Slovak Parcel Service (SPS) and In-Time in January 2002. The expansion drive will continue with the takeovers of Croatia's Overseas Trade in 2003 and feibra Hungary in 2005, making Austrian Post one of the top players in the parcel and unaddressed direct mail segments in the CEE region.

2002
Austrian Post revamps its organisational structure. Meanwhile the Group continues to invest in the transport and distribution logistics modernisation programmes launched in 1999, so as to prepare for impending phased postal market liberalisation.

2005
In order to adjust segment reporting to market realities the existing business areas are grouped in the Mail, Parcel & Logistics and Branch Network Divisions.

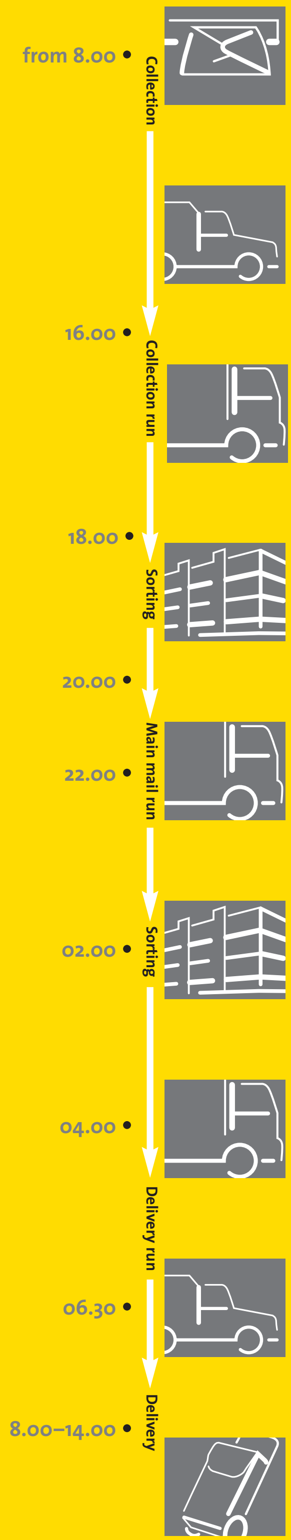
The quality equation: quality = speed and reliability

Speed and reliability add up to a postal service provider's quality standards, and are thus the cornerstones of its success. Quick, reliable and accurate delivery rests on well trained staff with the necessary skills to drive ahead improvements in speed and customer focus. Their role is particularly crucial over the first and last mile. The other critical success factor is logistics infrastructure, which must meet ever higher technical standards.

Our quality drive has brought tremendous progress on both fronts in the past few years. Our logistics systems have been upgraded across the whole country in order to enhance delivery quality. We have invested over EUR 300m in upgrading and automating our logistics infrastructure which is now among the most modern in Europe. At the same time we have been working to improve our internal processes and company-wide communications, and strengthen our customer focus and staff motivation.

The transport pipeline that a postal item typically passes through highlights the importance of these quality drivers.

The process chain



The so-called "first mile" comprises the posting of a letter, postcard or parcel:
1,338 branches with 5,400 employees
191 post partner offices, 349 postal service points and approx. 5,000 rural delivery staff
20,539 letter boxes (140m letters per year or 10% of the total)

Approx. **480 transports** per day to sorting centres

6 letter sorting centres and
7 parcel sorting centres
sort and distribute postal items

About 160 road and (in part) rail transports per day between sorting centres
ave. of 4.6m letters per day
12m direct mail pieces
Approx. 180,000 parcels and EMS items
2.6m newspapers and magazines per day

13 sorting centres with about 2,900 staff work round the clock to ensure that letters and postcards are delivered within one working day, and parcels within two working days

460 transports per day to take the sorted mail to the **420 letter and parcel delivery bases**

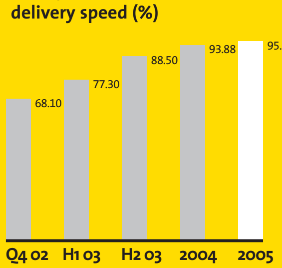
About **11,300 letter and parcel delivery staff** deliver the mail to approx. 3.9m delivery points. The Austrian Post has the largest fleet in the country, at about **11,000 vehicles**. Providing nationwide service means covering an annual **128m kilometres**.

Behind our rapid and reliable services are a highly skilled workforce and ultramodern infrastructure.

The measures of quality

Thanks to our wide-ranging quality programmes we have succeeded in significantly increasing delivery quality over the past few years. Performance is measured on an ongoing basis, in terms of the J+1 indicator prescribed by the Austrian Universaldienstverordnung (Universal Service Ordinance). J+1 stands for the proportion of domestic letters delivered on the first working day after posting. Delivery times are measured by outside consultants (Info Research International and IPC) using state-of-the-art technology in the shape of test letters that carry transponders (small transmitters). Receivers precisely register and track mail items at every stage of their journey from posting through to delivery. In all, the independent quality research firms sent out almost 49,000 test letters in Austria in 2005. In addition, we monitor the entire transport process throughout the country, using over 300 measurement points. Every deviation from target is diagnosed and action taken to rectify it. The proportion of letters delivered within J+1 now regularly tops the 95% mark – up from around 68% in the fourth quarter of 2002.

Steady increases in delivery speed (%)



Source: Independent measurements by Info Research International

In addition, Focus, an independent market research firm, carries out ongoing quality measurements for the Infomail business area. In 2005, we once again emerged as the top Austrian service provider in terms of direct mail distribution quality (unaddressed advertising).

- **Customer satisfaction up to 94% from 79% in 2001**
- **Quality enhanced by the introduction of innovative new products and services**
- **Two Austrian sorting centres awarded the International Post Corporation (IPC) Certificate of Excellence on three occasions; total of 11 sites certified to date**
- **Over 95% of all domestic letters delivered on the next working day**
- **94% of all parcels delivered within two working days**
- **Increased customer confidence and satisfaction due to outstanding reliability**

Key quality drivers – high tech

Our ability to offer services of the high standards we aim for is due to our state-of-the-art logistics infrastructure.

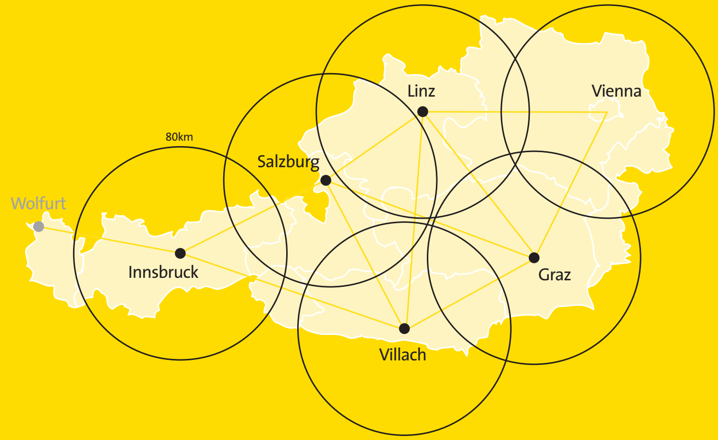
The importance of an efficient, precise, and rapid logistics system soon becomes clear in the light of a few basic facts and figures: Each day Austrian Post sorts and distributes an average of about 4.6m letters, 2.6m newspapers and magazines and 12m direct mail pieces, as well as 180,000 parcels and EMS items. At peak times such as the run-up to Christmas, volumes can rise by 30% or even by as much as 100% at some sorting centres.

Heavy investment in state-of-the-art sorting centres

We have invested over EUR 300m in new or modernised sorting centres in recent years to ensure that we can cope with these volumes and continue to provide a high-quality service in years to come. Many of the delivery points were greenfield developments, while at a few locations extensive modernisation made more sense.

We operate one of Europe's most advanced logistics networks, comprising six cutting-edge letter sorting centres as well as seven parcel sorting centres, four of which are integrated with letter sorting centres. Concentration of a previous 39 logistic bases and subcentres into nine sites that perform all the letter and parcel sorting functions has led to marked improvements in quality and efficiency, as well as reduced costs. The letter mail centres are responsible for distributing letter mail, addressed direct mail, newspapers and magazines while the parcel centres handle parcels, EMS items and unaddressed advertising.

Sorting centres and main routes



Following large-scale modernisation programmes, the Austrian Post sorting centres are among the most modern in Europe.

The ability of the parcel centres to process both individual parcels and whole pallets adds a great deal of flexibility.

Our largest logistics centre is located in Inzersdorf, on the outskirts of Vienna. It comprises the Vienna letter sorting centre, opened in 2002, as well as the Vienna South parcel sorting centre which entered service last year. The 41,500 square metre (sqm) facility is one of the largest and most technologically advanced of its kind in Europe and has a workforce of 1,900. The logistics centre operates on a multi-shift, flexible working hours pattern. About 50% of all Austrian letter and direct mail and about 30% of all parcels are processed there. Daily throughput is anything up to 4m letters, 90,000 parcels and 5,000 EMS items. On the peak day during the year under review – 20 December 2005 – the Vienna letter sorting centre handled some 5.9m items. The parcel sorting centre's record of 131,000 parcels was set on 16 December 2005.

Exacting specifications

A variety of criteria have to be satisfied before letter and parcel sorting and distribution equipment can be said to conform to the state-of-the-art. The main precondition for rapid and accurate sorting and distributing is precise address recognition. To this end, letter deliveries are automatically passed through special scanner and optical character recognition (OCR) systems capable of automatically assigning a postcode to an average of 87% of standard letters. Items are identified by the digital codes given to them in this way from the rough and fine sorting processes through to dispatch on the next leg of the journey. Each reading station can process around 70 addresses per minute. A barcode is attached to each parcel when it is posted, and is used to ensure that items are assigned to the correct destinations. The system for sorting postal items is largely so precise that delivery staff receive letters and parcels automatically grouped by delivery districts.

If an address cannot be identified with complete certainty the item is video coded before being manually processed by a specially trained employee. We are regularly working to reduce the amount of additional time and labour devoted to manual processing by educating customers on correct addressing. Items that cannot be handled by machines also have to be processed manually.

At the Vienna sorting letter centre alone a total of six kilometres of conveyor belts move items efficiently between the intake, reading, distribution and dispatch points. This complex facility is controlled by two systems which ensure that each postal item or transport container carries the right digital code and is sorted correctly, as well as ensuring that all working areas are seamlessly coordinated.

Parcels are sorted at the sorting centres between 6pm and 4am. Peak activity is between 6pm and 9pm, immediately after parcels collected by branches, post partner offices and rural delivery staff during the day arrive at the sorting centre. The parcels have to be transferred to the sorting centres in the destination regions in the space of a few hours.

Top service round the clock

- **Average of 4.6m letters per day**
- **Average of 180,000 parcels and EMS items per day**
- **12m unaddressed and addressed direct mail items per day**
- **Approx. 1,100 truck transports per day**

Our 11,000 vehicles travel an annual total of 128m km.

A tightly knit transport and distribution network

In addition to the sorting centres and the nationwide network of branches, post partner offices, postal service points and mobile post offices, as well as 11,300 letter and parcel delivery staff, there is a network of 420 delivery bases. These act as interim bases for the collection, transportation and distribution of postal items. Austrian Post has the largest vehicle fleet in the country, amounting to about 11,000 vehicles (trucks, cars, mopeds and bicycles). The fleet covers approx. 128m km each year – equal to 3,000 transports around the equator. Each year some 1,800 filling stations supply our vehicles with 15.2m litres of fuel.

Key quality drivers – people

Our employees' knowledge and customer service skills are every bit as critical to success as state-of-the-art sorting, transportation and distribution technology. Particularly over the first and last mile – pick-up and delivery – our workforce are the key to the acknowledged high standards we have achieved in recent years.

As a service company with a nationwide presence, Austrian Post is aware that it has to pay particularly close attention to its frontline customer relationships. By consistently focusing on the changing needs of the customer, the Group has successfully transformed itself into a modern, market driven organisation. Targeted training in customer service skills is playing a decisive role in this progress.

Financial incentives have also been created to promote quality consciousness. Employees receive individual voluntary performance bonuses as well as the annual bonus under the profit sharing scheme. In the Parcel & Logistics Division this takes the form of a quality bonus linked to the fall in the number of parcels that are not immediately deliverable. In the Branch Network Division the results of customer satisfaction surveys at branches are directly reflected in employee bonuses.

Since 2001, service quality across our branch network has been monitored by a nationwide mystery shopping programme. The clear improvements picked up by these regular surveys are proof of the seriousness of our commitment to putting the customer first.

The first mile

Some 5,400 employees are responsible for serving customers at our 1,338 company owned branches. Our 191 post partner offices, 349 postal service points and 72 postal pick up points, and our rural delivery staff, which has been expanded to about 5,000, have an increasingly important role to play due to branch network streamlining.

The rural delivery staff – who also collect mail from customers – provide a highly popular daily service in rural areas across the nation.

Two mobile post offices (Post.Mobile) entered service during the year under review. These specially equipped vehicles offer most of the services available at conventional branches, including full universal postal service. Operating on two routes initially, they provide several communities in Salzburg province with postal and financial services as well as selected retail products.

Since 2001, we have also offered a special on-site service for printworks and mail order firms in the shape of in-house branches. This rationalises delivery to our sorting centres by giving the customers concerned optimum support at the production and pre-dispatch stages.

Going the extra mile to get the mail through – on a quad bike in Klosterneuburg, skis in Damüls, Vorarlberg, or two wheels.

The last mile

Reliable postal deliveries depend on some 11,300 letter and parcel delivery staff. They are crucial to service quality in rural areas, and along with branch staff, "the human face" of Austrian Post.

In recognition of this we have greatly widened the scope of services provided by delivery staff, particularly in areas without branches. Today about 5,000 specially trained rural delivery staff not only deliver letters and parcels but also accept them, and thus perform first mile functions.

Our delivery staff are in daily contact with customers. They are pillars of the community, especially in rural areas, and enjoy high levels of public confidence. In a survey conducted by Oekonsult during the year under review, Austrian Post postmen and women emerged as the most trusted occupational group. The training given to them is designed to build on this valuable asset. Delivery staff will also receive special training in the use of the new cluster box units ahead of their general introduction by mid-2006.

Providing a nationwide service every day

As a socially responsible company Austrian Post is committed to maintaining nationwide access to postal services. Our top-quality network of 1,952 outlets – branches, post partner offices, postal service points, postal pick up points and mobile post offices – and 5,000 rural delivery staff meet this need today and will continue to provide our wonted high standards of service in the future. Customers' knowledge that we deliver to every single household and business on a daily basis gives us a decisive competitive advantage in both the addressed mail and unaddressed advertising markets.

Thanks to the dedication of its people Austrian Post meets every challenge posed by its obligation to make deliveries on every working day throughout the country. They deliver mail up to 2,050 metres above sea level, and not even ice and snow can stop the mail getting through.

The largest delivery area is in Jenbach, Tyrol. A daily round of approx. 155km serves 260 households, even running through German territory.

Staff at Austrian Post sorting centres also put in top performance, day in, day out. For instance, specially trained employees manually sort items whose addresses are not machine readable. They identify the postcodes on these letters in fractions of a second.

Top quality at branches

It is not just the appearance of our branches that has changed beyond recognition in the past few years, but also the service they provide. They have been rapidly transformed into modern, market-driven customer centres.

The performance of branch staff is regularly vetted by anonymous test visits and phone calls conducted by an independent research firm, so as to enhance customer satisfaction. Some 19,250 visits are carried out each year as part of Austria's largest mystery shopping programme. The results attest to the success of our wide-ranging quality initiatives. Overall satisfaction with our branches has risen to 94% from 79% in 2001 when the project was launched. The most dramatic improvement has been in telephone service, with a 36% gain.

Customer service comes first at branches.

Customer service skills are not only called for in our counter sales and delivery organisations. For example, we have six direct marketing centres that cater to business customers. Their specially trained staff assist companies with all aspects of direct marketing from campaign planning through to pre- and post-delivery services such as Geomarketing distribution plans, address selection and lettershop services. The aim is to enhance customer benefits by offering one-stop solutions.

- **Some 11,300 delivery staff serve 3.9m delivery points**
- **They include 5,000 postmen and women in 2,200 rural areas, who also collect mail from customers**
- **The longest daily postal round covers 155km (Jenbach, Tyrol)**
- **The public have exceptional confidence in the reliability of our delivery staff**
- **Over 80m customer transactions at branches in 2005**

The European postal market

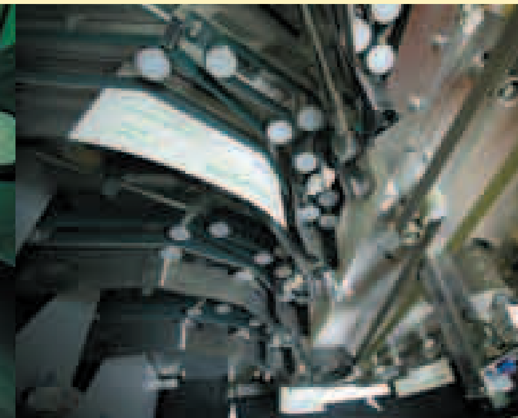
The European postal sector has seen many innovations in its long history, but never before has the pace of change been so rapid. The main drivers of this transformation are the phased liberalisation of postal markets in EU member states and the resultant opportunities.

The market environment

Postal services include the delivery of letters, postcards, addressed and unaddressed direct mail as well as parcel and express services. Most postal service providers distinguish between letter mail on the one hand, and courier, express and parcel (CEP) activities on the other and run them as separate business operations.

Letter mail	Private letters and postcards
	Business mail (bills, account statements, etc.)
	Addressed direct mail
	Unaddressed advertising
	Magazines and newspapers
Parcels	Parcels
Courier and express services	Documents, parcels and letters

The first international logistics networks were constructed by the US companies UPS, FedEx and DHL (today a Deutsche Post Group company) in response to the growing needs of their customers' increasingly global operations. Large European postal companies like the Netherlands' TNT, France's La Poste and Britain's Royal Mail have also entered the international parcel market. So as to maximise capacity utilisation, the new networks are also being used as platforms for bolt-on international letter mail strategies. Meanwhile smaller national postal operators are either focusing on their core business or, like the international players, attempting to gain a foothold in complementary market segments.



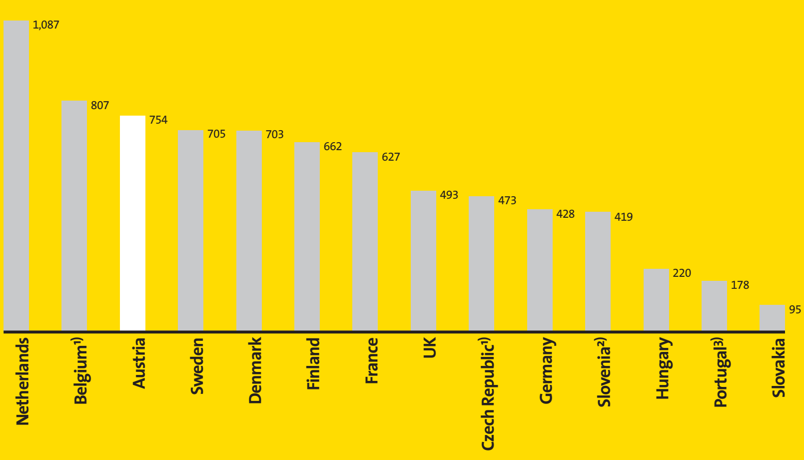
Reliability, speed and customer confidence – the key success factors in an increasingly open postal market.

Market drivers

Trends in the postal services market are mainly being driven by four factors:

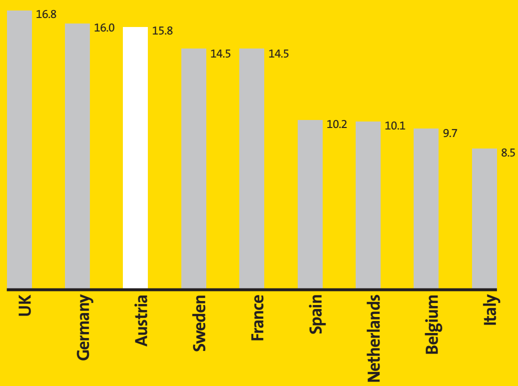
- The progressive liberalisation of postal markets is attracting new participants and stimulating competition.
- Due to the partial substitution of the traditional letter by electronic media – particularly e-mail – letter volume has been declining in the long-term, especially in the private sector.
- By contrast, letter mail volume in the business communications segment has been rising as a result of multiplying business-to-consumer relationships (banks, insurance companies, mobile phone contracts and agreements with internet service providers). A further increase in letter volume is being powered by the growth of direct marketing – addressed and unaddressed direct mail.
- The e-commerce boom, which is generating increased logistics demand due to order fulfilment, is creating growth potential for the parcel segment.

Total number of items of correspondence delivered



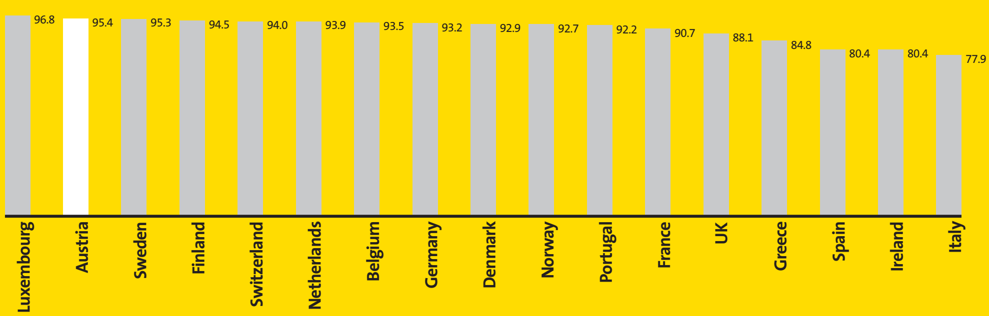
1) Outbound cross-border letter mail: only national postal operator's volumes
2) Outbound cross-border letter mail: only national postal operator's letter mail, magazine and newspaper deliveries, and unaddressed advertising volumes
3) Newspaper and magazine delivery: only national postal operator's magazine and newspaper deliveries, and unaddressed advertising volumes
Source: ECORYS, Development of competition in the European postal sector, 2005; mail items comprise domestic and international letter mail, addressed and unaddressed direct mail, and magazine and newspaper deliveries

Parcels per capita



Source: Western Europe: Datamonitor 2005; Austria: estimate by Austrian Post

Letters delivered within one working day (%)



Source: IPC UNEX study, Diagnostic Monitoring, Q3 2005

Key success factors

To succeed on the increasingly competitive postal services market, companies need to meet a number of tough demands. Foremost among these are outstanding reliability and a high degree of customer confidence – closely followed by the flexibility and nationwide reach required to ensure that customers' individual needs are met at fair prices. The option of sourcing all postal services from one provider (one-stop shopping) is particularly popular with business customers. Another key success factor is delivery speed and reliability, especially in the parcel business. In the cross-border letter mail business, high delivery speeds spell higher revenue as good quality of service is rewarded by higher dues in the international revenue share-out. Access to customers and economies of scale through maximum network capacity utilisation are further success drivers.

Liberalisation of the European postal market

Postal liberalisation has brought major changes in the European market environment. In a process that began in 1997, EU member states have progressed through successive stages of liberalisation and market opening. Quality of service and efficiency are central to these efforts. The EU has been pushing ahead with step-by-step liberalisation of the European letter mail market since the adoption of the Postal Directive in 1997.

The current version of the directive requires member states to reduce the weight limit for reserved services to 50 grams (g) for letters. The EU envisages completing the liberalisation of the internal market for postal services in 2009. However, the feasibility of, and appropriate date for full accomplishment of the internal market, remain to be determined. The Commission intends to propose the date for full market opening on the basis of the findings of a “prospective study”, due for completion by the end of 2006.

The prices of reserved postal services are subject to state regulation throughout Europe. Applications for price adjustments, justified by proven cost increases, must be approved by regulators. The last price adjustment for the reserved area in Austria took place in June 2003.

Market opening in Austria

Austria transposed the European requirements for the reserved area – from which universal service provision (see below) must be funded – by reducing the weight limit for letters to 100g on 1 January 2003. At the same time the market for outgoing cross-border mail was fully opened. In a further liberalisation stage, on 1 January 2006, the reserved area was restricted to letters weighing up to 50g. About 53% of our revenue is generated under conditions of free competition.

Our universal service responsibilities

At the current stage of liberalisation the universal service obligation not only imposes a heavy burden of responsibility on public postal operators (PPOs) including Austrian Post, it also stacks the cards against them. It requires PPOs to provide certain postal services in order to deliver high-quality, nationwide coverage at affordable, uniform national tariffs. Commercial considerations must often be set aside, limiting the flexibility needed in a competitive market. The services concerned are to be financed by the revenue generated by the reserved area.

Due to their legacy structures most national postal enterprises have sufficiently strong market positions to fulfil these obligations. Because of this, in many countries new entrants have failed to win market shares from the incumbents, despite the cost advantages some enjoy. In most cases the alternative operators' market shares are in the lower single-figure bracket, reflecting the high volumes handled by the national service providers and their quality lead.

Austrian Postal Services Act 2005 aimed at fair competition

The Postal Services Act 2005, which entered into effect on 1 March 2006, is an intermediate step towards accommodating today's changed market conditions. The main aim of the new legislation is to create a level playing field for all market participants while safeguarding the quality of basic service provision. Austrian Post welcomes the amendments to the Act as they ensure that top priority will be given to maintaining all providers' service quality, and thus represent a major advance towards a fair market with high standards.

The key amendments are as follows:

- Full market liberalisation in accordance with the timetable established by the findings of the European Commission's prospective study.
- Stricter provisions with regard to consumer protection and quality of service in response to the entry of numerous competitors to the Austrian postal market: all market participants will be obliged to meet certain quality standards and set up complaints management systems.
- A greater measure of freedom to determine tariffs for non-reserved services.
- Increased powers for the regulator with regard to all market participants.
- Separation of the regulatory authority from the Federal Ministry of Transport, Innovation and Technology by transferring its responsibilities to Rundfunk und Telekom Regulierungs-GmbH (the radio and telecom regulator) at the start of 2008.

On 1 January 2006 the reserved area for letters was narrowed by reducing the weight limit from 100g to 50g, thus opening another large part of the Austrian postal market to competition. The Postal Services Act 2003 had already prescribed the replacement of cluster box units in order to open deliveries to competition. The replacement of the cluster box units by new ones with slits must be completed by 1 July 2006. The Postal Services Act 2005 reflects this change by subjecting all postal service providers to quality standards for the first time.

Powering ahead

In the past few years Austrian Post has reinvented itself as a modern, competitive and financially successful service business. Building on our strong position in Austria, we have made further inroads in all our key market segments. Today we are in excellent shape not just in the letter mail area but also in the addressed and unaddressed direct mail, parcel and express services areas, all of which have already been completely opened to competition.

The many actions taken to increase delivery speeds by optimising our logistics processes have played an important part in this success. Meanwhile, using our strength in our home market as a springboard, we have already made big strides towards expanding into neighbouring countries. Here, too, our group has carved out leading positions in the parcel and unaddressed advertising markets.

Strong progress since 2000

Efforts to strengthen our Austrian operations have centred on three main areas:

- **Retail network modernisation and customer focus**
  Our branch network has been trimmed from 2,300 sites in 2001 to 1,338 today in order to increase efficiency and cut costs. To maintain geographic reach at its customary high levels we have simultaneously upped the number of third-party operated outlets to a total of 612 (191 post partner offices, 349 postal service points and 72 postal pick up points). Meanwhile we have achieved a marked improvement in the customer focus of all our frontline operations. To this end, staff have been trained in needs based customer service. Apart from significantly expanding our key account management systems, we have trained counter staff in providing one-stop service. We have also boosted our business-to-business sales and marketing effort and brought it closer to customers by reorganising it around branches. In addition, six service centres serve as single points of contact for everything to do with direct marketing.

- **Logistics network optimisation**
  In order to enhance the efficiency of our mail processing operations, between 1999 and 2005 we invested over EUR 300m in improving our logistics systems, and in building greenfield sorting centres or modernising existing facilities. Many of the plants were greenfield developments. Our ultra-modern logistics network with its six letter and seven parcel sorting centres is among the most advanced in Europe.

- **Quality offensive**
  In 2003 we launched a company-wide quality offensive aimed at speeding up letter and parcel deliveries. One of the main objectives was to comply with the Universal Service Ordinance, which entered into force in 2002. This requires delivery of 95% of all domestic letters on the first working day after posting (J+1). A wide raft of measures was taken, the main focus being on improving and accelerating cross-functional communications and establishing clear standards.

  The long-term effectiveness of the quality drive continues to be borne out by independent performance measurements. J+1 deliveries, still around 68% in the fourth quarter of 2002, now regularly top the 95% target. The parcel business, which offers 48-hour service, has likewise achieved a steady

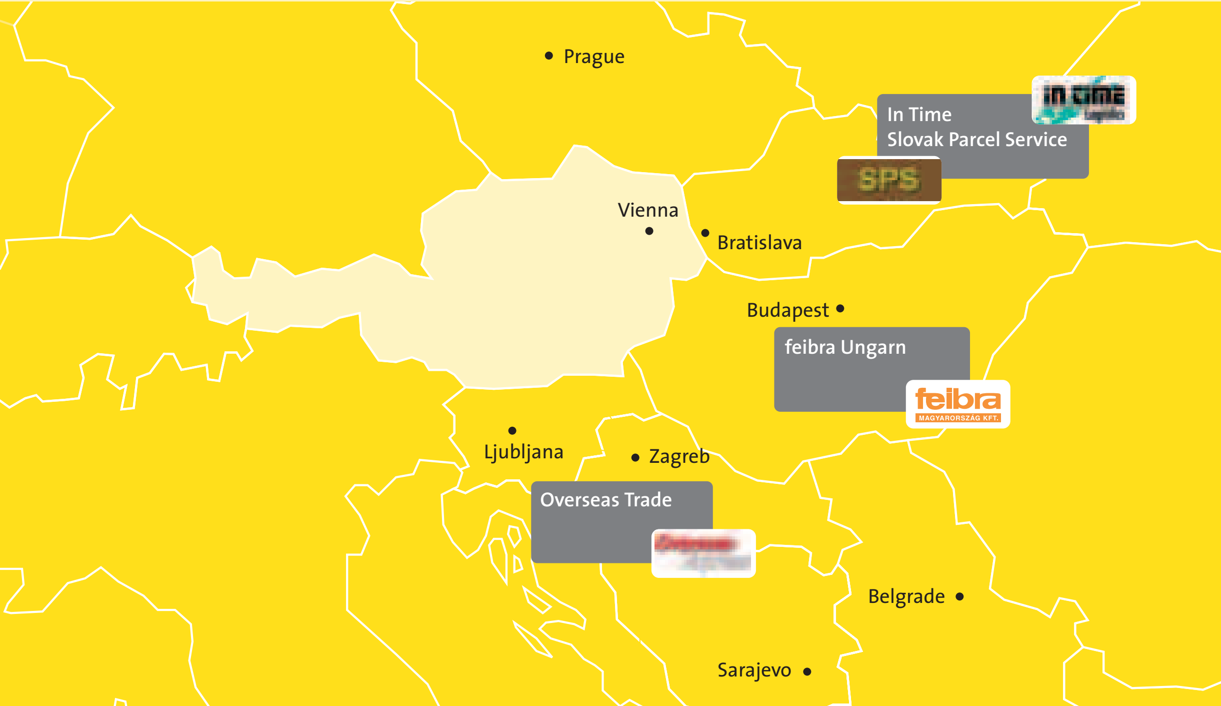
A steady flow of attractive new products is strengthening our customer relationships and adding to shareholder value.

reduction in delivery times. By 2005 some 94% of all domestic parcel deliveries were being made within two working days – a year-on-year improvement of three percentage points, and well above the 90% required by the Universal Service Ordinance. In fact, about 70% of all domestic parcels are delivered within one working day.

These programmes have added up to a quiet revolution which has turned a one-time government agency into a market driven service business. Today Austrian Post is the clear Austrian market leader, and boasts high brand awareness, outstanding service standards, modern logistics and long-term customer relationships built on high levels of trust.

Focused growth strategy

The successful transformation of our business has created a good launch pad for further growth. In order to capitalise on this strong position in a proactive and focused manner, in 2005 we mapped out our “2008.plus” medium-term growth strategy. Due to the environment currently facing postal service providers, volume growth cannot be organic, but must be driven by acquisitions. We therefore plan to exploit opportunities in neighbouring countries as well as growth potential in existing areas of business.

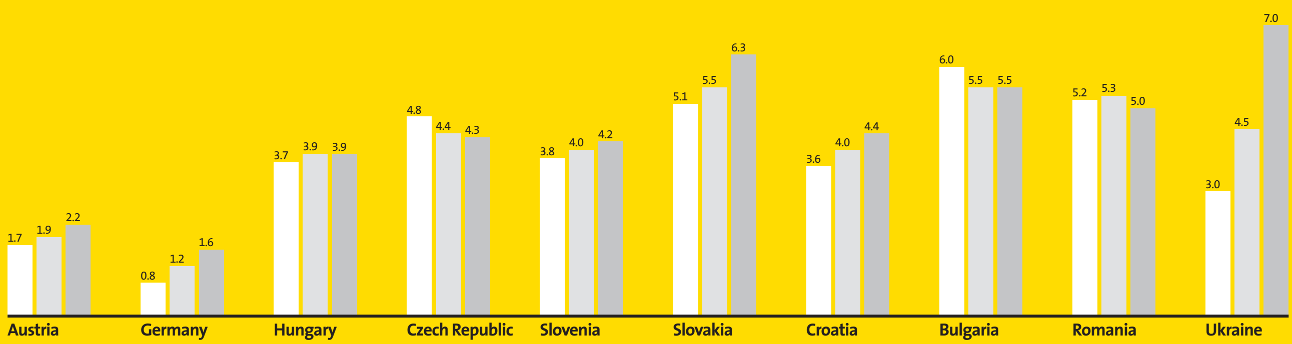


Austrian Post already has a foothold in the Croatian, Hungarian and Slovak markets.

First footholds in the CEE growth region

Our investments in countries bordering Austria give us a strong foothold in a region that is set for rapid growth over the next few years. We have entered important markets, namely of Croatia, Hungary and Slovakia.

Potential markets in Central, Eastern and Southern Europe (forecast % GDP growth)



Source: Eurostat forecast

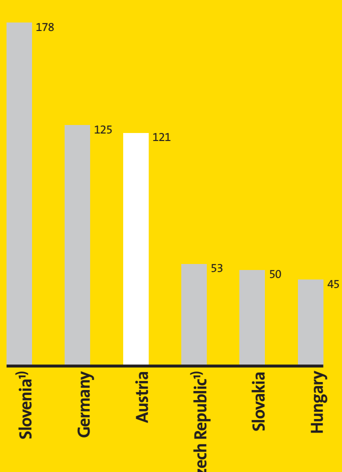
- GDP forecast for 2005
- GDP forecast for 2006
- GDP forecast for 2007

Central and Eastern Europe offers growth potential for Austrian Post and its customers. Geography and a common cultural heritage are the advantages of Austrian investors in neighbouring countries – and their neighbours.

Positive expectations for the CEE postal market are driven by rapid economic growth and the fact that per capita mail volumes in the region are mostly well below average levels in western industrial countries.

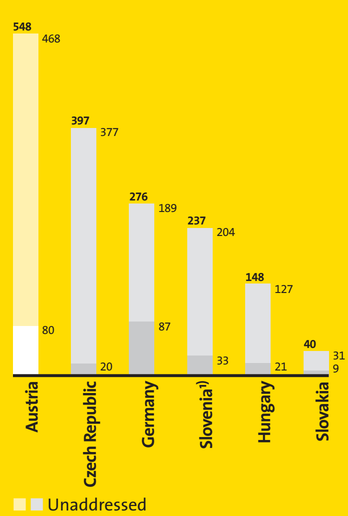
In many cases we are entering neighbouring countries' markets side by side with our customers. The "follow-the-customer" strategy helps us to establish ourselves quickly and benefits customers by offering familiar solutions.

Letters per capita



1) Outbound cross-border letter mail: only national postal operator's volumes
Source: ECORYS, Development of competition in the European postal sector, 2005; mail items comprise domestic and international letter mail

Direct mail items per capita



1) Unaddressed advertising: only national postal operator's volumes
Source: ECORYS, Development of competition in the European postal sector, 2005; domestic and international direct mail items

Corporate social responsibility

Stakeholders and operating environment

Environment
We have one of Austria's largest vehicle fleets – and thanks to ongoing modernisation its environmental performance is among the best. For instance, we are increasingly using biofuel. Our environmental awareness is also shown by a number of waste avoidance initiatives.

Employees
The Austrian Post Group has a total of 25,192 employees. The Company's goal is to continue to increase its competitiveness while remaining a socially responsible employer. It wants to remain a popular employer, and its HR policies therefore focus on staff development.

Ownership
Austrian Post is wholly owned by the state via Österreichische Industrieholding AG (ÖIAG). It is one of the most profitable businesses in ÖIAG's portfolio, and has paid high dividends over the past five years. Successful restructuring has resulted in a considerable increase in the value of our company.

Legal framework
Austrian Post is well prepared for the competition that EU-wide market opening will bring. The new Austrian Postal Services Act is a major milestone towards free and fair competition.

Post.at

Contribution to society
Austrian Post is one of the country's largest employers, and its nationwide branch network provides access to quality postal services for all Austrians. As a result of our strong financial performance we paid EUR 33.8 m in taxes in 2005.

Community outreach
Nationwide outreach and an open dialogue are the hallmarks of the relationship between Austrian Post and Austrian communities. A total of 998 meetings were held with local authority representatives in 2005, as part of a broad-based consultation scheme on network restructuring. Today 1,338 branches, 191 post partner offices, 349 postal service points and some 5,000 rural delivery staff in areas where branches are no longer profitable, maintain nationwide service.

Customers
Austrian Post provides its customers across the nation with postal services at fair prices. Attractive products and services, comprehensive customer care and a highly motivated workforce contribute to our excellent quality standards, which are confirmed by independent tests.

Business partners
Austrian Post always treats its suppliers and business partners fairly, and regards them as equal partners with valuable expertise. Due to its sound finances the Company is known as a reliable and predictable business partner that stands by its customers even in difficult situations.

Austrian Post fulfils its social responsibilities by providing nationwide service, keeping close to the customer, and pursuing a wide raft of employee friendly policies.

As a public limited company, Austrian Post has a primary responsibility to achieve commercial success. However, management takes account of environmental and social considerations in order to safeguard the long-term sustainability of the Company's positive performance. We are committed to implementing our vision and strategy in a responsible manner, and pay due attention to the interests of all our stakeholders.

Corporate social responsibility highlights of 2005

- During the year the Company joined forces with employee representatives to found the post.sozial club – the first joint staff welfare association of its kind in Austria. Among other benefits **post.sozial** provides affordable holidays and a wide range of cultural offerings at concessional rates. Due to its success the club has been emulated by other companies.

- A programme with the slogan **"A smoke-free Post delivers something for everyone"**, aimed at helping employees to give up smoking, was launched in 2005. It offers a wide range of options, from counselling by occupational physicians through to subsidised anti-smoking aids.

- **Safety training courses** for truck drivers and car-borne delivery staff are making a major contribution to preventing accidents and improving driver safety.

- The **Post.Vital** regional health programme was launched in Salzburg during the year. About 450 employees at the Salzburg logistics centre took part in the scheme which is aimed at improving staff members' physical and emotional well-being. Participants were given a chance to find out about a variety of health related topics such as good workplace design, correct nutrition and movement, and overcoming stress. In a further step Post.Vital has been extended to the Styria and Upper Austria logistics centres, and other provinces will follow if it is equally successful there.

- Ongoing **modernisation of our truck and car fleet** is steadily reducing the environmental impact from postal deliveries by road. A large-scale training programme on fuel saving driving techniques is also helping to reduce emissions.

- In connection with branch network streamlining we initiated a broad-based **consultation of local councillors and mayors**. Almost 1,000 meetings were held to inform these important stakeholders of changes to the network and involve them in discussions about alternative channels for delivering postal services. In order to deepen the dialogue with Austrian mayors, **buergermeister@post.at** was set up as a letter box for this key stakeholder group. This provides us with a quick and unbureaucratic means of reacting to incoming queries and wishes. The strong response has given us added encouragement in our efforts to build on the constructive dialogue with the mayors.



Crucial to success: a well trained, highly motivated workforce.

Human resources

A company's employees are one of its most valuable assets, especially in the service sector. Austrian Post attaches great importance to its people. We therefore devoted many actions and initiatives to their motivation, training and health in the course of 2005.

Focus on top quality customer service

The cornerstone of our high service standards is the skills and local presence of the 5,400 employees at our 1,338 branches, and the staff at 612 post partner offices, postal service and postal pick up points. We therefore give high priority to training aimed at implanting and reinforcing product knowledge and customer friendly attitudes. In the year under review around 11,100 person-days were dedicated to sales and service training for frontline staff.

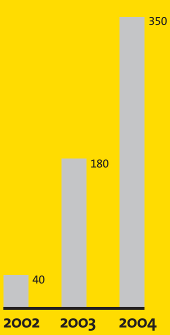
Training drive

To maintain and enhance our high quality standards we need a workforce equipped for today's rapidly changing market conditions. Alongside ongoing investment in logistics infrastructure, we are therefore spending heavily on staff training. Our comprehensive training programme spans all areas of the business, from the branch network to distribution, logistics and the vehicle fleet through to management. Every year we spend around EUR 2.3m on training and development. In 2005 training expenditure amounted to EUR 2.4m. We attempted to maximise the proportion of training conducted internally. Training totalled 18.500 person-days.

During the year expansion of the Post.Academy gave a major boost to the successor training programme. The academy has adopted a new, holistic concept that focuses on its role as a breeding ground for management talent which trains high potentials from all three divisions.

Examples of activities under this programme include:
- **Post.at – On the move** – a new trainee programme aimed at developing short to medium-term management potential for a variety of line management functions
- **Go East** – a management development programme focused on the foreign subsidiaries' needs
- **New Yellow Manager** – a new integration programme for executives and experts focusing on management tasks and tools
- **Skills training** – a scheme for distribution managers

EBIT bonus per employee (EUR)



Motivation through profit sharing

Continuously adapting our business to changing market and customer requirements calls for a highly motivated workforce. Austrian Post aims to achieve this by not only providing ongoing training and a good working atmosphere but also by giving all employees a stake in its success. Ten percent of the previous year's EBIT is distributed to employees of the Group parent company in the form of a voluntary bonus. The excellent results in 2004 made it possible to award a bonus of EUR 350 (gross) per employee. Employees will again receive a voluntary bonus for financial 2005 under the profit sharing scheme.

Women in the driving seat

Over the past few years the percentage of women in our workforce has steadily increased, and it has now reached more than one-third (37%). Most female employees work in the branch network and, at 56% of the labour force, now outnumber their male colleagues. The proportion of women delivering mail has also climbed sharply, and around one letter in three is delivered by a postwoman. The management team also includes a relatively large number of women, who today account for 22% of first and second level executive positions.

As regards the age structure of this sector of the workforce, we emphasise the recruitment of young female employees. Of all employees under the age of 25, the percentage of women lies just under 46%.

Responsible workforce downsizing

Faced with the need to reconcile providing a quality service on a nationwide basis and the running of a profitable business, Austrian Post has carried out an extensive restructuring programme in recent years. This has inevitably involved reducing the Group's headcount. Conscious of its responsibilities as a major Austrian employer, the Group has made every effort to take account of social aspects and minimise the resulting hardship. Key elements of the realignment policy have been a generous social plan and reliance on natural wastage wherever possible.

On average, the Group employed a total of 25,192 full-time staff in financial 2005. The average payroll fell by 4.4% compared to 2004. When Austrian Post was founded on 31 March 1999, the headcount was 31,192.

A wide range of initiatives benefit employee satisfaction, health and motivation.

Career- and Development Centre

Austrian Post's Career- and Development Centre primarily assists employees affected by restructuring measures in finding new work. This facility demonstrates the Company's commitment to meeting its social responsibilities in connection with its reorganisation measures. The prime objective is to reintegrate affected persons in our operations at the earliest possible point.

From the start of 2006 the centre has also been used to train internal specialists and new recruits and prepare them for their future careers.

Preventive health care through keep-fit programmes

Austrian Post cares a lot about its employees' fitness as well as its own commercial health. Alongside a low average age of 40, extensive occupational health initiatives make sure that the Group's agility and high performance levels are maintained. We look after our people's health through various schemes such as Post.Vital – a regional check-up programme – and targeted care and medicals for employees working night shifts. A company-wide initiative to combat nicotine addiction under the slogan "A smoke-free Post delivers something for everyone" was launched during the year and will run until 2007.

Corporate Governance

We see the term "Corporate Governance" as encompassing a company's entire system of management and supervision, and the ways in which it seeks to safeguard and sustainably increase enterprise value whilst balancing the interests of all stakeholders.

As a domestic market leader and international specialist service provider, Austrian Post also adheres to international standards in this area (International Financial Reporting Standards), as well as the rules and recommendations of the current Austrian Code of Corporate Governance. The Company's articles of association, and the rules of procedure of the Supervisory and Management Boards, largely comply with the requirements of the code.

The **Management Board** has sole responsibility for managing the Company for the benefit of the enterprise itself, whilst taking account of the interests of the shareholder, employees and other stakeholders.

The entire Management Board must take decisions of fundamental importance – notably those relating to the formulation of the Company's goals and the determination of corporate strategy. The Management Board's rules of procedure govern the allocation of responsibilities and collaboration between board members.

In line with the Austrian Code of Corporate Governance, the Management Board is in regular contact with the Supervisory Board, particularly its chairperson, and discusses strategy, business developments and risk management with the Supervisory Board.

Transparent Corporate Governance serves the interests of all the Company's stakeholders.

The **Supervisory Board** performs its advisory and supervisory functions at plenary or committee meetings, according to the significance and subject matter of the issues arising:

- The entire Supervisory Board decides on issues of fundamental importance and on the Company's strategic alignment.
- The finance committee (accounts committee) is responsible for issues relating to financial reporting and auditing of the company and consolidated accounts. This committee evaluates the auditors' reports and reports thereon to the Supervisory Board. In 2006 the finance committee will be replaced by an audit committee.
- The executive committee, comprising the Supervisory Board chairperson and his/her deputy, acts as a permanent board committee in accordance with its rules of procedure. This body is responsible for regulating the relationships between the Company and members of the Management Board with the exception of the appointment of Management Board members and termination of such appointments.

The Supervisory Board held five meetings in 2005.

Important issues discussed and resolved upon by the Board were the 2008 medium-term plan, the expansion programme for the period after 2008, and Group strategy for the domestic CEP business and operations of Austrian Post in Southeastern Europe.

The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the business and financial situation of the Company as a whole, and of its business areas and principal subsidiaries, as well as its business performance and outlook.

The Management Board submitted the company and consolidated annual financial statements as at 31 December 2005 to the Supervisory Board. The company and consolidated annual financial statements, including the notes thereto in accordance with International Financial Reporting Standards (IFRS), were audited by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, Vienna, and were given an unqualified auditors' opinion. The management report is consistent with the company and consolidated annual financial statements.

Governing bodies

Management Board

Anton Wais, Chairman of the Management Board
Responsible for the Parcel & Logistics Division, and the human resources, corporate business development and communications, investor relations and corporate audit functions.
Born in 1948. Studied Law at the University of Vienna. Subsequently worked in the office of the Minister of Trade and Industry, Dr. Josef Staribacher, going on to hold various management positions in companies in the electrical, electronics and plant engineering industries. Was latterly a member of the Siemens AG Austria managing board with responsibility for the transport engineering, power transmission and distribution, and power generation divisions.
Appointed as Chairman of the Management Board of Austrian Post on 1 July 1999. Current term runs until 30 June 2007.

Rudolf Jettmar, Deputy Chairman of the Management Board
Responsible for the finance and accounting, internal control, treasury, personnel administration, IT, procurement and legal functions.
Born in 1947. Studied Law at the University of Vienna, as well as Business Administration at the Vienna University of Economics and Business Administration. Subsequently worked for accountancy firms, and gained professional qualifications as a chartered accountant and auditor. A member of the Österreichische Verkehrskreditbank Management Board from 1982–1999.
Appointed as Deputy Chairman of the Management Board of Austrian Post on 1 July 1999. Current term runs until 30 June 2007.

Herbert Götz, Member of the Management Board
Responsible for the Branch Network Division (branches and philately), and the corporate product innovation and management, sales coordination and marketing functions.
Born in 1963. Studied Engineering Sciences at the Vienna University of Technology. Thereafter held various academic, economic policy and management positions, the most recent of which was as head of the Information and Communication Networks Division at Siemens AG Austria.
Appointed to the Austrian Post Management Board on 1 March 2004. Current term runs until 30 June 2007.

Walter Hitziger, Member of the Management Board
Responsible for the Mail Division, the letter logistics service unit and the corporate production and logistics functions.
Born in 1960. Studied Industrial Engineering and Business Administration at the Graz University of Technology. Subsequently held various positions in the beverage industry, management consulting and the logistics sector, and was latterly member of the Baumax AG managing board, with responsibility for procurement and logistics.
Appointed to the Austrian Post Management Board on 1 May 2004. Current term runs until 30 June 2007.

Supervisory Board

Shareholders' representatives

Peter Michaelis, Chairman [1)] [2)]
Spokesman of the Österreichische Industrieholding AG Managing Board

Rainer Wieltsch, Deputy Chairman [1)] [2)]
Member of the Österreichische Industrieholding AG Managing Board

Dieter Bock
Member of the Executive Board of Bundesvereinigung Logistik in Deutschland e.V. (BVL)

Horst Breitenstein
Vice rector for infrastructure and new business at the Vienna University of Economics and Business Administration

Stephan Koren
Deputy Chairman of the BAWAG P.S.K. Managing Board

Hans Jörg Schelling
Independent management consultant; managing partner of Schelling GmbH and Big Deal Marken und MarketingberatungsgesmbH, as well as managing director of XLA GmbH

Hans Wehsely [1)]
Authorised signatory at Siemens AG Austria and member of the VA TECH Vermögensverwaltung AG Managing Board.

Employee representatives

Gerhard Fritz [1)]
Chairman of the Central Works Council

Andreas Grüneis
First Deputy Chairman of the Central Works Council until 13 April 2005

Helmut Köstinger
Member of the Central Works Council from 14 April 2005

Martin Palensky
First Deputy Chairman of the Central Works Council

Manfred Wiedner [1)]
Second Deputy Chairman of the Central Works Council

1) Finance committee
2) Executive committee

Organisation chart

Group	Divisions	Business areas, service units and regional organisations
Austrian Post	Mail	Letter Mail Business Area
		Infomail Business Area
		Media Post Business Area
		Letter Logistics service unit
		Business Services service unit
	Parcel & Logistics	Parcel Logistics Austria
		Parcel Logistics Croatia
		Parcel Logistics Slovakia
	Branch Network	Branch Network Business Area
		Philately Business Area

Divisional highlights in 2005

Strategic corporate development

- **Remaining shares in feibra Austria acquired**
  During the year we significantly strengthened our position in the domestic unaddressed advertising market by acquiring the remaining 25% stake in feibra Austria. We are continuing to rely on a two brand strategy, and the high awareness of this Austrian pioneer and specialist in unaddressed advertising.

- **Hungarian direct mail market entered**
  Austrian Post has also gained a strong foothold in the Hungarian direct mail business by taking over feibra Hungary – the leader of the country's unaddressed advertising market – further extending its foothold in CEE markets.

- **DPD parcel services stake divested**
  In September we paved the way for entry to the B2B market by divesting our stake in DPD Austria. From 2006, business parcel deliveries, which were previously dealt with by DPD, will be handled by Austrian Post itself.

- **German sales subsidiary founded**
  In November 2005, we opened a sales office in Cologne to support German companies' direct marketing activities in Austria and Central Europe. Cutting out the middleman should enable corporate customers to benefit from personal service and more favourable terms, as well as generating business for Austrian Post.

- **Joint venture formed to handle logistics operations in Austria and neighbouring countries**
  Near the end of the year we made an important addition to our business portfolio by forming a joint venture with German logistics specialist trans-o-flex. The deal has enabled us to enter the B2B parcel business, in line with our growth strategy, thereby strengthening the market positions of our Southeast European subsidiaries. The new venture began trading under the Eurodis brand name on 1 January 2006. It is responsible for the carriage and delivery of trans-o-flex parcels and pallets.

Customer service and reach

- **Large number of new post partner offices, postal service and postal pick up points**
  During the year we mounted major initiatives aimed at improving service levels in rural areas. We signed up 72 local retailers as contractual partners for post partner offices, and they are now offering our product range. There are also 124 new postal service points and 38 new postal pick up points with a wide range of services, as well as numerous rural delivery postmen and women who have been trained to offer additional services. As a result we are continuing to provide nationwide service despite branch network downsizing.

- **Post.Mobil – the post office on wheels – introduced**
  In October we launched a valuable service for communities without a branch – Post.Mobil vans. These mobile branches stop for an hour or more each day in each of the villages on their rounds, providing full universal postal service. They have been very well received in the five districts covered by the scheme so far.

The Vienna letter sorting centre, holder of an IPC Certificate of Excellence since March 2005.

One of the new Post.Mobile post offices on wheels.

- **Branches given top marks by Austria's largest mystery shopping programme**
  Customer satisfaction at branches hit new highs during the year. Austria's largest mystery shopping programme registered improvements in all the areas of performance tracked by a branch quality index. Overall satisfaction with customer service standards jumped to 94%, compared to 79% in 2001. The customer friendliness of outlets, counter and telephone service are regularly rated. This makes the index an important indicator of service levels across the entire organisation. Some 19,250 test visits and phone calls were carried out in 2005.

Quality of service

- **New delivery speed records set**
  We keep setting new records for letter and parcel delivery quality. The proportion of domestic letters delivered on the first working day after posting (J+1 performance) climbed once again, from 93.9% in 2004 to over 95% in 2005. During the year outside consultants measured delivery times using some 49,000 test letters, most of them carrying transponders. In addition, delivery progress is monitored by over 300 internal metering points throughout Austria, and every deviation from target is analysed and followed up. The proportion of domestic parcels reaching their addressees on the second working day after posting (J+2) rose from 91% to 94%. This not only clearly fulfils the requirements of the Universal Service Ordinance but also places Austrian Post among the quality frontrunners in international terms. The parcel business also offers a track & trace service, enabling the progress of domestic parcel deliveries to be followed online as they pass through the mail processing pipeline.

- **Top performance and international certification achieved by Vienna letter sorting centre**
  The Vienna letter sorting centre marked up its processing record for the year on 20 December when it handled 5.9m pieces. The facility, in full operation since 2002, is one of Europe's largest and most modern logistics centres. It normally handles about 4m items per day, but is capable of maintaining the same high quality standards at peak times such as the pre-Christmas period. This is evidenced by the Certificate of Excellence awarded to it by the International Post Corporation (IPC) in March 2005. Vienna is the second Austrian sorting centre after Innsbruck to be granted certification on the basis of the quality of its international letter mail processing. The fact that this quality seal has so far only been conferred on 11 sorting centres worldwide is testimony to the efficiency of the Vienna letter centre.

Technology, investment and modernisation

- **New Vienna South parcel sorting centre commissioned**
  Operations at the new Inzersdorf hub for parcel distribution in eastern Austria commenced in September after just 14 months' construction time. The new facility – one of the most modern in Europe – has a daily sorting capacity of some 120,000 items (parcels, EMS pouches and direct mail bundles). We invested a total of EUR 42m in the new parcel sorting centre which will bring a further speed-up in deliveries. It is designed to handle both individual parcels and entire pallets.

- **Villach sorting centre inaugurated**
The new Villach sorting centre was officially opened in September. The merging of the letter and parcel logistics networks that serve the provinces of Carinthia and East Tyrol, combined with improved transport links, is already resulting in a big increase in efficiency and playing a key role in shortening overall delivery times.

- **Modernisation of the Linz sorting centre completed**
Comprehensive modernisation of the Linz sorting centre has likewise resulted in a marked increase in efficiency. All the equipment at the site has been brought into line with the state-of-the-art. The main focus of the project was on accelerating throughput, upping the scanning rate and machine sorting.

New products and services

- **Innovative business services launched**
We see ourselves as partners to business customers, and never stop adding to our range of services – particularly in the direct mail area. For instance, the accuracy of unaddressed mailings was significantly enhanced during the year by extending our Geomarketing services. The range of related analytical tools was also significantly expanded. At the same time, we are expanding along the supply chain by performing functions that were previously left to customers.

- **New Media Post service packages developed**
During the year we developed a number of new products for the highly specialised newspaper delivery market. A broad range of services, including the preparation of reader profiles and custom address management services, support publishers' efforts to win new subscribers. A Group company successfully launched home delivery of daily newspapers on Saturdays in Vienna.

- **Additional customer benefits delivered by Pickup.Paket**
Customer convenience was significantly enhanced in the course of the year by rolling out the Pickup.Paket service – previously piloted in Vienna and Salzburg – across Austria. This allows customers to collect mail order items from a conveniently situated branch provided that it has been specified in advance. When the parcel arrives the customer is notified by text message or e-mail. Complete transparency is offered by the track & trace service which enables customers to follow the progress of their item as it passes through the delivery pipeline. This service was also extended to embrace worldwide EMS deliveries.

Special issues and philately

- **58 new specials**
  We brought out 58 new special issues during the year. The two Christmas stamps were particularly successful, selling almost 10m, as well as the Heidi Klum, Stephan Eberharter, Jochen Rindt and Niki Lauda special issues. The stamp commemorating Pope John Paul II (face value EUR 1) was second only to the Christmas stamps, with sales of almost 800,000.

- **First embroidered stamp produced**
  A philatelic sensation was the result of our issuing “Edelweiss” – the world’s first perforated embroidered stamp in 2005. Developed in cooperation with Hämmerle & Vogel, a traditional Austrian embroidery business, the edelweiss motif was issued in an edition of 400,000 with a face value of EUR 3.75. It proved immensely popular with collectors and is virtually sold out.

- **Flagship store for stamp collectors**
  We opened a philatelic shop in the centre of Vienna in September, giving us an outlet with particular appeal for collectors and tourists. The 80sqm shop stocks our entire range of stamps as well as accessories and selected coins.

- **Meine.Marke in strong demand**
  Meine.Marke – the personalised stamp launched in the autumn of 2003 – has proven immensely popular with private and business customers alike. By the end of the year some 7,500 orders had been placed, featuring as many different motifs, and more than 5m stamps had been printed.

- Revenue for 2005: up by 2.9%
- EBITDA for 2005: up by 10.2%
- EBIT for 2005: up by 25.3%
- Profit for 2005: up by 99.8%

Posting good profits – figures to be proud of.

We deliver for you.

Group management report 2005

This management report contains forward-looking statements and forecasts relating to the future performance of the economy and the Group. All forecasts are estimates based on the information available at the time of writing, and may thus diverge from actual performance.

The aggregation of rounded amounts and percentages may result in rounding differences due to the use of automated computational aids.

Economic and market environment

Austrian GDP growth 1.9%

The Austrian economy performed well in 2005 compared to Western Europe as a whole, and gross domestic product grew by 1.9%. Despite an unfavourable business environment – notably, sluggish growth in the eurozone – export demand was stronger than expected.

The economies of the new EU member states and the Southeast European candidate countries maintained their strong growth performance in 2005.

A feature of the European letter market is consolidation among alternative delivery networks. To date, national postal enterprises have suffered only minor losses of market shares. The European letter mail market once again held up well during the year under review. The slight decline – caused by the substitution of the traditional letter by electronic media – was offset by growth in addressed and unaddressed direct mail. European postal liberalisation is proceeding on schedule, and the United Kingdom has already fully opened its market ahead of time.

Last year the Austrian letter mail market registered marginal growth. In accordance with the EU timetable, Austria implemented the next stage of liberalisation on 1 January 2006 and restricted the reserved area to letters weighing up to 50g. The Postal Services Act which enters into effect on 1 March 2006 provides for further liberalisation steps required to comply with the EU directive.

Modest growth in letter mail volumes

Like the letter mail market, the European parcel and logistics business has been consolidating due to competitive pressures. New providers are increasingly entering the contract logistics market, and one-stop logistics solutions are gaining ground. An encouraging development was the modest growth recorded by the Austrian parcel and logistics market in 2005, driven by increased purchases of goods over the internet.

Readers are referred to the divisional reviews below for further discussion of the market environment.

Sources: Ifo (Institute for Economic Research) and IHS (Institute of Advanced Studies), December 2005

Business development 2005

Change in reporting structure

In the interest of comparability with the previous year's results, the assets, liabilities and earnings of the discontinued insurance business, Postversicherung AG, which were included in the consolidated financial statements for 2004, are shown separately as discontinued operations.

Revenue (EUR m)

Revenue

The positive trend in the development of the Austrian Post Group witnessed in recent years was maintained in 2005, and both revenue and earnings improved. Thanks to the unremitting efforts to optimise and modernise operations, consolidated revenue rose by 2.9% to EUR 1,701.6m in 2005.

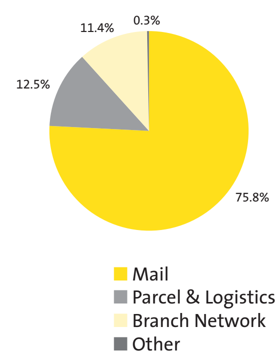
The divisional revenue breakdown reveals the importance of the Mail Division, which accounted for 75.8% of the total. The Parcel & Logistics Division, which comprises the courier, express and parcel businesses, contributed 12.5% of consolidated revenue, and the Branch Network Division 11.4%, while other revenue made up the remaining 0.3%.

Revenue by division[1)]

EUR m	2004	2005	Change %	Contribution %
Total revenue	**1,654.4**	**1,701.6**	**+2.9**	**100.0**
Mail	1,255.3	1,290.8	+2.8	75.8
Parcel & Logistics	199.0	211.8	+6.4	12.5
Branch Network	196.2	193.8	−1.2	11.4
Other	3.9	5.2	+33.3	0.3

1) External sales

Revenue by division[1)]



1) External sales

Income statement

The consolidated income statements for 2004 and 2005 present the following picture:

EUR m	2004	2005	As % of revenue in 2005	Change 2004/2005 in %
Revenue	**1,654.4**	**1,701.6**	**100.0**	**+2.9**
Other operating income	73.0	52.9	3.1	–27.5
Raw material, consumables and services used	–241.8	–241.9	14.2	0
Staff costs	–1,046.6	–1,064.0	62.5	+1.7
Other operating expenses	–236.7	–223.5	13.1	–5.6
Share of profit/loss of associates	0.7	–1.3	0.1	–
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**203.1**	**223.8**	**13.2**	**+10.2**
Depreciation and amortisation	–120.9	–120.8	7.1	–0.1
Earnings before interest and tax (EBIT)	**82.2**	**103.0**	**6.1**	**+25.3**
Other financial result	–5.4	–2.1	0.1	+61.1
Earnings before tax (EBT)	**76.7**	**100.9**	**5.9**	**+31.6**
Income tax	–29.9	–10.9	0.6	–63.6
Profit after tax	**46.8**	**90.1**	**5.3**	**+92.3**
Profit from discontinued operations	3.2	9.8	0.6	–
Profit for the period	**50.0**	**99.9**	**5.9**	**+99.8**

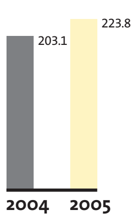
EBITDA 10.2% up

Staff costs are the Group's largest expense item at 62.5% of total revenue. The positive impact of the cost reduction measures taken over the past few years was again apparent. The need to provide for obligations arising from workforce downsizing meant that staff costs increased somewhat from the previous year's level.

Raw material, consumables and services used were little changed, and were again equal to approx. 14.2% of revenue.

Other operating income fell to EUR 52.9m due to lower gains on the disposal of property, plant and equipment. Other operating income largely relates to rental income and gains on the disposal of property, plant and equipment.

EBITDA (EUR m)



Other operating expenses likewise declined, by 5.6% to EUR 223.5m.

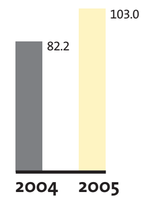
EBITDA (Earnings before interest, tax, depreciation and amortisation) was up by 10.2% year on year, to EUR 223.8m, increasing the EBITDA margin to 13.2%.

The depreciation on tangible and amortisation on intangible assets of Austrian Post was EUR 120.8m, reflecting the heavy investment in plant and logistics networks undertaken over the past few years in order to improve quality of service.

EBIT by division

EUR m	2004	2005	Change 2004/2005 in %
Total EBIT	**82.2**	**103.0**	**+25.3**
Mail	235.3	268.9	+14.3
Parcel & Logistics	–16.7	10.4	+162.3
Branch Network	–10.2	8.7	+185.3
Other and Consolidation	–126.2	–184.9	–46.5

EBIT
(EUR m)



EBIT up 25.3%

Consolidated EBIT advanced by 25.3% to EUR 103.0m. The Mail Division contributed EUR 268.9m, the Parcel & Logistics Division EUR 10.4m and the Branch Network Division EUR 8.7m of this amount, while other and consolidation was negative by EUR 184.9m.

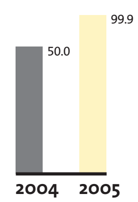
The other and consolidation segment relates to the elimination of intra-company transactions, and also includes the property or IT services operations, and the Career- and Development Centre unit.

The other financial result of Austrian Post improved from EUR 5.4m to EUR 2.1m in financial 2005, chiefly as a result of lower financial liabilities.

Earnings before tax (EBT) rose by 31.6% year on year to EUR 100.9m.

Profit after tax (income tax expense EUR 10.9m) was EUR 90.1m – a gain of 92.3% on the previous year.

Profit for the period
(EUR m)



At EUR 99.9m the consolidated profit for the period almost doubled the EUR 50.0m of 2004. The profit for the period is entirely attributable to the parent company as sole shareholder, whereas in the previous financial year EUR 2.9m were attributable to minority interests and EUR 47.1m to the parent company.

Assets and finances

Balance sheet analysis

Assets EUR m	2004	2005	Structure in % 2005
Non-current assets	1,011.4	997.4	63.8
Current assets	393.7	542.6	34.7
Non-current assets held for sale and discontinued operations	390.6	23.0	1.5
	1,795.7	**1,563.0**	**100.0**

Equity and liabilities EUR m	2004	2005	Structure in % 2005
Capital and reserves	712.5	762.1	48.8
Non-current liabilities	287.5	361.3	23.1
Current liabilities	421.0	439.6	28.1
Liabilities of discontinued operations	374.7	–	–
	1,795.7	**1,563.0**	**100.0**

The Group's balance sheet structure reflects the positive performance trend in recent years.

Sound balance sheet

As at 31 December 2005 total assets stood at EUR 1,563.0m. This represents a considerable reduction from 2004, largely attributable to the disposal of the insurance company Postversicherung AG.

Non-current asset items predominate on the assets side of the balance sheet, accounting for 63.8% of the total.

The largest non-current asset item is property, plant and equipment, at EUR 728.7m.

The principal current asset items are receivables and other assets at EUR 298.5m, and cash and cash equivalents at EUR 174.5m.

On the equity and liabilities side the main items are capital and reserves and non-current liabilities (total of 71.9%), and current liabilities (28.1%).

Non-current liabilities of EUR 361.3m largely consist of provisions such as those for jubilee benefits and termination benefits, and employee under-utilisation.

Trade payables are the main component of current liabilities.

Net cash position

Austrian Post currently has a positive net cash position. This financial figure is the difference between interest-bearing liabilities of EUR 369.1m and interest-bearing assets (securities, lendings, and cash and cash equivalents) of EUR 397.1m, and thus amounts to EUR 28.0m.

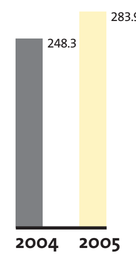
Key balance sheet indicators

EUR m	2004	2005
Interest-bearing liabilities	–293.1	–369.1
Interest-bearing assets	196.6	397.1
Net cash position/Net debt	–96.5	28.0

Cash-Flow

EUR m	2004	2005
Operating cash flow before changes in working capital	**248.3**	**283.9**
+/– Changes in working capital	–48.7	–4.6
+/– Cash flow from operating activities of discontinued operations	–6.0	0.0
= Cash flow from operating activities	**193.6**	**279.4**
+/– Cash flow from investing activities	–95.3	–74.0
= Free cash flow	**98.3**	**205.4**
+/– Cash flow from financing activities	–64.4	–81.3
= Net increase in cash and cash equivalents	**33.9**	**124.2**

Operating cash flow before changes in working capital (EUR m)



In 2005 operating cash flow before changes in working capital was EUR 283.9m (2004: EUR 248.3m). The gain is largely attributable to the Group's improved profitability and lower tax burden.

After changes in working capital which were negative by EUR 4.6m, cash flow from operating activities was EUR 279.4m (2004: EUR 193.6m).

Cash flow from investing activities was EUR minus 74.0m.

Total free cash flow was positive to the tune of EUR 205.4m (2004: EUR 98.3m).

Capital expenditure

Capex approx. EUR 74m

Following a period of relatively heavy capital expenditure related to the modernisation programme, investment decreased somewhat in 2005. Capital expenditure peaked between 1999–2002 when investment exceeded EUR 100m each year, whereas in 2005 it was down to about EUR 74m. Spending was largely channelled into sorting centre and branch network modernisation, as well as up-to-date, future proof IT infrastructure.

Replacement investment in the vehicle fleet, machinery, IT systems, office equipment, fixtures and fittings, and building repairs and refurbishments has been running at an annual EUR 20–30m.

The largest individual investment projects of 2005 were completion of the Vienna parcel sorting centre (approx. EUR 7m), modernisation of further branches (approx. EUR 4m spent on Post.Shops) and a land purchase (approx. EUR 20m).

Acquisitions and disposals

In 2005 Austrian Post invested a total of EUR 20.5m in acquisitions of companies and minority equity holdings (2004: no investments). Most of this amount was accounted for by the purchase of the remaining 25% interest in the Austrian subsidiary feibra GmbH.

The main divestitures during the year were the disposals of Postversicherung AG and of holdings in Lagermax, Schachinger and Gebrüder Weiss (DPD contract).

Risk management

Conservative risk management policies

Our financial control and risk management policies are aimed at protecting profits against financial risks of all kinds.

The Group has clear, written strategies and operational guidelines for the management of financial risks.

Risk management is subject to a body of rules defining its objectives, principles and functions, and the responsibilities of those concerned. In addition, these rules lay down standardised processes, so as to provide an assurance of reliable internal auditing.

A number of forms of risk exposure have been identified, and appropriate action taken to address them. Details are given in the notes to the consolidated financial statements. The risk categories are:

- Liquidity risk
- Credit, counterparty and product risk
- Interest rate risk
- Foreign exchange risk
- Organisational risks

Innovation management

Since Austrian Post is a typical service business, innovation is partly a matter of developing and introducing new ideas and services that create added value for customers. However, another important aspect is ongoing development of our processes and infrastructure to keep them in line with the industry state-of-the-art.

Many new services

We launched a large number of innovative new services in 2005. For instance the Pickup.Paket service rolled out across the country, and the Geomarketing services were expanded, offering marked improvements in the accuracy of unaddressed mailings. Significant progress was also made with designing new processes.

Our idea management system makes an important contribution to ongoing innovation efforts and the search for potential improvements.

Employees

Head count down by 4.4%

In 2005, the average number of full-time employees decreased by 4.4% to 25,192. The majority of our employees work for the Mail Division, and delivery staff are the largest group within it.

Employees by division[1)]

EUR m	2004	2005	Share in %
Mail	16,330	15,556	61.7
Parcel & Logistics	2,705	2,461	9.8
Branch Network	5,702	5,446	21.6
Other	1,605	1,729	6.9
Total	**26,342**	**25,192**	**100.0**

1) Annual average, full-time equivalents

Most of the labour force are with the parent company, Austrian Post AG (24,177), while the remaining 1,015 staff members work at consolidated subsidiaries.

Training and development

EUR 2.4m spent on training and development

Some 13,000 employees took part in training and development programmes during 2005, and about EUR 2.4m were spent on these activities. In addition many specialist training courses were held within various organisational units.

A major focus of the staff development effort in 2005 was the launch of a comprehensive plan that provides for expansion of the activities of the Post.Akademie, which trains up-and-coming executives from all three divisions.

Outlook for 2006

Process optimisation

In 2006 Austrian Post plans to continue optimising internal processes while pursuing its growth strategy.

Consolidating existing quality standards and increased international networking – through partnerships or acquisitions – will be central to these efforts. In the parcel business we are pressing ahead with entry to the Austrian B2B market now that the cooperation agreement with trans-o-flex is in place.

Events after the balance sheet date

On 30 January 2006 the Supervisory Board of the Group's owner, Österreichische Industrieholding AG (ÖIAG), resolved to float Austrian Post. ÖIAG was empowered to take steps to sell up to 49% of the share capital by way of a public offering in Austria and a private placement with foreign investors.

The Postal Services Act, which was published in Federal Law Gazette on 12 January 2006 and entered into effect on 1 March 2006, provides for full market liberalisation in accordance with the timetable established by European legislation.

Furthermore the Act defines universal postal service and establishes quality requirements for market participants.

Mail Division

Market environment

The main factors shaping the Austrian mail market are the regulatory framework and changes in communication habits due to the electronic media. Much of this division's business has already been opened to competition.

Divisional profile

Letter Mail, Infomail and Media Post

The Mail Division is divided into three business areas: Letter Mail, Infomail and Media Post. The division's core business is dispatching letters and postcards, addressed direct mails (Info.Mail) and unaddressed direct mails (Info.Post), national and regional newspapers worldwide, delivering items from around the globe to every delivery point in Austria, and providing an extensive portfolio of direct marketing services.

Highlights 2005

- Acquisition of feibra Hungary and the remaining shares in feibra Austria, strengthening the Group's position in the unaddressed advertising market
- New German sales company, Austrian Post International formed
- Villach sorting centre opened
- IPC Certificate of Excellence awarded to the Inzersdorf sorting centre

Business performance in 2005

Revenue up by 2.8% to EUR 1,290.8m

The Mail Division's external sales rose again in 2005 to reach EUR 1,290.8m. All the business areas forming part of the Mail Division recorded revenue growth.

The Letter Mail area's revenue was up by 1.8% to EUR 782.4m, that of the Infomail area by 3.0% to EUR 382.3m and that of the Media Post area by 9.2% to EUR 126.1m.

External sales of the Mail Division by business area

EUR m	2004	2005	Change in %
Letter Mail	768.5	782.4	+1.8
Infomail	371.3	382.3	+3.0
Media Post	115.5	126.1	+9.2

EBIT up by 14.3%

The division's EBIT improved to EUR 268.9m (2004: EUR 235.3m). The number of full-time employees fell from 16,330 to 15,556.

Recent initiatives

More quality initiatives

In 2005 we took further action to optimise our logistics processes and maintain our quality lead in the delivery of addressed and unaddressed items. This enabled us to cement customer loyalty in the run-up to further liberalisation and open access to cluster box units.

A key objective for the year was further progress with the implementation of our international expansion strategy. Major achievements in this direction were the first takeovers of unaddressed advertising firms and the formation of a German sales subsidiary.

We significantly strengthened our position in the Austrian unaddressed direct mail market by purchasing the remaining shares in feibra GmbH (previous holding just under 75%). We are continuing to rely on a two-brand strategy based on product differentiation and development of separate markets, so as to exploit the high awareness of feibra as a pioneer and acknowledged specialist in unaddressed advertising.

feibra Hungary takeover

We also carved out a strong position in Hungary by acquiring the unaddressed advertising market leader, feibra Hungary, thus further extending our foothold in the CEE market.

In November we opened a sales office close to Cologne to support German companies' direct marketing activities in Austria and Central Europe. Direct access to the local market should enable corporate customers to benefit from personal service and more favourable terms, as well as generating business for Austrian Post.

New Villach sorting centre

Following successful trials the new Villach sorting centre entered full operation in September 2005. The merger of the letter and parcel logistics networks that serve the provinces of Carinthia and East Tyrol, combined with improved transport links, is already resulting in a big increase in efficiency and playing a key role in shortening overall delivery times.

On 20 December, 2005 the Vienna letter sorting centre had a new throughput record of 5.9m pieces. The facility is one of Europe's largest and most modern postal logistics centres. It normally handles a daily 3.5m items but maintains the same high quality at peak times such as the pre-Christmas period. This is evidenced by the Certificate of Excellence awarded to it by the International Post Corporation (IPC) in March 2005. The fact that this quality seal has so far only been conferred on 11 sorting centres worldwide is testimony to the efficiency of the Vienna letter sorting centre.

Parcel & Logistics Division

Market environment

The courier, express and parcel market has been fully liberalised elsewhere in Europe as well as in Austria, and is being fiercly contested by global and national postal enterprises. Nevertheless, it offers considerable growth potential due to the growing demand for parcel and product delivery logistics services from many industries.

Divisional profile

Parcel and express services

The Parcel & Logistics Division markets a wide range of domestic and international parcel and express services in this fully liberalised market segment, in which it is the Austrian market leader. Parcel & Logistics has so far mainly focused on deliveries to households, but plans to develop the business-to-business (B2B) segment, and exploit related growth opportunities. Apart from the Austrian home market, the Division is active in Croatia and Slovakia.

Highlights 2005

- Austrian logistics network completed by the opening of sorting centres in Villach and Inzersdorf
- Quality requirements under the Universal Service Ordinance overfulfilled
- Interest in DPD divested, opening the way for entry to the B2B segment
- Joint venture agreed with German transport logistics firm trans-o-flex
- Preparations made for entry to the Austrian B2B parcel market
- New Pickup.Paket service rolled out across Austria

Business performance in 2005

Revenue up by 6.4%

In 2005, the Parcel & Logistics Division returned a 6.4% increase in revenue to EUR 211.8m. EBIT was positive by EUR 10.4m, having been negative by EUR 16.7m in 2004.

The head count dropped from 2,705 in 2004 to 2,461 in 2005.

Recent initiatives

More logistics improvements

Further progress was made towards optimising the Group's express and parcel logistics network during the year under review. New, state-of-the-art logistics centres came onstream in Villach and Inzersdorf, laying the groundwork for the planned expansion into the B2B segment. The division also achieved a further improvement in delivery quality. In 2005, performance was well in excess of the 90% Universal Service Ordinance requirement, with 94% of all domestic parcels arriving within two working days.

Our new Pickup.Paket service was rolled out across Austria in 2005, having been succesfully piloted in Vienna and Salzburg. It brings a step change in convenience for mail order customers, who can now collect mail order items from a handily placed branch provided that it has been specified in advance. When the parcel arrives the customer is notified by text message or e-mail.

In September we paved the way for entry to the B2B market by divesting our stake in DPD Austria. Since the start of 2006, we have been handling business parcel deliveries which were previously dealt with by DPD. This move also put us in a better position to continue our international expansion drive.

Cooperation with trans-o-flex

At the end of the year 2005, Austrian Post took another major step in this direction by forming a joint venture with the German logistics specialist trans-o-flex. The new venture began trading under the Eurodis brand name on 1 January 2006. It is responsible for the carriage and delivery of trans-o-flex parcels and pallets.

During the year under review the Austrian Post decided to move to a partnership strategy in the Slovenian parcel market in order to make better use of potential economies of scale. Consolidating mail from a number of providers has been seen to be more efficient in a small market like this. Austrian Post concluded an agreement along these lines with TNT at the start of 2006.

Branch Network Division

Market environment

The Branch Network Division operates one of the most extensive and efficient retail networks in Austria. Sales of financial services and retail products take place in a completely competitive environment.

Thanks to our nationwide network, quality products and services, and well trained staff, we are well equipped for the future challenges of the marketplace.

Divisional profile

Nationwide retail network

The Branch Network Division operates one of Austria's largest nationwide retail chains, with 1,338 company owned branches and 612 third-party operated outlets. The network mainly distributes postal services, BAWAG P.S.K. banking services and a wide selection of retail products. The division's strengths lie in its nationwide reach, the expertise and customer driven approach of its staff, and the quality of the products and services it offers.

The branches have three main lines of business: postal services, BAWAG P.S.K. financial services and a wide range of retail products.

Highlights 2005

- Steady productivity gains recorded since 2003
- Retail network adjusted to market conditions: in 2005 closures of post offices with inadequate customer throughput resulted in a fall in the number of branches from 1,639 to 1,338, while the number of third-party operated outlets was upped from 390 to 612 (post partner offices, postal service points and postal pick up points)
- Numerous refurbished branches and two mobile post offices brought into service during the year
- Telecom product range on sale at 131 branches expanded
- Financial services: over 50,000 new accounts opened

Business performance in 2005

Turnaround achieved

Despite branch network downsizing, the division's revenue registered only a slight decline, from EUR 196.2m to EUR 193.8m. The division turned negative EBIT of EUR 10.2m in 2004 into a positive contribution of EUR 8.7m in 2005.

The head count shrank from 5,702 in 2004 to 5,446 in 2005.

Recent initiatives

Network downsizing

During the year we continued to adjust our branch network to customer and market needs. Due to inadequate customer throughput at some sites the number of branches was reduced from 1,639 to 1,338. Meanwhile 61 company owned branches were modernised and redesigned. In addition two mobile post offices entered service, and were well received by customers. The number of third-party operated outlets (post partner offices, postal service points and postal pick up points) was expanded from 390 to 612.

One of the top priorities in 2005 was a **retail product sales drive**. A total of 131 branches were refitted. A wider product range and intensive training for the 267 salespersons concerned have significantly enhanced our competitiveness in the mobile and landline telephone segment, resulting in substantial volume and revenue growth.

The division also focused on a **financial services sales offensive**. The 378 financial services centres and 40-strong field sales force ensure that customers receive competent banking advice – particularly on quality BAWAG P.S.K. financial products.

Vienna, 16 February 2006

The Management Board

Anton Wais m.p.
Chairman
of the Management Board

Rudolf Jettmar m.p.
Deputy Chairman
of the Management Board

Herbert Götz m.p.
Member
of the Management Board

Walter Hitziger m.p.
Member
of the Management Board

- Customer satisfaction at branches up from 79% in 2001 to 94%
- Three International Post Corporation (IPC) Certificates of Excellence
- Quality seal for best Austrian advertising distribution quality (Focus)

Continuous improvement bearing fruit – transformation into a modern service business completed.

We deliver for you.

IFRS consolidated financial statements 2005

Consolidated balance sheet
as at 31 December 2005

	Note	31 Dec. 2005 EUR'000	31 Dec. 2004 EUR'000
ASSETS			
Non-current assets			
Intangible assets and goodwill	(6)	46,490	30,586
Property, plant and equipment	(7)	728,672	822,512
Investments in associates	(9)	309	18,640
Other financial assets	(8)	172,597	115,795
Receivables	(12)	9,008	10,546
Deferred tax assets	(20)	40,336	13,284
		997,412	**1,011,364**
Current assets			
Other financial assets	(8)	50,025	30,508
Inventories	(11)	19,582	20,294
Receivables	(12)	298,492	292,597
Cash and cash equivalents	(13)	174,472	50,302
		542,571	**393,702**
Non-current assets held for sale and discontinued operations			
Non-current assets held for sale	(14)	23,004	0
Discontinued operations	(14)	0	390,609
		23,004	**390,609**
		1,562,987	**1,795,674**

	Note	31 Dec. 2005 EUR'000	31 Dec. 2004 EUR'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	(15)	10,000	10,000
Capital reserves		614,500	614,500
Revenue reserves		36,487	29,418
Revaluation reserves		704	42
Currency translation reserves		536	307
Equity of discontinued operations	(15)	0	3,310
Retained profits		99,921	47,070
		762,149	**704,646**
Minority interests	(15)	0	7,817
		762,149	**712,463**
Non-current liabilities			
Provisions	(16)	311,604	204,861
Financial liabilities	(17)	35,199	68,107
Payables	(18)	13,509	14,453
Deferred tax liabilities	(20)	948	33
		361,260	**287,454**
Current liabilities			
Provisions	(16)	120,147	101,236
Financial liabilities	(17)	6,953	9,266
Payables	(18)	312,479	310,523
		439,579	**421,024**
Liabilities of discontinued operations	(19)	**0**	**374,733**
		1,562,987	**1,795,674**

Consolidated income statement
for the year ended 31 December 2005

	Note	2005 EUR'000	2004 EUR'000
Revenue	(21)	**1,701,605**	**1,654,384**
Other operating income	(22)	52,945	73,006
Total operating income		1,754,550	1,727,390
Raw material, consumables and services used	(23)	–241,943	–241,774
Staff costs	(24)	–1,064,045	–1,046,612
Depreciation and amortisation	(25)	–120,753	–120,887
Other operating expenses	(26)	–223,484	–236,685
Total operating expenses		–1,650,224	–1,645,959
Profit from operations		**104,326**	**81,431**
Share of profit/loss of associates	(27)	–1,286	743
Other financial result	(28)	–2,094	–5,427
Total financial result		–3,380	–4,684
Profit before tax		**100,946**	**76,747**
Income tax	(20)	–10,872	–29,902
Profit after tax		**90,074**	**46,845**
Profit from discontinued operations	(29)	**9,847**	**3,177**
Profit for the period		**99,921**	**50,022**
Attributable to:			
Equity holder of the parent company	(15)	99,921	47,070
Minority interests	(15)	0	2,952

Consolidated cash flow statement
for the year ended 31 December 2005

	Note	2005 EUR'000	2004 EUR'000
Operating activities			
Profit before tax		100,946	76,747
Depreciation and amortisation		120,753	120,887
Write-down/write-up of financial assets		–725	–1,147
Long-term provisions		106,734	86,490
Gain/loss on disposal of non-current assets		–8,828	–22,589
Gain/loss on disposal of financial assets		1,938	20
Taxes paid	(31.1)	–33,832	–2,136
Net interest received	(31.1)	–3,051	–10,032
Currency translation loss		7	68
Operating cash flow before changes in working capital		**283,940**	**248,308**
Changes in working capital			
Receivables		–1,358	–11,232
Inventories		717	–5,017
Payables		–945	–24,760
Other financial assets		–19,517	–30,203
Deferred taxes		1,015	39
Short-term provisions		–1,830	13,179
Other liabilities		17,362	9,291
Cash flow from changes in working capital		**–4,557**	**–48,704**
Cash flows from the operating activities of discontinued operations		0	–6,013
Cash flow from operating activities		**279,384**	**193,592**
Investing activities			
Purchase of intangible assets		–1,395	–2,117
Purchase of property, plant and equipment		–73,585	–88,521
Acquisition/disposal of subsidiaries	(31.1)	–8,022	0
Purchase of financial assets		–60,812	–68,886
Income neutral revaluation and currency translation reserves		–881	10
Proceeds from sale of non-current assets		37,066	29,331
Proceeds from disposal of associates		18,334	0
Proceeds from sale of other financial assets		3,532	1,243
Dividends received from associates		2,744	3,527
Interest received from financial assets		9,059	22,808
Cash flows from the investing activities of discontinued operations		0	7,277
Cash flow from investing activities		**–73,958**	**–95,327**
Free cash flow		**205,426**	**98,264**
Financing activities			
Changes in financial liabilities		–35,248	–13,298
Dividends paid	(31.1)	–40,000	–36,319
Interest paid		–6,008	–12,776
Cash flows from the financing activities of discontinued operations		0	–1,997
Cash flow from financing activities		**–81,256**	**–64,390**
Net change in cash and cash equivalents		**124,169**	**33,874**
Net increase in cash and cash equivalents held by discontinued operations		0	945
Cash and cash equivalents at 1 January 2005	(31.1)	50,302	15,483
Cash and cash equivalents at 31 December 2005		**174,472**	**50,302**

Consolidated statement of changes in equity

2005

EUR'000	Share capital	Capital reserves	Revenue reserves	Revaluation reserves
Balance at 1 January 2005	**10,000**	**614,500**	**29,418**	**42**
Changes in consolidation				
Disposals				
Increase in equity investments				
Capital transactions with the equity holder				
Dividend				
Other net gains and losses not recognised in the income statement				
Currency translation differences				
Revaluation of investments				663
Net gains and losses recognised in the income statement				
Changes in revenue reserves			7,070	
Profit for the period				
Balance at 31 December 2005	**10,000**	**614,500**	**36,487**	**704**

2004

EUR'000	Share capital	Capital reserves	Revenue reserves	Revaluation reserves
Balance at 1 January 2004	**10,000**	**618,840**	**46,300**	**31**
Equity of discontinued operations				
Change				
Capital transactions with the equity holder				
Dividend				
Other net gains and losses not recognised in the income statement				
Currency translation differences				
Revaluation of investments				10
Net gains and losses recognised in the income statement				
Changes in revenue reserves		–4,340	–16,882	
Profit for the period				
Balance at 31 December 2004	**10,000**	**614,500**	**29,418**	**42**

	Currency translation reserves	Equity of discontinued operations	Retained profits	Total	Minority interests	Consolidated equity
	307	**3,310**	**47,070**	**704,646**	**7,817**	**712,463**
		–3,310	0	–3,310	–5,976	–9,286
					–1,841	–1,841
			–40,000	–40,000		–40,000
	229			229		229
				663		663
			–7,070	0		0
			99,921	99,921		99,921
	536	**0**	**99,921**	**762,149**	**0**	**762,149**

	Currency translation reserves	Equity of discontinued operations	Retained profits	Total	Minority interests	Consolidated equity
	160	**2,114**	**14,777**	**692,223**	**6,684**	**698,907**
		1,196		1,196		1,196
			–36,000	–36,000	–1,819	–37,819
	147			147		147
				10		10
			21,223	0		0
			47,070	47,070	2,952	50,022
	307	**3,310**	**47,070**	**704,646**	**7,817**	**712,463**

Notes to the consolidated financial statements

Accounting policies 1

The consolidated financial statements of Austrian Post for the 2005 financial year have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and applicable as at 31 December 2005, as well as the interpretations of those standards by the International Financial Reporting Interpretations Committee (IFRIC) to the extent that they have been adopted by the European Union. Account has been taken of amendments to existing IAS (improvement project), new IFRS and IFRIC interpretations applicable in the European Union. New and amended standards and interpretations issued up to 31 December 2005 but not yet in force (IFRS 6, IFRIC 4 and 5, and amendments to IAS 19 and 39) have not been prematurely applied on a voluntary basis.

Austrian Post has made use of its elective right under section 245 a (2) Austrian Commercial Code (HGB) to prepare its consolidated financial statements in accordance with International Financial Reporting Standards, and to dispense with the presentation of statements in accordance with Austrian accounting principles.

The consolidated financial statements are presented in euro. Unless otherwise stated all amounts are rounded to the nearest EUR 1,000. Where rounded amounts and percentages are aggregated rounding related differences may occur due to the use of automated calculation aids.

The balance sheet date for all consolidated Group companies is 31 December. The financial years correspond to calendar years.

The financial statements of consolidated companies are subject to uniform accounting and valuation principles. The company financial statements of consolidated subsidiaries are drawn up to the Group balance sheet date.

2 Significant differences between International Financial Reporting Standards and the Austrian accounting regulations

Differences between IFRS and Austrian accounting principles
In contrast to the Austrian accounting regulations, the sole purpose of IFRS is to provide information. The overriding objective of IFRS is to provide investors with business information relevant to their decisions, whereas the Austrian HGB gives pride of place to the principle of prudence and the protection of creditors. In consequence IFRS place greater emphasis on the comparability of annual financial statements than does the Austrian HGB.

Balance sheet presentation
The classification of IFRS balance sheet items is by maturities. The accrued and deferred items under the Austrian HGB are disclosed as other receivables and other payables.

Deferred tax
Under IAS 12 the reporting of deferred tax is based on the balance sheet liability method. Deferred tax arises as a result of temporary differences between the carrying amounts in the IFRS balance sheet and the amounts for tax purposes. Recognition of deferred tax assets and liabilities, applying the current rate of taxation, is mandatory. However recognition of deferred tax assets is only required when there is a reasonable expectation that taxable income will be available against which they can be utilised. Moreover, under IFRS deferred tax assets arising from tax loss carryforwards must be recognised if they are realisable.

Under Austrian accounting regulations deferred tax must be measured according to the income statement liability method. There is an elective right to recognise deferred tax assets.

Finance and operating leases
Under IAS 17 an asset must be recognised in the lessee's balance sheet if it transfers substantially all the risks and rewards incident to ownership to the lessee. The prevailing practice under the Austrian HGB with regard to recognition is based on the same basic principles, but there is generally less emphasis on the business perspective. As a result, in some cases assets not recognised as attributable to the lessee under the Austrian HGB may be recordable in financial statements prepared in accordance with IFRS.

Other provisions
Under IAS 37 a provision must be made for a present obligation arising from past events when it is probable that the obligation will occur and its amount can be reliably estimated. To qualify for recognition the obligation must be legally and economically enforceable, and an outflow of resources embodying economic benefits must be more likely than not. Under the Austrian HGB recognition is governed by the principle of prudence. In consequence, under the same circumstances, a provision is more likely to be required under the Austrian HGB than IFRS.

Foreign currency translation
Under IAS 21 the effects of changes in foreign exchange rates on the measurement of foreign currency transactions must always be reported using the closing rate at balance sheet date. This means that, in contrast to Austrian accounting regulations, under IFRS not only unrealised losses but also unrealised gains are recognised.

Recognition and measurement of financial instruments
IAS 39 defines a financial instrument as any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments include securities, loans and unconsolidated equity investments, receivables, cash and cash equivalents, financial liabilities and trade payables. Options, standardised and other futures contracts, as well as interest and currency swaps are all classed as derivative financial instruments. IAS 39 divides financial instruments into four categories and treats them accordingly. Definitions like this, and a classification of this kind, do not form part of the Austrian HGB.

In accordance with IAS 39 the Group's investments in securities are classed as available-for-sale financial assets or the held for trading sub-category of financial assets at fair value through profit or loss. Measurement of available-for-sale securities is at fair value. Gains or losses on remeasurement are income neutral and are recognised in the revaluation reserves, taking deferred tax into account. In the event that there is objective evidence of permanent or material impairment as a result of a past event that occurred after the initial recognition of an asset an impairment loss is recognised in profit or loss. If the fair value of the asset increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, in the case of an equity instrument the impairment loss is not reversed through profit or loss. Financial assets held for trading are also measured at fair value, but gains or losses on remeasurement are always included in net profit or loss.

Under the Austrian HGB the measurement of securities is, at most, at cost, and is subject to the lower of cost or market principle. Any resultant changes in value are included in net profit or loss.

IAS 39 classes derivative financial instruments as financial assets or financial liabilities at fair value through profit or loss, and they are measured at fair value at balance sheet date, and carried as other receivables or financial liabilities in the IFRS balance sheet. Gains or losses on remeasurement to fair value are included in net profit or loss.

Under the Austrian HGB provisions are formed for losses on remeasurement to fair value, whereas unrealised gains are unrecognised.

IAS 39 requires the recognition of financial liabilities at amortised cost, whereas under the Austrian HGB they are carried at the amount repayable.

Investment property

Under IAS 40 investments in land and buildings held by the enterprise to earn rentals or for capital appreciation, rather than for own operational use or sale in the ordinary course of business, are reported separately as investment property. The Austrian HGB does not require separate disclosure of such property.

Segment reporting

IAS 14 applies to entities whose securities are publicly traded or which are in the process of issuing securities in a public market. The standard establishes principles for presenting financial information according to business segments and geographical segments, the main criterion for identifying reportable segments being the risks and returns associated with them. A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services, and is subject to risks and returns that are different from those of other business segments. The main factors to be considered in identifying business segments are the nature of the products or services, the type or class of customer, and the methods used to distribute the products or provide the services. Geographical segments are distinguishable components of an entity that are active within a particular economic environment, and are hence subject to risks and returns that are different from those of components operating in other economic environments. The factors to be considered in identifying geographical segments include the similarity of the economic and political conditions, and special risks associated with operations in a given region. In addition, segment reporting draws a fundamental distinction between primary and secondary reporting formats. The primary reporting format, for which the disclosure requirements are considerably more stringent, is that which most accurately reflects the risks and returns of an entity. The other form of segmentation is the secondary reporting format.

Austrian Post distinguishes between the Mail, Parcel & Logistics and Branch Network Divisions in its primary reporting format, and the domestic, Germany and CEE geographical segments in its secondary format.

Segment reporting provides detailed information on the operating activities of listed companies. The Austrian accounting regulations contain no such provisions.

3 Estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates in the application of its accounting and measurement policies, and to make assumptions about future developments which materially influence the recognition and valuation of assets and liabilities, the reporting of other obligations at the balance sheet date, and that of income and expense for the financial year.

In particular, there is a risk that the use of the following assumptions and estimates may require adjustments of the carrying amounts of assets and liabilities in coming financial years.

The measurement of existing provisions for termination and jubilee benefits (carrying amount as at 31 Dec. 2005: EUR 149,471,000; 31 Dec. 2004: EUR 117,742,000) is based on assumptions as to the discount rate, retirement age, life expectancy and future salary increases.

Measurement of the provision for employee under-utilisation of organisational units (carrying amount as at 31 Dec. 2005: EUR 167,160,000; 31 Dec. 2004: EUR 87,520,000) is based on assumptions regarding the degree of capacity utilisation per employee, the retirement age, the discount rate and future salary increases.

Measurement of the recoverable amount of goodwill (as at 31 Dec. 2005: EUR 37,537,000; 31 Dec. 2004: EUR 22,850,000) is based on the projected cash flows for the next four years, derived from the internal medium-term plan, and a discount rate adjusted to the company's activities and risk exposure.

4 Effects of new IFRS applicable from the 2005 financial year onwards

The effects of changes in accounting and measurement methods, due to new standards, on the assets, finances and earnings of Austrian Post are discussed below.

IAS 1 Presentation of financial statements
Minority interests are no longer reported as a separate balance sheet item between capital and reserves and non-current liabilities, but are presented as an item within equity. The change in the minority interest has been reflected in the statement of changes in equity, and results in a different equity ratio for the 2004 financial year.

IFRS 3 Consolidated financial statements
In connection with the publication of IFRS 3 (replaces IAS 22) the accounting treatment of acquisitions has been modified and IAS 36, impairment of assets and IAS 38, intangible assets have been significantly revised. IFRS 3 makes use of the purchase method mandatory and takes the impairment-only approach to goodwill. Under IFRS 3 an acquirer must recognise all the acquiree's identifiable assets, liabilities, and contingent liabilities at fair value. When allocating the cost of a business combination the acquirer must investigate whether it is necessary to recognise acquired intangible assets (e.g. brands and customer relationships) separately from goodwill. Customer relationships valued at EUR 3,700,000 were identified when accounting for the acquisitions made in 2005. These have been included in the consolidated financial statements, and are being amortised over a period of eight years. The amortisation in question amounted to EUR 184,000 in 2005.

The impairment-only approach prohibits the amortisation of goodwill acquired in a business combination and instead requires that goodwill be annually tested for impairment. The obligation to test more frequently if there are indications of impairment is not affected. The application of IFRS 3 adds a total of EUR 6,781,000 to the profit from operations while the derecognition of amortisation of goodwill already in existence in the previous year contributed a further EUR 4,751,000 to the result. In accordance with IFRS 3 goodwill acquired during the 2005 financial year was no longer amortised, resulting in the non-recognition of EUR 2,030,000 in amortisation.

IFRS 5 Non-current assets held for sale and discontinued operations
Under IFRS 5 non-current assets held for sale within one year must be presented separately in the balance sheet, and must be recognised at the lower of the carrying amount and fair value less costs to sell. Assets thus classified, amounting to EUR 23,004,000 relating to the planned disposal of a parcel logistics centre, are reported in the 2005 consolidated financial statements. The property was tested for impairment prior to reclassification, in accordance with IAS 36, and impairment of EUR 4,370,000 was recognised in 2005. The write-down is reported as depreciation.

IFRS also defines the conditions under which a disposal group is to be reported as abandoned. The gain on the disposal of the Postversicherung AG subsidiary and the effect of deconsolidation on profit, amounting to EUR 9,847,000 are reported as profit from discontinued operations for 2005. In the interests of comparability the assets, liabilities and profits of the discontinued insurance business, which were included in the consolidated financial statements for 2004, are shown separately as discontinued operations.

Consolidation 5

5.1. Consolidated Group
Apart from the parent company, 12 (2004: 13) domestic subsidiaries and six foreign subsidiaries (2004: four), in which the Company directly or indirectly holds a majority of the voting rights, are included in consolidation.

A joint-venture company was not consolidated due to immateriality.

Investments in Group companies are accounted for using the equity method if Austrian Post holds between 20% and 50% in them (associates) or if the contractual basis of the relationship is such that the Group lacks the power to control them despite holding a majority of the voting rights.

Subsidiaries are included in the consolidated financial statements from the time at which Austrian Post obtains the power to control them.

The following section provides information on changes in the consolidated Group in 2005, by companies.

Additions arising from acquisitions

The additions to the consolidated Group comprise the following acquisitions, formations and increases in holdings requiring consolidation:

Company name	Interest	Time of initial consolidation	Reason for consolidation
feibra GmbH	**100%**	28 June 2005	Increase in holding
feibra VertriebsgmbH	**100%**	14 September 2005	Increase in holding and change in method of consolidation
Feibra Magyarország Kft	**100%**	20 September 2005	Acquisition
Austrian Post International Deutschland GmbH	**100%**	1 November 2005	Formation

Under an agreement signed on 28 June 2005 the Group purchased the remaining 25.0015% interest in feibra GmbH, Vienna (previously feibra AG) for EUR 16,570,000.

An additional 50% interest in feibra VertriebsgmbH, Neudörfl was acquired by feibra GmbH, Vienna (previously feibra AG) for EUR 626,000 under a purchase and transfer agreement signed on 14 September 2005.

During the 2005 financial year the Group acquired all the shares in Feibra Magyarország Kft, Budapest for EUR 3,800,000. This company's business is the distribution and delivery of unaddressed advertising.

The activities of Austrian Post International Deutschland GmbH, Cologne, formed in 2005, comprise the marketing and performance of postal, consultancy and related intermediary services.

The acquisitions and increases in equity holdings had the following effects on Group assets and finances at the time of the purchases:

EUR'000	
Non-current assets	202
Current assets	1,061
Cash and cash equivalents	471
Provisions and liabilities	–1,264
Net assets at fair value	**470**
Increase in capital due to equity investments	666
Goodwill	14,935
Customer list	3,700
Deferred tax	1,224
Acquisition cost	**20,996**

The retained profits for the period include the results of the companies concerned for the period from consolidation up to 31 December 2005.

Disposals

One subsidiary and four associates were removed from consolidation in 2005.

Under a share purchase agreement signed on 7 October 2004 the Company divested its interest in Postversicherung AG for an amount of EUR 16,000,000.

Net assets upon deconsolidation (on 1 January 2005) were as follows:

EUR'000	
Other financial assets	376,546
Current assets	10,566
Cash and cash equivalents	3,497
Actuarial provisions	–360,421
Provisions and liabilities	–14,748
	15,439
Minority interests in discontinued operations	–5,976
Equity of discontinued operations	–3,310
	6,153
Net gains on disposal	9,847
Sales proceeds	**16,000**

The Group's investments in Lagermax Paketdienst Gesellschaft mbH & Co KG, Salzburg, Lagermax Paketdienst Gesellschaft mbH, Salzburg, Schachinger Paketdienst Gesellschaft mbH, Hörsching, and Gebrüder Weiss Paketdienst Gesellschaft mbH, Lauterach, which were accounted for using the equity method, were sold for a total price of EUR 14,146,000 under purchase and transfer agreements signed on 31 August 2005. The impact on the share of profit/loss of associates during the financial year under review was a decrease of EUR 2,043,000.

As at 31 December 2005 the Group's subsidiaries, investments in associates and investments in non-consolidated Group companies were as follows:

Company and location	Interest in %	Capital and reserves at 31 Dec. 2005 EUR'000	Net profit/loss for 2005 EUR'000	Method of consolidation
feibra GmbH, Vienna	100.0	5,682	3,946	FC
PROWERB Gesellschaft für produktive Werbung GmbH, Vienna	100.0	51	14	FC
feibra VertriebsgmbH, Neudörfl	100.0	342	117	FC
Medien.Zustell GmbH, Vienna	100.0	65	5	FC
Feibra Magyarország Kft, Budapest	100.0	800	157	FC
Austrian Post International Deutschland GmbH, Cologne	100.0	977	–23[1]	FC
Post Paket Service GmbH, Vienna	100.0	3,888	–16,259	FC
Post International Beteiligungs GmbH, Vienna	100.0	17,846	–344	FC
Slovak Parcel Service s. r. o., Bratislava	100.0	3,200	1,347	FC
In Time s.r.o., Bratislava	100.0	849	239	FC
Overseas Trade Co Ltd d.o.o., Zagreb	100.0	6,401	–45	FC
Yellogistics d.o.o., Ljubljana (in liquidation)	100.0	119	–2,184	FC
Post.Wertlogistik GmbH, Vienna	100.0	1,843	292	FC
Post & Telekom Immobiliengesellschaft mbH, Vienna	100.0	946	608	FC
PTI Immobilienvermittlung GmbH, Vienna	100.0	913	61	FC
Post & Co Vermietungs OEG, Vienna	100.0	114,380	1,891	FC
Post.Maintain Management Objektverwaltungs und -instandhaltungs GmbH, Vienna	100.0	8,985	–2,582	FC
A4 Business Solutions GmbH, Vienna	100.0	25	157	FC
Omnimedia Werbegesellschaft mbH, Vienna	21.0	2,466	1,912	EM
Postadress Austria GmbH, Vienna (in liquidation)	51.0	0	3	EM
FEIPRO Vertriebs GesmbH, Gaweinstal	50.0	384	348	EM
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.0	296	26	NC

1) Short financial year
FC: full consolidation, EM: equity method, NC: not consolidated due to immateriality

5.2. Consolidation policies
The consolidated financial statements are based on the financial statements of the parent company and its consolidated subsidiaries, which were drawn up to 31 December 2005 in accordance with uniform rules, and have been audited and certified by independent auditors.

Consolidation is according to the purchase method, i.e. netting of the cost of the shares acquired against the Group's portion of the fair value of the subsidiary's equity at the time of acquisition. Resultant differences on the assets side that cannot be ascribed to individual assets or liabilities are shown as goodwill, under intangible assets.

Minority interests in companies controlled by the parent are reported as an item within equity.

When eliminating intragroup balances, loans, trade receivables, other receivables and accruals are netted off against the corresponding liabilities and provisions.

All intragroup income and expenses are eliminated in consolidation. Where assets are constructed within the Group, the revenue in question is classified as work performed by the enterprise and capitalised.

To the extent that they are material, intragroup profits/losses arising from the construction or transfer of non-current assets or inventories within the Group are eliminated through the income statement.

Intragroup profits/losses arising from intragroup supplies are likewise eliminated.

5.3. Currency translation
Foreign currency transactions
In the IFRS company financial statements of the parent company and its subsidiaries monetary assets and liabilities denominated in foreign currencies are carried at the reference exchange rate at the date of the transaction. At balance sheet date these items are remeasured at the European Central Bank reference rate on 31 December. Foreign exchange gains and losses arising at balance sheet date are reported in net profit or loss.

Translation of company statements presented in foreign currencies
In conformity with IAS 21, the effects of changes in foreign exchange rates, the annual financial statements of companies included in consolidation and reporting in foreign currencies are translated into euro in accordance with the functional currency principle. This is the respective local currency, as they conduct their operations independently in financial, economic and organisational terms.

The modified closing rate method is used in translation of the financial statements of foreign entities. All balance sheet items with the exception of capital and reserves are translated at the European Central Bank reference rate ruling at balance sheet date; the capital and reserves items are translated at the rate at the date of the acquisition or formation. Income and expense items are translated at the average reference rates for the financial year in question.

The resultant currency translation differences are carried under capital and reserves, and are not included in net profit or loss.

Additions to and disposals of property, plant and equipment are recognised at the reference rate ruling at balance sheet date, and depreciation at the average reference rate for the financial year. Changes in the reference rate from the previous year are shown separately, as currency translation differences, in the statement of movements in property, plant and equipment.

The movements in foreign exchange rates against the euro used in translation were as follows:

Movements in foreign exchange rates EUR 1	Reference rate at balance sheet date		Annual average rate applied in the income statement	
	31. Dec. 2005	31. Dec. 2004	2005	2004
Slovak Crown	37.8800	38.7450	38.5990	40.0330
Slovene Tolar	239.5000	239.7600	239.5700	239.0669
Croat Kuna	7.3715	7.7365	7.4008	7.5656
Hungarian Forint	252.8700	n/a	251.3180	n/a

Intangible assets and goodwill 6

Intangible assets acquired for consideration are shown at cost of acquisition less amortisation. The amortisation rates are based on the normal useful lives of the assets.

Neither internally generated intangible assets nor intangible assets with indefinite useful lives are reported.

Low value assets (individual acquisition cost up to EUR 400) are fully written off in the year of acquisition and are shown both as additions and as disposals in the non-current assets movement schedule.

Amortisation is calculated on a straight-line basis applying the following useful lives:

Useful lives	Years
Intangible assets	4–10

Where there are indications that an asset is impaired, and the recoverable amount is less than the carrying amount, the asset is written down to fair value in accordance with IAS 36, impairment of assets. In the event that the reasons for impairment cease to apply the impairment loss is reversed.

The following tables set out the items aggregated under intangible assets in the consolidated balance sheet and goodwill in detail, and show the movements in them:

EUR'000	Intangible assets	Goodwill	Prepayments	Total
Cost of acquisition or construction				
At 1 January 2005	**53,467**	**22,850**	**8**	**76,325**
Additions arising from acquisitions	3,827	14,935	0	18,762
Additions	1,693	0	57	1,750
Disposals	2,381	248	0	2,629
Transfers	7	0	–7	0
Currency translation differences	35	0	0	35
At 31 December 2005	**56,648**	**37,537**	**58**	**94,243**
Amortisation				
At 1 January 2005	**45,739**	**0**	**0**	**45,739**
Additions arising from acquisitions	285	0	0	285
Additions	3,922	0	0	3,922
Disposals	2,210	0	0	2,210
Currency translation differences	17	0	0	17
At 31 December 2005	**47,753**	**0**	**0**	**47,753**
Net carrying amount at 1 January 2005	**7,728**	**22,850**	**8**	**30,586**
Net carrying amount at 31 December 2005	**8,895**	**37,537**	**58**	**46,490**

In accordance with IFRS 3 the cost of goodwill as at 1 January 2005 is shown net of cumulative amortisation recognised up to that time.

EUR'000	Intangible assets	Goodwill	Prepayments	Total
Cost of acquisition or construction				
At 1 January 2004	**53,344**	**37,363**	**2**	**90,709**
Additions arising from acquisitions	0	0	0	0
Additions	2,108	0	6	2,114
Disposals	2,041	476	0	2,517
Transfers	32	0	0	32
Currency translation differences	24	0	0	24
At 31 December 2004	**53,467**	**36,887**	**8**	**90,362**
Amortisation				
At 1 January 2004	**38,978**	**9,286**	**0**	**48,264**
Additions arising from acquisitions	0	0	0	0
Additions	8,715	4,751	0	13,466
Disposals	1,989	0	0	1,989
Transfers	29	0	0	29
Currency translation differences	6	0	0	6
At 31 December 2004	**45,739**	**14,037**	**0**	**59,776**
Net carrying amount at 1 January 2004	**14,366**	**28,077**	**2**	**42,445**
Net carrying amount at 31 December 2004	**7,728**	**22,850**	**8**	**30,586**

Property, plant and equipment 7

Property, plant and equipment is carried at acquisition cost less scheduled depreciation. The amortisation rates are based on the normal useful lives of the assets.

In addition to the direct costs, construction costs also include an appropriate share of material and manufacturing overheads. Interest costs, where they arise, are never a component of construction costs. Low value assets (individual acquisition cost up to EUR 400) are fully written off in the year of acquisition and are shown both as additions and as disposals in the non-current assets movement schedule.

Depreciation is calculated on a straight-line basis applying the following useful lives:

Useful lives	Years
Buildings	20–50
Plant and machinery	10
Vehicle fleet	4–8
IT equipment	3–5
Other equipment, furniture and fittings	5–20

Where there are indications that an asset is impaired, and the recoverable amount is less than the carrying amount, the asset is written down to fair value in accordance with IAS 36, impairment of assets. In the event that the reasons for impairment cease to apply the impairment loss is reversed.

Investment property
In accordance with IAS 40, property held to earn rentals and/or for capital appreciation, and which could be sold in separate portions is classed as investment property. If the owner occupied portion of a property classed as an investment property represents less than 20% of the whole, it is reported as an investment property in its entirety; otherwise recognition is in accordance with the percentage of use. Investment property is carried in the balance sheet at acquisition cost less depreciation which is performed on a straight-line basis, applying useful lives of between 20 and 50 years. The fair values of the investment properties were largely determined by experts at the parent's company subsidiary, using generally accepted valuation methods. In determining the fair values both the asset value of the properties and rental income were taken into account. Measurement reflected market value – particularly the level of local land prices – as well as the cost of rebuilding less a discount for wear and tear, and the realisable rentals.

The table below provides a detailed presentation of the items aggregated under property, plant and equipment in the consolidated balance sheet. Movements in investment property are shown in a separate column.

EUR'000	Land and buildings	Investment property (IAS 40)	Plant and machinery	Other equipment, furniture and fittings	Prepayments and assets under construction	Total
Cost of acquisition or construction						
At 1 January 2005	**817,270**	**98,887**	**159,018**	**281,127**	**17,993**	**1,374,295**
Additions arising from acquisitions	17	0	284	101	0	402
Additions	36,833	262	3,985	31,270	1,235	73,585
Disposals	41,261	10,083	6,242	39,481	0	97,066
Transfers	–7,387	22,323	2,795	74	–17,806	0
Reclassifications in accordance with IFRS 5	–52,273	0	0	0	0	–57,273
Currency translation differences	138	0	77	73	0	288
At 31 December 2005	**748,337**	**111,390**	**159,918**	**273,164**	**1,422**	**1,294,230**
Write-downs						
At 1 January 2005	**290,646**	**35,486**	**70,674**	**154,976**	**0**	**551,782**
Additions arising from acquisitions	11	0	115	77	0	204
Additions	56,066	11,784	13,948	35,033	0	116,831
Disposals	23,534	3,497	6,145	35,900	0	69,076
Transfers	–12,853	12,853	0	0	0	0
Reclassifications in accordance with IFRS 5	–34,269	0	0	0	0	–34,269
Currency translation differences	8	0	35	43	0	87
At 31 December 2005	**276,076**	**56,627**	**78,627**	**154,228**	**0**	**565,558**
Net carrying amount at 1 January 2005	**526,624**	**63,401**	**88,344**	**126,151**	**17,993**	**822,512**
Net carrying amount at 31 December 2005	**472,261**	**54,763**	**81,291**	**118,935**	**1,422**	**728,672**

Where the recoverable amount of assets was lower than the carrying amount at balance sheet date impairment has been recognised. Impairment of EUR 28,803,000 in respect of land, of EUR 33,000 in respect of plant, and of EUR 96,000 in respect of other equipment, furniture and fittings was identified, and is reported under depreciation and amortisation.

EUR'000	Land and buildings	Investment property (IAS 40)	Plant and machinery	Other equipment, furniture and fittings	Prepayments and assets under construction	Total
Cost of acquisition or construction						
At 1 January 2004	**808,663**	**86,918**	**141,035**	**277,699**	**7,820**	**1,322,134**
Additions arising from acquisitions	0	0	0	0	0	0
Additions	24,703	104	16,636	29,096	17,983	88,522
Disposals	7,104	2,392	657	26,331	–4	36,488
Transfers	–8,992	14,257	2,012	498	–7,807	–32
Reclassifications in accordance with IFRS 5	0	0	0	0	0	0
Currency translation differences	0	0	–8	165	1	158
At 31 December 2004	**817,270**	**98,887**	**159,018**	**281,127**	**17,993**	**1,374,294**
Write-downs						
At 1 January 2004	**252,064**	**24,328**	**56,718**	**141,480**	**0**	**474,589**
Additions arising from acquisitions	0	0	0	0	0	0
Additions	50,426	4,291	14,556	38,176	0	107,449
Disposals	3,918	1,062	593	24,728	0	30,301
Transfers	–7,926	7,931	0	–34	0	–29
Reclassifications in accordance with IFRS 5	0	0	0	0	0	0
Currency translation differences	0	0	–7	82	0	76
At 31 December 2004	**290,646**	**35,486**	**70,674**	**154,976**	**0**	**551,782**
Net carrying amount at 1 January 2004	**556,599**	**62,590**	**84,317**	**136,219**	**7,820**	**847,545**
Net carrying amount at 31 December 2004	**526,624**	**63,401**	**88,344**	**126,151**	**17,993**	**822,512**

The carrying amount of intangible assets, and property, plant and equipment pledged as collateral is EUR 56,385,000 (31 Dec. 2004: EUR 65,710,000).

The following information on investment property is provided in conformity with IAS 40:

Investment property EUR'000	31. Dec 2005	31. Dec 2004
Carrying amount	54,763	63,401
Fair value	134,873	143,277
Rental income	7,656	6,735
Expenses arising from property which generated rental income	4,773	2,310
Expenses arising from property which did not generate rental income	7,335	2,256

Cross-border lease
In financial 2002 the parent company completed a cross-border lease transaction with two US trusts. The Company granted these trusts a 99-year usufruct of the mail sorting facilities in Graz, Innsbruck, Salzburg and Vienna, in return for a grant payment of USD 117m. At the same time the facilities were leased back to the Company for 24 years under a lease agreement. The latter also accords it the right to repurchase the usufruct of the sorting facilities, either at a fixed price (EBO payment amount) on 1 January 2022, or at the higher of the end-of-term purchase option price or market value at the end of the term of the lease agreement.

The parent company has assigned its obligation to pay the leasing instalments, including an EBO payment if made, to payment undertakers. To this end the Company has paid USD 108.3m to the payment undertakers who, for their part, have undertaken to pay the requisite amounts at the agreed dates on behalf of the parent company. The residual risk of a claim in the event of the insolvency of the payment undertakers, borne by the Company at balance sheet date, amounted to USD 115.9m (EUR 98.3m).

The accounting treatment of the cross-border lease transaction in the consolidated financial statements for the year ended 31 December 2005 is as follows:

Since the beneficial ownership of the mail sorting facilities to which the usufruct applies is unchanged, they continue to be reported under the non-current assets of the parent company, and are being depreciated over a useful life of ten years.

The net present value benefit originally accruing to the Company, amounting to USD 9.1m (currently approx. EUR 9.2m) is carried under other liabilities and is reversed on a pro rata temporis basis over the term of the agreement. In the 2005 financial year EUR 480,000 (2004: EUR 480,000) were reversed and recognised as other financial result.

Finance leases

Assets classified as finance leases under IAS 17 because of the form of the relevant lease agreements are capitalised as non-current assets at the inception of the lease, and are carried at the lower of fair value at that time or the present value of the future lease payments. The minimum terms of the agreements in question effectively correspond to the useful lives of the assets. No purchase options have been agreed. The liabilities arising from these agreements are reported under financial liabilities.

The following information on finance leases is provided in conformity with IAS 17:

Net carrying amounts and useful lives of the leased assets **EUR'000**	**Carrying amount 31. Dec. 2005**	**Useful lives**
Plant and machinery	241	4
Other equipment, furniture and fittings	12,996	8

Total minimum lease payments for each of the following periods **EUR'000**	**2005**	**2004**
Not later than one year	3,317	3,337
Later than one year and not later than five years	11,281	14,320
Later than five years	0	0

Present value of the minimum lease payments for each of the following periods **EUR'000**	**2005**	**2004**
Not later than one year	2,967	3,026
Later than one year and not later than five years	9,956	12,943
Later than five years	0	0

EUR 383,000 in contingent lease payments, tied to the three-month Euribor, were included in net profit or loss in the 2005 financial year.

Financial assets 8

The financial assets of Austrian Post comprise investments in associates and other financial assets. The table below provides a detailed presentation of the movements in the relevant aggregated items in the consolidated balance sheet:

EUR'000	Investments in associates	Other financial assets: Investments in unconsolidated enterprises	Long-term loans	Long-term investments in securities	Total other financial assets
Acquisition cost					
At 1 January 2005	**39,261**	**18**	**2,000**	**114,588**	**116,606**
Additions arising from acquisitions	5	0	436	0	436
Additions	749	0	235	60,747	60,982
Disposals	39,482	0	364	5,000	5,364
Transfers	0	0	–436	219	–217
At 31 December 2005	**533**	**18**	**1,871**	**170,554**	**172,443**
Write-downs					
At 1 January 2005	**20,620**	**0**	**530**	**1,172**	**1,702**
Additions arising from acquisitions	0	0	0	0	0
Additions	46	0	40	660	700
Disposals	20,442	0	91	0	91
Transfers	0	0	0	–53	–53
At 31 December 2005	**224**	**0**	**479**	**1,779**	**2,258**
Write-ups					
At 1 January 2005	**0**	**0**	**0**	**890**	**890**
Additions arising from acquisitions	0	0	0	0	0
Additions	0	0	0	1,553	1,553
Disposals	0	0	0	25	25
Transfers	0	0	0	–6	–6
At 31 December 2005	**0**	**0**	**0**	**2,412**	**2,412**
Net carrying amount at 1 January 2005	**18,640**	**18**	**1,470**	**114,307**	**115,795**
Net carrying amount at 31 December 2005	**309**	**18**	**1,392**	**171,187**	**172,597**

EUR'000	Investments in associates	Investments in unconsolidated enterprises	Other financial assets: Long-term loans	Other financial assets: Long-term investments in securities	Other financial assets: Total other financial assets
Acquisition cost					
At 1 January 2004	**39,290**	**18**	**2,743**	**46,614**	**49,375**
Additions arising from acquisitions	0	0	0	0	0
Additions	3,497	0	188	78,013	78,201
Disposals	3,527	0	490	5	495
Transfers	0	0	–441	–10,033	–10,474
At 31 December 2004	**39,260**	**18**	**2,000**	**114,589**	**116,607**
Write-downs					
At 1 January 2004	**18,075**	**0**	**644**	**1,117**	**1,761**
Additions arising from acquisitions	0	0	0	0	0
Additions	2,555	0	38	80	118
Disposals	10	0	100	0	100
Transfers	0	0	–53	–25	–78
At 31 December 2004	**20,620**	**0**	**530**	**1,172**	**1,701**
Write-ups					
At 1 January 2004	**0**	**0**	**0**	**649**	**649**
Additions arising from acquisitions	0	0	0	0	0
Additions	0	0	0	280	280
Disposals	0	0	0	0	0
Transfers	0	0	0	–39	–39
At 31 December 2004	**0**	**0**	**0**	**890**	**890**
Net carrying amount at 1 January 2004	**21,215**	**18**	**2,099**	**46,147**	**48,264**
Net carrying amount at 31 December 2004	**18,640**	**18**	**1,470**	**114,307**	**115,795**

9 Investments in associates

Investments in associates are accounted for using the equity method, in accordance with IAS 28, accounting for investments in associates. Taking the acquisition cost as a basis, the carrying amount of the investments concerned is increased or reduced by the amount of changes in the equity of the associates. The goodwill relating to an associate is included in the carrying amount of the investment, but amortisation of that goodwill is not permitted.

Investments in associates are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Gebrüder Weiss Paketdienst Gesellschaft mbH, Lauterach[1]	0	11,757
Schachinger Paketdienst Gesellschaft mbH, Hörsching[1]	0	3,287
Lagermax Paketdienst Gesellschaft mbH & Co KG, Salzburg[1]	0	3,234
Omnimedia Werbegesellschaft mbH, Vienna	117	116
feibra VertriebsgmbH, Neudörfl (previously Gloggnitz)[2]	0	93
FEIPRO Vertriebs GesmbH, Gaweinstal	192	93
Lagermax Paketdienst Gesellschaft mbH, Salzburg[1]	0	12
Postadress Austria GmbH, Vienna (in liquidation)	0	48
	309	**18,640**

1) Divested during the 2005 financial year
2) Transition to full consolidation during the 2005 financial year

Other financial assets 10

The breakdown of other financial assets, shown according to maturities in the consolidated balance sheet, is as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Investments in unconsolidated enterprises	18	18
Long-term loans	1,392	1,470
Long-term investments in securities	171,187	114,307
Other non-current financial assets	**172,597**	**115,795**
Short-term loans	343	388
Short-term investments in securities	49,682	30,120
Other current financial assets	**50,025**	**30,508**
Other financial assets	**222,622**	**146,303**

Financial investments
Financial investments are recognised at cost at the time when control of the assets is obtained (settlement date).

Financial assets
IAS 39 divides financial assets into the following categories: loans and receivables; held-to-maturity investments; available-for-sale financial assets; and financial assets at fair value through profit or loss.

Investments in unconsolidated enterprises
Investments in unconsolidated enterprises are carried at cost unless a different fair value can be arrived at without undue cost or effort. If objective evidence of impairment exists a write-down is performed. Impairment losses are reversed if the reason for impairment ceases to apply. Write-ups and write-downs are disclosed under other financial result. The carrying amount of these investments at balance sheet date was EUR 18,000 (31 December 2004: EUR 18,000).

Loans
Loans attributable to the category of loans and receivables are carried at amortised cost unless they are non interest-bearing or low-interest loans, in which case they are recognised at present value. Any difference between the acquisition cost and the repayments (premium or discount) is amortised over the term to maturity using the effective interest rate method, and reported under other financial result. Where there is an identifiable risk of default the assets are remeasured to the fair value of the estimated recoverable amount, and the loss included in net profit or loss. The original effective rate of interest is applied as the discount rate. If the reason for impairment ceases to apply the assets are written back to amortised cost.

Loans are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Loans to employees	1,437	1,551
Home construction loan	298	307
	1,735	**1,858**

The following information on loans is provided in conformity with IAS 39:

2005 financial year EUR'000	Amortised cost	Fair value at 31. Dec. 2005	Effective interest rate in 2005	Fixed/ variable rate	Due within 1 year	Due in more than 1 year
Loans to employees	1,437	1,437	4%	fix	331	1,105
Home construction loan	298	298	5%	fix	12	287
	1,735	**1,735**			**343**	**1,392**

2004 financial year EUR'000	Amortised cost	Fair value at 31. Dec. 2004	Effective interest rate in 2004	Fixed/ variable rate	Due within 1 year	Due in more than 1 year
Loans to employees	1,551	1,551	5%	fix	376	1,175
Home construction loan	307	307	5%	fix	12	295
	1,858	**1,858**			**388**	**1,470**

A pledge of property to Austrian Post, up to a maximum of EUR 977,000, to secure the home construction loan, was entered in the Aigen, under property BEZ 3247, as an integral part of the agreement.

Investments in securities

All of the investments in securities fall into the available-for-sale financial assets category. Available-for-sale securities are carried at fair value. Unrealised gains and losses are separately disclosed under capital and reserves (revaluation reserves) until realised, taking deferred tax into account. In the event that there is objective evidence of impairment an impairment loss is recognised in profit or loss, as are unrealised gains and losses. In the event that the reason for impairment ceases to apply, in the case of equity instruments the impairment loss is reversed up to the amortised cost prior to impairment, and is not included in net profit or loss, and in that of debt instruments the reversal is included in net profit or loss.

The following table sets out the amortised cost and fair values, and the unrealised gains and losses on available-for-sale securities disclosed under revaluation reserves, net of tax:

At 31 December 2005 EUR'000	Amortised cost	Fair value	Unrealised gains	Unrealised losses
Investment fund units	**109,905**	**111,441**	**1,204**	**54**
Short-term investments in securities	9,569	9,606		
Long-term investments in securities	60,376	59,745		
Fixed-interest securities	**69,945**	**69,351**	**69**	**515**
	179,851	**180,792**	**1,273**	**569**

At 31 December 2004 EUR'000	Amortised cost	Fair value	Unrealised gains	Unrealised losses
Investment fund units	**54,930**	**54,920**	**44**	**54**
Short-term investments in securities	10,027	10,048		
Long-term investments in securities	59,339	59,387		
Fixed-interest securities	**69,366**	**69,435**	**79**	**27**
	124,296	**124,355**	**123**	**81**

The contractual residual maturities of the holdings of fixed-interest securities are shown in the following table:

EUR'000	31. Dec. 2005	31. Dec. 2004
Not later than one year	9,606	10,048
Later than one year and not later than five years	40,445	44,403
Later than five years	19,300	14,984
	69,351	**69,435**

The interest rates are between 2.31% and 7.70% (31 December 2004: 2.26% – 8.00%).

In financial 2005 gains on the disposal of available-for-sale securities were EUR 9,000 (2004: nil).

The short-term investments in securities consist exclusively of financial assets at fair value through profit or loss which are held for trading and measured at fair value. The resultant gains or losses are included in net profit or loss, under other financial result.

The available-for-sale securities comprise fixed-interest securities to a value of EUR 69,351,000 (31 December 2004: EUR 69,435,000).

The trading portfolio contains EUR 40,077,000 in variable-interest securities (31 December 2004: EUR 20,071,000). The fair values of exchange traded securities correspond to the market prices at balance sheet date.

11 Inventories

Inventories are measured at the lower of acquisition or production cost, or net realisable value, using the moving average cost method.

It was necessary to recognise impairment due to unsaleability and long storage periods.

EUR'000	31. Dec. 2005	31. Dec. 2004
Materials and consumables – gross	9,599	11,530
less: Materials and consumables – write-down	–2,950	–3,264
Goods for resale – gross	15,144	14,379
less: Goods for resale – write-down	–2,462	–2,993
Services not yet invoiced	251	642
	19,582	**20,294**

In the year under review the carrying amount of inventories recognised at net realisable value was EUR 766,000 (31 December 2004: EUR 1,221,000).

12 Receivables

Receivables are shown at amortised cost except in cases where specific identifiable risks make the recognition of a lower fair value necessary. Credit risks are accounted for by valuation allowances. Where necessary, receivables falling due at later dates are discounted.

The breakdown of receivables is as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Trade receivables	253,183	214,040
Receivables from related parties	851	1,732
Other receivables	53,466	87,371
	307,500	**303,143**

The maturities of receivables are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	298,492	292,597
More than one year	9,008	10,546
	307,500	**303,143**

Cash and cash equivalents 13

EUR'000	31. Dec. 2005	31. Dec. 2004
Bank balances	15,344	7,580
Short-term deposits (demand deposits)	157,240	40,601
Cash on hand	1,888	2,121
	174,472	**50,302**

The terms of all short-term deposits were less than three months at the time made (2004: less than two months). At balance sheet date the average interest rate for demand deposits was 2.52% (31 December 2004: 2.22%) in Austria and 5.15% (31 December 2004: 5.77%) abroad.

Under the cooperation agreement with BAWAG P.S.K.[1] the Company undertook to treat deposits and payments made on behalf of and for the account of BAWAG P.S.K. in connection with the distribution of financial services in such a manner that the latter's title to these cash holdings is maintained at all times. Non-postal cash holdings are not reported in the balance sheet. At balance sheet date non-postal cash holdings totalled EUR 175,871,000 (31 December 2004: EUR 142,616,000).

Non-current assets held for sale and discontinued operations 14

EUR'000	31. Dec. 2005	31. Dec. 2004
Non-current assets held for sale	23,004	0
Discontinued operations	0	390,609
	23,004	**390,609**

Held-for-sale non-current assets are measured at the lower of the carrying amount and fair value less costs to sell. As at balance sheet date land and buildings, comprising a parcel logistics centre due to be sold on 30 June 2006 in connection with an infrastructure project, were reported under this item. In financial 2005 this item was written down by EUR 4,370,000 to fair value of EUR 23,004,000. The write-down is reported under depreciation and amortisation.

In the interests of comparability with the previous year the assets of the divested insurance business are disclosed as discontinued operations in the following table:

EUR'000	31. Dec. 2004
Non-current assets	
Other financial assets	255,135
Receivables	1,187
	256,322
Current assets	
Other financial assets	121,411
Receivables	9,379
Cash and cash equivalents	3,497
	134,287
	390,609

1) "BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft"

15 Capital and reserves

Share capital
The share capital of the parent company is EUR 10,000,000. It is divided into 10,000 registered no par shares. The sole shareholder is Österreichische Industrieholding Aktiengesellschaft, Vienna.

Capital reserves
The Group capital reserves correspond to those reported in the company statements of the parent company.

Revenue reserves
The Group revenue reserves comprise the statutory reserve as well as profits accumulated in previous years less dividend payments.

Revaluation reserves
In accordance with IAS 39 gains and losses on remeasurement to fair value of available-for-sale securities are disclosed under a separate equity item (revaluation reserves), and are not included in net profit or loss. The amounts shown under the revaluation reserves are after tax.

Currency translation reserves
The currency translation reserves comprise all exchange differences arising from translation of subsidiaries' annual financial statements presented in foreign currencies.

Equity of discontinued operations
In the interests of comparability with the previous year's balance sheet items, the unappropriated and revaluation reserves of the divested insurance business are shown as equity of discontinued operations, as follows:

EUR'000	31. Dec. 2004
Revenue reserves	1,767
Revaluation reserves	1,544
	3,310

Retained profits
The retained profits for financial 2005 were EUR 99,921,000 (2004: EUR 47,070,000). The Austrian HGB net profit of the parent company determines the dividends payable to Österreichische Industrieholding AG.

Minority interests
Minority interests in the 2005 and 2004 financial years were as follows:

EUR'000	2005	2004
At 1 January	**7,817**	**6,684**
Reduction due to disposals by the Group	–5,976	0
Reduction due to sales to the Group	–1,841	0
Dividend payments for 2004 attributable to minority interests	0	–1,819
Profit for 2004 attributable to minority interests	0	2,952
At 31 December	**0**	**7,817**

Provisions 16

EUR'000	31. Dec. 2005	31. Dec. 2004
Provisions for termination benefits	60,659	45,232
Provisions for jubilee benefits	88,812	72,510
Other provisions for employees	204,212	125,251
Other provisions	42,047	46,110
Tax provisions	36,021	16,994
	431,751	**306,097**

The maturities of the provisions provided for are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	120,147	101,236
More than one year	311,604	204,861
	431,751	**306,097**

Provisions for termination benefits
The provisions for termination benefits are made to fund salaried employees' statutory and contractual entitlements. The amount of the latter depends on the number of years of service of the employees in question and the operative salary at time of separation. Permanent civil servants normally have no entitlement to termination benefits. The provisions are calculated on an actuarial basis, using the projected unit credit method, in accordance with IAS 19. All actuarial gains and losses are immediately recognised.

The following assumptions have been made:

EUR'000	31. Dec. 2005	31. Dec. 2004
Discount rate	4.0%	5.0%
Increases in salaries	3.5%	3.0%
Staff turnover reduction	banded (0–8%)	banded (2–8%)

The retirement age is assumed to be between 55 and 60 years for female and between 60 and 65 years for male salaried staff, in accordance with the transitional arrangements under the 2003 pension reform legislation.

Termination benefits in respect of salaried employees whose service did not begin until after 31 December 2002 is normally met by regular contributions to the employee benefit fund.

In financial 2005 and 2004, provisions for termination benefits were as follows:

EUR'000	2005	2004
At 1 January	**45,232**	**38,813**
Additions arising from acquisitions	18	0
Salary progression expense	4,779	4,610
Interest expense	2,216	2,111
Actuarial gains/losses	14,181	5,268
Actual payments	–5,767	–5,570
At 31 December	**60,659**	**45,232**

With the exception of the interest expense arising from the change in the provisions all movements are reported under staff costs. The interest effect is recognised under other financial result.

Provisions for jubilee benefits
Provision is also made for jubilee benefits, which represent a similar type of obligation to termination benefits. Both permanent civil servants and salaried employees are eligible for payments made to mark service jubilees. The provisions are calculated in a similar manner to the termination benefit provisions and on the basis of the same assumptions. For permanent civil servants, calculation of the provisions is based on the assumption of retirement ages of between 60 and 65, taking account of the transitional arrangements under the 2003 pension reform legislation.

Benefits of two months' salary after 25 years' service and four months after 40 years' service are paid. Employees with at least 35 years' service at retirement age also receive a jubilee benefit of four months' salary.

In financial 2005 and 2004 provisions for jubilee benefits were as follows:

EUR'000	2005	2004
At 1 January	**72,510**	**68,462**
Salary progression expense	3,879	3,804
Interest expense	3,536	3,661
Actuarial gains/losses	12,364	2,305
Actual payments	–3,477	–5,722
At 31 December	**88,812**	**72,510**

With the exception of the interest expense arising from the change in the provisions all changes in provisioning are reported under staff costs. The interest effect is recognised under other financial result.

Other provisions for employees
The provision for early retirement pensions and similar obligations recognised in 2004 related to the amounts by which the contribution to funding of post-employment benefits (section 17 (7) Postal Services Structure Act) for active civil servants had to be increased for the period between 1 January 2002 and 30 September 2005 as compensation for early retirement payments by the federal government (section 14 Federal Civil Servants' Social Plan Act). It also provides for the additional expenses for salaried staff and permanent civil servants already in early retirement arising from the increase in the early retirement age.

A provision for employee under-utilisation has been recognised for employees who were assigned to special organisational units during the 2005 financial year and are not working full time. Measurement of this provision was based on all staff costs up to retirement, according to the tasks to which the employees concerned can be assigned, assumed annual salary increases of 3.5% (2004: 3%) and a discount rate of 4% (2004: 5%).

The sundry provisions for employees largely relate to provision for employee profit sharing schemes, other performance related bonuses and other outstanding employee entitlements.

In financial 2005 and 2004 other provisions for employees were as follows:

EUR'000	Early retirement pensions and similar obligations	Employee under-utilisation	Sundry provisions for employees	Total
At 1 January 2005	**5,913**	**87,520**	**31,818**	**125,251**
Additions arising from acquisitions	0	0	13	13
Allocation	0	95,404	33,598	129,002
Use	–5,773	–7,305	–23,813	–36,891
Reversals	–140	–12,096	–4,564	–16,800
Accrued interest	0	3,637	0	3,637
At 31 December 2005	**0**	**167,160**	**37,052**	**204,212**

EUR'000	Early retirement pensions and similar obligations	Employee under-utilisation	Sundry provisions for employees	Total
At 1 January 2004	**15,333**	**0**	**29,971**	**45,304**
Additions arising from acquisitions	0	0	0	0
Allocation	201	87,520	30,251	117,972
Use	–7,751	0	–19,981	–27,732
Reversals	–2,123	0	–8,423	–10,546
Accrued interest	253	0	0	253
At 31 December 2004	**5,913**	**87,520**	**31,818**	**125,251**

The maturities of the provisions provided for are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	45,734	42,715
More than one year	158,478	82,536
	204,212	**125,251**

Other provisions
In accordance with IAS 37, contingent legal or constructive obligations to third parties which result from past events and are likely to require an outflow of economic benefit, and which can be reliably estimated are carried under other provisions. The provisions are recognised at the amounts capable of reliable estimation at the time of preparation of the annual financial statements. Where a reliable estimate is not possible provisions are not recognised. In the event that the present value of a provision on the basis of a market interest rate differs materially from the nominal value, the present value of the obligation is recognised.

In financial 2005 and 2004 other provisions were as follows:

EUR'000	Services not yet rendered	Post-employment benefits	Other	Total
At 1 January 2005	**29,845**	**2,769**	**13,496**	**46,110**
Additions arising from acquisitions	0	0	7	7
Allocation	29,064	470	3,556	33,090
Use	–28,954	–270	–5,799	–35,023
Reversals	0	0	–2,256	–2,256
Accrued interest	0	119	0	119
At 31 December 2005	**29,955**	**3,088**	**9,004**	**42,047**

EUR'000	Services not yet rendered	Post-employment benefits	Other	Total
At 1 January 2004	**25,400**	**2,817**	**8,027**	**36,244**
Additions arising from acquisitions	0	0	0	0
Allocation	5,477	69	9,444	14,990
Use	–1,032	–265	–3,328	–4,625
Reversals	0	0	–652	–652
Accrued interest	0	148	5	153
At 31 December 2004	**29,845**	**2,769**	**13,496**	**46,110**

The maturities of the provisions provided for are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	38,392	41,527
More than one year	3,655	4,583
	42,047	**46,110**

The provisions for services not yet rendered relate to the elimination of orders for services not yet rendered as at 31 December 2005, and of outstanding customer prepayments for stamps and franking as at the balance sheet date.

Tax provisions

In financial 2005 and 2004 tax provisions were as follows:

EUR'000	Income tax	Wage taxes	Other	Total
At 1 January 2005	**14,393**	**2,212**	**389**	**16,994**
Additions arising from acquisitions	20	0	0	20
Allocation	35,115	339	61	35,515
Use	–14,392	–1,044	–46	–15,482
Reversals	–1	–801	–224	–1,026
At 31 December 2005	**35,135**	**706**	**180**	**36,021**

EUR'000	Income tax	Wage taxes	Other	Total
At 1 January 2004	**2,372**	**2,326**	**885**	**5,583**
Additions arising from acquisitions	0	0	0	0
Allocation	14,393	7	82	14,482
Use	–2,372	0	–208	–2,580
Reversals	0	–121	–370	–491
At 31 December 2004	**14,393**	**2,212**	**389**	**16,994**

The provisions provided for all mature within one year.

Financial liabilities 17

All interest-bearing obligations of Austrian Post are reported under financial liabilities.

Liabilities are stated at the amount actually received less transaction costs. Any premium, discount or other difference between the amount received and that repayable is distributed over the maturity in accordance with the effective rate method and disclosed under other financial result.

Financial liabilities are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Borrowings from banks	28,266	59,252
Other financial liabilities	13,887	18,121
	42,153	**77,373**

The maturities of the financial liabilities are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	6,953	9,266
More than one year	35,199	68,107
	42,153	**77,373**

The fair values, and significant terms and conditions of the financial liabilities are as follows:

2005 financial year EUR'000	Currency	Carrying amount	Fair value at 31. Dec. 2005	Effective interest rate in 2005
Fixed rate borrowings from banks	EUR	10,249	10,404	3.88%
Variable rate borrowings from banks	EUR	18,017	18,017	3.10%
Borrowings from banks		**28,266**	**28,421**	

2004 financial year EUR'000	Currency	Carrying amount	Fair value at 31. Dec. 2004	Effective interest rate in 2004
Fixed rate borrowings from banks	EUR	38,111	39,663	4.31%
Variable rate borrowings from banks	EUR	21,141	20,364	3.76%
Borrowings from banks		**59,252**	**60,027**	

The fair values were determined by the respective banks, by discounting the future payments, applying the current market interest rate. In the case of variable rate items (money and capital market floaters), fair value was equated to the nominal value.

Of reported borrowings from banks, EUR 18,017,000 are guaranteed by the federal government under section 20 (1) Postal Services Structure Act.

18 Payables

Payables are measured at amortised cost. Any premium, discount or other difference between the acquisition cost and the amount repayable is distributed over the maturity in accordance with the effective rate method and disclosed under other financial result.

EUR'000	31. Dec. 2005	31. Dec. 2004
Trade payables	189,906	181,324
Payables to related parties	1,272	1,455
Other payables	134,810	142,197
	325,988	**324,976**

Amounts not yet invoiced by suppliers are included in trade payables.

A provision was recognised for unused leave, taking nonwage labour costs – shown under other payables – into account.

The maturities are as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Up to one year	312,479	310,523
More than one year	13,509	14,453
	325,988	**324,976**

Liabilities of discontinued operations 19

In the interests of comparability with the previous year the liabilities of the divested insurance business are shown as liabilities of discontinued operations.

EUR'000	31. Dec. 2004
Non-current liabilities	
Actuarial provisions	333,413
Provisions	28
Financial liabilities	5,291
Deferred tax	961
	339,693
Current liabilities	
Actuarial provisions	27,008
Provisions	2,355
Financial liabilities	1,352
Payables	4,325
	35,040
	374,733

Income tax 20

Deferred tax is measured for all temporary differences between the carrying amounts of IFRS balance sheet items and their amounts for tax purposes, using the balance sheet liability method. The probable tax advantage from existing tax-loss carryforwards is included in measurement. Exceptions from the full recognition of deferred tax are differences arising from non tax-deductible goodwill and temporary differences related to equity investments. Deferred tax assets are not recognised if it is unlikely that the tax advantage from them can be utilised.

Income tax expense reported for the year under review comprises the income tax calculated for individual Group companies on the basis of taxable income and the applicable tax rates in the countries concerned (current tax) as well as the change in deferred tax.

The corporation tax rate of 25% was applied to the measurement of income tax in Austria. The following corporation tax rates were applied to the measurement of deferred tax in respect of the foreign subsidiaries:

	2005	2004
Slovakia	19%	19%
Croatia	20%	20%
Slovenia	25%	25%
Hungary	16%	n/a
Germany	40%	n/a

The breakdown of income tax expense is as follows:

EUR'000	2005	2004
Tax for the financial year (current tax)	–35,567	–16,635
Tax credits (catch-up payments) for previous years	–428	–1
Change in deferred tax	25,123	–13,266
	–10,872	**–29,902**

The effects on the deferred tax reported in the balance sheet of the temporary differences between the amounts shown in the IFRS consolidated statements and those recognised for tax purposes were as follows:

EUR'000	31. Dec. 2005	31. Dec. 2004
Deferred tax assets arising from temporary differences		
Goodwill	2,149	0
Financial assets	15,707	0
Receivables	301	99
Provisions	22,335	17,606
Financial liabilities	3,303	4,124
	43,795	**21,829**
Deferred tax liabilities arising from temporary differences		
Customer list	–879	0
Property, plant and equipment	–3,857	–9,221
Financial assets	0	–55
Inventories	–80	–46
Payables	–50	–178
	–4,866	**–9,500**
Deferred tax arising from tax-loss carryforwards	**459**	**922**
Total deferred tax	**39,388**	**13,251**
Deferred tax assets	40,336	13,284
Deferred tax liabilities	–948	–33
Total deferred tax	**39,388**	**13,251**

In 2005 the combined negative effect of changes in deferred tax on net profit/loss was EUR 25,123,000 (2004: EUR 13,266,000).

Income neutral changes in deferred taxes were as follows:

EUR'000	2005	2004
Income neutral measurement of available-for-sale securities	221	25
Deferred tax assets relating to goodwill	–2,149	0
Deferred tax liabilities relating to customer list	925	0
Currency translation differences	–11	15
	–1,014	**40**

Taking the accounting profit before tax and accounting taxes on income as a basis, the reconciliation with current income tax expense is as follows:

EUR'000	2005	2004
Profit before tax	**100,946**	**76,747**
Accounting taxes on income	**25,236**	**26,094**
Tax reductions due to		
Training allowance	–131	–138
Tax-free dividends	–195	–1,046
Impairment losses (subsidiaries)	–13,282	–1,791
Adjustments for foreign tax rates	–141	–22
Gains on deconsolidation	–2,793	0
Other tax reducing items	–1,132	–605
	–17,674	**–3,602**
Tax increases due to		
Goodwill amortisation	0	2,093
Changes in tax rates	0	4,551
Impairment losses (Group)	11	0
Other non-deductible expenses	708	745
	719	**7,408**
Income tax expense for the period	**8,281**	**29,990**
Income tax expense/income for prior years	428	2
Change in unrecognised deferred tax assets arising from carryforwards	2,163	0
Current tax expense	**10,872**	**29,902**

21 Revenue

EUR'000	2005	2004
Letter Mail	782,344	769,363
Infomail	382,323	371,294
Media Post	126,100	115,459
Parcel & Logistics	211,829	197,970
Branch Network	190,106	192,134
Property	4,104	3,300
Other	4,799	4,864
	1,701,605	**1,654,384**

Revenue is recognised when services are rendered.

22 Other operating income

EUR'000	2005	2004
Inventory changes	–253	630
Work performed by the enterprise and capitalised	3,403	3,009
Gains on the disposal/revaluation of property, plant and equipment	10,558	26,109
Reversal of provisions	3,700	1,569
Reversal of valuation allowances	562	494
Income from rents and leases	20,013	20,640
Grants and subsidies	2,988	7,795
Damages	1,859	2,261
Other	10,115	10,499
	52,945	**73,006**

Austrian Post derives rental income – mainly under terminable operating leases – from some of the investment property held by it. The tenancy agreements are medium to long term and provide for indexation of rentals.

Raw material, consumables and services used 23

EUR'000	2005	2004
Raw material and consumables		
Transportation and heating fuel	14,580	12,092
Goods for resale	54,020	55,590
Stamps	5,680	4,617
Tools, equipment and clothing	9,895	10,341
Spare parts and sundry raw material and consumables	1,934	1,984
Remeasurement	446	–1,216
	86,555	**83,408**
Services used		
International postal carriers	62,922	64,410
Advertising distributors	14,454	12,729
Energy	17,483	18,045
Transport	52,306	56,784
Other	8,223	6,398
	155,388	**158,366**
	241,943	**241,774**

Staff costs 24

EUR'000	2005	2004
Wages and salaries	825,585	825,276
Termination benefit expense	35,488	15,651
Post-employment benefit expense	289	242
Expenses for statutory levies and contributions	196,124	200,837
Other staff costs	6,559	4,606
	1,064,045	**1,046,612**

The breakdown of termination benefit expense is as follows:

EUR'000	2005	2004
Management Board	272	559
Senior management	853	306
Other staff	34,362	14,786
	35,487	**15,651**

In financial 2005 the remuneration of the Management Board of the parent company amounted to EUR 1,721,000 (2004: EUR 1,698,000).

The compensation paid to the Supervisory Board of the parent company totalled EUR 109,000 (2004: EUR 116,000).

The average number of employees during the year was as follows:

	2005	2004
Non-salaried staff	132	61
Salaried staff	13,082	13,895
Civil servants	13,954	14,361
	27,168	**28,317**
Full-time equivalent	**25,192**	**26,342**

Defined contribution pension plans
In Austria the post-employment benefits of salaried employees are normally paid by the social insurance institutions, and those of permanent civil servants by the state. Austrian Post is legally obliged to make payments to the state to fund post-employment benefits. These contributions (including civil servants' employee contributions) were equal to 30.1% of the compensation of active civil servants up to 30 September 2005, and 28.3% thereafter.

The contributions to the state (including contributions towards increased entitlements) for financial 2005, net of employee contributions by civil servants, were EUR 67,673,000 (2004: EUR 70,755,000).

25 Depreciation and amortisation

EUR'000	2005	2004
Goodwill		
Amortisation	0	4,823
	0	**4,823**
Intangible assets		
Amortisation	3,620	8,643
Impairment losses	302	0
	3,922	**8,643**
Property, plant and equipment		
Depreciation	87,899	94,002
Impairment losses	28,932	13,419
	116,831	**107,421**
	120,753	**120,887**

Other operating expenses 26

EUR'000	2005	2004
IT services	26,417	31,267
Maintenance (inc. property management)	31,394	35,744
Leasing and rental payments	42,148	44,052
Travel and mileage	26,378	31,146
Contract and leasing staff	5,968	6,373
Consultancy	9,566	6,976
Waste disposal and cleaning	19,017	22,490
Public relations and advertising	15,067	10,719
Telephone expenses	9,301	10,468
Losses on the disposal of property, plant and equipment	1,730	3,557
Insurance expenses	5,532	5,652
Sundry taxes (other than income taxes)	6,368	5,771
Other	24,598	22,471
	223,484	**236,686**

Share of profit/loss of associates 27

Group investments made the following individual contributions to share of profit/loss of associates:

EUR'000	2005	2004
Lagermax Paketdienst Gesellschaft mbH & Co KG, Salzburg	–417	–206
Lagermax Paketdienst Gesellschaft mbH, Salzburg	0	1
Schachinger Paketdienst Gesellschaft mbH, Hörsching	106	103
Gebrüder Weiss Paketdienst Gesellschaft mbH, Lauterach	–1,652	403
Omnimedia Werbegesellschaft mbH, Vienna	402	434
EFSP Immobilienentwicklung GmbH, Vienna	0	11
Postadress Austria GmbH, Vienna (in liquidation)	–46	–215
feibra VertriebsgmbH, Neudörfl (until 14 Sept. 2005)	121	100
FEIPRO Vertriebs GesmbH, Gaweinstal	200	111
	–1,286	**742**

The breakdown of share of profit/loss of associates is as follows:

EUR'000	2005	2004
Contributions to profit/loss for the year	802	3,286
Adjustments for differences arising from use of the equity method	–46	–2,555
Losses/gains on the disposal of investments	–2,042	11
	–1,286	**742**

28 Other financial result

EUR'000	2005	2004
Interest income and dividends		
Dividends	2,672	1,701
Interest income	5,887	5,490
Gains on disposal of securities	105	0
Gains on the revaluation of securities	22	194
	8,686	**7,385**
Finance cost		
Interest expense (interest effect of provisions)	5,757	6,004
Interest expense (borrowings from banks)	4,417	6,529
Other interest expense	606	279
	10,780	**12,812**
	–2,094	**–5,427**

29 Profit from discontinued operations

EUR'000	2005	2004
Profit from discontinued operations	9,847	3,177

In 2005 profit from discontinued operations included gains on the disposal of the Postversicherung AG subsidiary.

The following itemisation of profit from discontinued operations, relating to the divested insurance business, is shown in the interests of comparability with the previous year's consolidated income statement:

EUR'000	2004
Revenue and earnings from the insurance business	67,645
Expenses arising from the insurance business	–85,659
Loss from operations	–18,014
Other financial result	22,446
Profit before tax	4,432
Income tax	–1,255
Profit from discontinued operations	**3,177**

Segment reporting 30

Business segments (divisions) EUR'000	Mail	Parcel & Logistics	Branch Network	Other/ Consoli-dation	Group
2005 financial year					
External sales	1,290,803	211,834	193,820	5,148	1,701,605
Internal sales	66,273	45,763	208,032	–320,068	0
Total revenue	**1,357,076**	**257,597**	**401,852**	**–314,920**	**1,701,605**
Profit/loss from operations	268,595	12,401	8,676	–185,345	104,326
Share of profit/loss of associates	275	–1,963	0	402	–1,286
EBIT	**268,870**	**10,438**	**8,676**	**–184,943**	**103,040**
Profit from discontinued operations	0	0	0	9,847	9,847
Segment assets	407,921	68,853	63,359	582,986	1,123,119
Investments in associates	192	0	0	117	309
Segment liabilities	331,339	36,066	94,238	277,697	739,339
Segment investments	39,401	7,711	3,871	43,516	94,499
Depreciation and amortisation	29,256	7,270	7,243	76,983	120,753
Non-cash expenses other than depreciation	16,391	1,903	4,139	84,309	106,743
Employees	15,556	2,461	5,446	1,729	25,192

Business segments (divisions) EUR'000	Mail	Parcel & Logistics	Branch Network	Other/ Consoli-dation	Group
2004 financial year					
External sales	1,255,343	198,962	196,198	3,881	1,654,384
Internal sales	74,168	42,245	200,589	–317,002	0
Total revenue	**1,329,511**	**241,207**	**396,787**	**–313,121**	**1,654,384**
Profit/loss from operations	235,297	–16,964	–10,211	–126,690	81,431
Share of profit/loss of associates	–3	301	0	445	743
EBIT	**235,294**	**–16,663**	**–10,211**	**–126,245**	**82,174**
Profit from discontinued operations	0	0	0	3,177	3,177
Segment assets	363,237	64,275	65,166	1,074,466	1,567,144
Investments in associates	186	18,290	0	164	18,640
Segment liabilities	307,596	35,596	88,439	559,836	991,467
Segment investments	31,290	11,451	2,423	45,474	90,638
Depreciation and amortisation	32,675	9,437	10,415	68,360	120,887
Non-cash expenses other than depreciation	11,227	932	9,637	64,694	86,490
Employees	16,330	2,705	5,702	1,605	26,342

Geographical segments EUR'000	Austria	Germany	CEE
2005 financial year			
External sales	1,671,147	149	30,309
Segment assets	1,108,698	140	14,281
Segment investments	88,618	58	5,822

Geographical segments EUR'000	Austria	Germany	CEE
2004 financial year			
External sales	1,630,201	0	24,184
Segment assets	1,554,516	0	12,629
Segment investments	89,567	0	1,071

The segment report in accordance with IAS 14 presents selected information from the consolidated financial statements according to business and geographical segments, applying a primary and a secondary reporting format. In line with its divisions and its internal organisational structure, Austrian Post bases its primary reporting format on Mail, Parcel & Logistics and Branch Network business segments. The secondary reporting is based on Austria, Germany and the CEE region as the geographical segments.

30.1. Notes to the segment report by divisions

The divisional data shown is after elimination of intra-division transactions.

The Austrian Post Group has the following divisions:

Mail

The Mail Division comprises the Letter Mail, Infomail and Media Post Business Areas. The global distribution of letters and postcards, and the delivery of items from the entire world to every delivery point in Austria are concentrated in the Letter Mail Business Area. The Infomail Business Area operates in the direct marketing business, under addressed direct mail (Info.Mail) and unaddressed direct mail (Info.Post), and also offers related services. The Media Post Business Area serves the print media delivery market. It delivers daily, weekly and monthly newspapers and magazines, as well as unaddressed local and regional papers, and publications of non-profit organisations.

Parcel & Logistics

The Parcel & Logistics Division offers a wide range of domestic and international courier, express and parcel services, mainly focusing on deliveries to households. During the 2005 financial year, the division began developing the B2B market on an independent basis.

Branch Network

The Branch Network Division operates one of Austria's largest nationwide retail networks. The services and products sold via branches comprises postal services, BAWAG P.S.K. financial services and a wide selection of retail products.

Other and Consolidation

Intra-group eliminations are shown in the other/consolidation column. Activities not attributable to divisions are also reported in this column. These include the property and IT services operations, as well as the Career- and Development Centre unit.

The following notes explain the treatment of segmental financial data.

Notes to the business segment report items
External sales are the revenue of the respective business segments derived from non-group transactions, and correspond to consolidated external sales.

Internal sales are revenue derived from transactions with other segments; the transfer prices correspond to normal market prices.

Expenses arising from the Universal Service Ordinance are shown under the Mail segment.

Segment assets consist of non-current assets (excluding financial assets, investments in associates and deferred taxes) and current assets (excluding financial assets, cash and cash equivalents, and tax receivables), as well as held-for-sale non-current assets.

The other/consolidation segment includes the assets of the discontinued operation in the segment report for the 2004 financial year, and held-for-sale non-current assets in the report for 2005.

The shares of the profit or loss of associates are allocated to the respective segments.

Non-current liabilities (excluding financial liabilities and deferred taxes) and current liabilities (excluding financial liabilities, payables and tax provisions) are shown under segment liabilities.

The other/consolidation segment includes the liabilities of discontinued operations in the 2004 report.

Segment investments include investments in intangible assets and goodwill, and in property, plant and equipment.

Depreciation and amortisation (scheduled depreciation and amortisation, and impairment) relate to the assets attributed to the respective divisions.

The non-cash expenses relate to changes in long-term provisions.

The figures for employees are the full-time equivalents of the average segment headcounts for the financial years in question.

30.2. Notes to the geographical segment report
Austrian Post distinguishes between the domestic, German and CEE geographical segments.

Revenue is presented according to customer locations; only external-Group sales are shown.

Segment assets and investments are reported according to the locations of the assets. The investments comprise intangible assets and goodwill, and property, plant and equipment.

31 Supplementary information

31.1. Notes to the consolidated cash flow statement
The cash flow statement is presented according to the indirect method. Cash and cash equivalents are composed only of cash on hand and bank balances. Taxes paid are shown as a separate operating cash flow item. Interest paid and received is classified as operating activities. Dividends paid are shown under cash flows from financing activities.

The breakdown of cash-flows arising from acquisitions or disposals of subsidiaries for 2005 was as follows:

EUR'000	2005
Acquisitions of subsidiaries	
Purchase prices	–20,996
Cash and cash equivalents acquired	471
	–20,525
Disposals of subsidiaries	
Disposal prices	16,000
Cash and cash equivalents disposed of	–3,497
	12,503
	–8,022

Note 5.1 contains further information on changes in the consolidated Group.

31.2. Financial instruments
The financial instruments include financial assets and liabilities, as well as contractual rights and obligations in respect of the exchange or transfer of financial assets.

On the assets side, the financial instruments largely comprise financial investments such as securities, loans and unconsolidated equity investments, receivables, cash and cash equivalents. On the liabilities side they chiefly concern payables.

Derivative financial instruments are mainly used for financial management. One of the main aims of the Austrian Post Group's financial policies is that of minimising finance cost.

All the derivative financial instruments are disclosed as assets or liabilities. Irrespective of the purpose for which they are held, all derivative instruments are recognised at cost at settlement date, and are remeasured to fair value in subsequent periods. Unrealised measurement gains and losses from derivative transactions are included in net profit or loss.

The derivative financial instruments held by the Company are as follows:

Interest rate swap contracts
Austrian Post has entered into interest rate swaps in order to reduce its exposure to interest rate risk in respect of fixed-interest securities and financial liabilities. At balance sheet date the fixed interest rates ranged between 4.655% and 5.700% (31 December 2004: 4.650% – 9.000%). The variable interest rates are tied to a variety of interbank rates.

The tables below set out the interest rate swaps extant at 31 December 2005 and 2004, as well as their weighted average interest rates and the weighted average terms of the interest rate swap contracts. The average variable interest rates, which may be subject to significant changes during the terms of the swap contracts, are reported at the rates prevailing at balance sheet date. The fair value of the interest rate swaps is the amount that Austrian Post would receive or would be obliged to pay if the transactions were settled at balance sheet date. Account has been taken of current market conditions and interest rate levels, as well as the creditworthiness of the swap counterparties.

Fixed interest rate receiver swaps	31. Dec. 2005	31. Dec. 2004
Nominal value in EUR'000	0	40,000
Fair value in EUR'000	0	1,653
Average interest rate received	0	5.613%
Average interest rate payable	0	2.120%
Average residual maturity in years	0	0.06

Fixed interest rate payer swaps	31. Dec. 2005	31. Dec. 2004
Nominal value in EUR'000	0	40,000
Fair value in EUR'000	0	–1,297
Average interest rate received	0	2.120%
Average interest rate payable	0	4.713%
Average residual maturity in years	0	0.6

Structured interest rate swaps	31. Dec. 2005	31. Dec. 2004
Nominal value in EUR'000	5,000	5,000
Fair value in EUR'000	168	199
Average interest rate received	5.146%	7.444%
Average interest rate payable	2.741%	2.560%
Average residual maturity in years	13.8	14.8

Currency futures
During 2004, Austrian Post for the first time used currency futures contracts to hedge against the exchange risk associated with future foreign currency payments. The fair value of the currency futures transactions is given by the futures prices at balance sheet date.

The table below compares the nominal and fair values of the futures contracts extent at 31 December 2005 and 2004:

USD currency futures	31. Dec. 2005	31. Dec. 2004
Nominal value in EUR'000	704	1,411
Nominal value in USD'000	750	1,500
Fair value in EUR'000	–78	–310

31.3. Risk management

Objectives and principles of risk management

The risk management policies of Austrian Post are aimed at hedging profits against financial risks of all kinds. In managing its financial positions, the Group takes a strategic approach to portfolio assessment and follows conservative policies whilst exploiting opportunities to minimise finance cost.

A standardised reporting system is used to track the current financial risk situation.

Risk minimisation

Austrian Post has clear, written strategies and operational guidelines for the management of all financial risks.

Risk management organisation and functions

Risk management is subject to a body of rules defining the relevant objectives, principles, functions and responsibilities. In addition, these rules lay down standardised processes, so as to provide an assurance of reliable internal auditing.

Risk categories

Liquidity risk

The purpose of the Group's liquidity risk management procedures is to maintain its solvency at all times. The liquidity management system is based on a liquidity plan which is regularly subjected to target/performance comparisons and adjusted as necessary. Net interest income is maximised by actively managing payment streams.

Credit/counterparty/product risk

The amounts reported on the assets side of the balance sheet represent the maximum creditworthiness and default risk, as there are no general netting agreements. The overall risk attaching to the receivables is low, as most of the customers pay cash or have agreed to direct debit arrangements. Moreover, most of the outstanding amounts are owed by foreign postal operators, which have excellent credit ratings.

Where there are recognisable default risks in respect of the financial assets specific provisions are made to account for them. In order to avoid credit risks, financial contracts are only made with counterparties of unimpeachable creditworthiness. The general credit risk associated with the financial instruments used is therefore regarded as low.

Money market transactions are subject to fixed trading limits. In order to limit the default risk associated with bonds and structured loans, the Group's portfolio is restricted to paper from issuers with at least a single A rating (Moody's or S&P equivalent) or comparable creditworthiness. Likewise, as regards OTC transactions or instruments embedded in structured transactions, consideration is only given to counterparties with first-class credit ratings. The Group only invests in funds managed by internationally reputable investment companies. In the selection of the financial products held, particularly close attention is paid to liquidity and low exposure to settlement risk.

Interest rate risk

Interest rate risk is the risk of changes in the value of financial instruments, other balance sheet items or interest payment streams as a result of movements in market interest rates. Interest rate risk includes the risk of changes in the present value of fixed interest balance sheet items and the cash flow risk associated with variable rate items.

The Group's exposure to interest rate risk attaches mainly to receivables and payables with maturities of more than one year. Such long maturities are not of material importance in the operational area, but do affect financial assets and liabilities.

Management of interest rate risk related to the Group's financial assets and liabilities is based on the portfolio approach. Normally, it is not individual positions but the entire portfolio that is managed, taking account of the underlying transactions. To this end selective use is made of derivative instruments such as interest rate swaps. The financial portfolio is compared with the benchmark on a daily basis.

The tables in Note 17 provide a detailed presentation of the Group's financial liabilities.

Foreign exchange risk
Foreign exchange risks are particularly prevalent where receivables or payables are denominated in a currency other than the local currency of the Group company concerned.

There are no foreign exchange risks on the assets side of the balance sheet, as export business is almost entirely conducted on a euro basis. The same is normally true of the other underlying financial instruments. Currency futures contracts have been entered into to hedge future foreign currency payments arising from existing contractual obligations.

Organisational risks
The organisational risks relating to treasury operations are kept to a minimum by structuring the processes involved appropriately (e.g. keeping the trading, accounting and electronic data storage functions separate).

31.4. Contingent assets
The Company has appealed against a tax liability notice issued on 12 May 2003 following a wage tax inspection. Among other things, the appeal contends that the parent company was wrongfully required to calculate and forward permanent civil servants' employee contributions to the Family Compensation Fund from 1 May 1996 onwards. The Company's case is based on the fact that the Finance (Implementing Provisions) Act 2003 clarifies that the child benefits under the Family Compensation Act, and the employer's contributions under section 39 (4) Family Compensation Act 1967, also form part of the remuneration of permanent civil servants assigned to the parent company by the federal government which the latter is obliged to refund, with retroactive effect to 1 May 1996. This implies that the parent company was never obliged to pay the employer's contributions for the civil servants assigned to it, and that the federal government had a duty to pay any employer's contributions as part of the salary costs reimbursed by it. As the federal government is not liable as the employer to pay the full amount of the civil servants' salaries, a literal interpretation of section 17 (6 a) Postal Services Structure Act led to the wrongful remittance of the employer's contributions from 1 May 1996 onwards. Under this reading of the provision, the Company would, in return, have been required to refund the child benefits previously paid by the federal government under the Family Compensation Act. No claim arising from the action has been recognised in the balance sheet. On 23 August 2004 the tax authorities rejected the Company's appeal. As the matter is already before the Administrative Court of Appeal, on 22 September 2004 the Company applied for an extension of the deadline for an appeal to the tax authority of second instance. As a result the appeal procedure regarding the obligation to pay the employer's contribution for civil servants is still in progress. During the 2005 financial year, the Company appealed against the liability and tax notices related to the above matter, issued by the Innsbruck and Linz tax authorities in 2005, in order to uphold its claims in respect of the wrongful requirement to pay employer's contributions for civil servants.

31.5. Other commitments and contingent liabilities
Other financial commitments chiefly arise from operating lease agreements in respect of buildings used in the production or supply of goods or services. There are also operating lease agreements for plant and equipment, furniture and fixtures. In financial 2005 other operating expenses included EUR 42,147,000 in expenses for operating leases (2004: EUR 44,052,000). Of the commitments extant at balance sheet date, EUR 42,820,000 (2004: EUR 42,595,000) have maturities of less than one year, and EUR 210,973,000 (2004: EUR 216,109,000) maturities of less than five years.

The main rental and leasing agreements for buildings used in the production or supply of goods or services contain extension and termination clauses which accord with normal market terms and conditions for business properties. The agreements also provide for indexation of the leasing instalments. In a few cases lease payments are linked to revenue figures. All the related subtenancies are terminable. The leasing commitments contain no restrictions on future dividend payments or borrowing by the Group, neither are there any limits on future leasing or rental agreements.

Purchases of items of property, plant and equipment led to commitments of EUR 2,356,000 (2004: EUR 3,163,000) in the year under review; commitments relating to intangible assets totalled EUR 7,000 (2004: EUR 7,000).

There are no other commitments or contingent liabilities not appropriately recognised or discussed in these notes.

31.6. Business relationships with related parties

Entities controlled by the Austrian government are related parties as defined by IAS 24. There is an agreement with Bundesbeschaffung GmbH (BBG), Vienna in the name of, and for the account of the federal government, for the delivery of postal items for federal agencies. During the 2005 financial year transport services to a value of EUR 63,975,000 (2004: EUR 63,603,000) were rendered for the federal agencies named in the agreement.

Business transactions with Österreichische Industrieholding AG, ÖIAG-Bergbauholding Aktiengesellschaft, OMV Aktiengesellschaft and Austrian Airlines Österreichische Luftverkehrs-Aktiengesellschaft (AUA), which are likewise classed as related parties under IAS 24, are conducted at normal Group terms and conditions. The revenue generated and services used in connection with these transactions are immaterial in comparison to total revenue and profit. The outstanding amounts as at 31 December 2005 are reported under trade receivables and payables.

There are related party relationships connected with advertising and public relations work, as well as postal transport services; these are at normal market terms and conditions.

This business accounts for less than 0.1% of revenue and services used. The outstanding amounts as at 31 December 2005 are reported under receivables from and payables to related parties.

The following compensation, including changes in provisions, was paid to members of the Management and Supervisory Boards, and senior executives in financial 2005:

EUR'000	Members of the Supervisory Board	Members of the Management Board	Senior executives
Short-term employee benefits	109	1,721	5,504
Post-employment benefits	0	67	0
Other long-term employee benefits	0	272	232
Termination benefits	0	0	621

During the 2005 financial year there were also business relationships with senior executives amounting to EUR 87,000.

31.7. Events after the balance sheet date

All events after the balance sheet date – such as pending litigation, claims for damages, other obligations or contingent losses – which are material to measurement at balance sheet date, and for which IAS 10 prescribes adjustments or disclosure, have been recognised to the extent known to the Company.

On 30 January 2006, the Supervisory Board of Österreichische Industrie Holding AG resolved to make an initial public offering of shares in the parent company. Österreichische Industrie Holding AG was empowered to dispose of up to 49% of the Company's share capital by way of a public offering in Austria and a private placement with foreign investors.

The Postal Services Act 2005, published in Federal Law Gazette on 12 January 2006 (entry into effect on 1 March 2006), provides for full market liberalisation in accordance with the timetable established by European legislation. The main provisions of the Act define universal postal service and establish quality requirements for market participants.

The Management Board of the parent company approved the audited consolidated financial statements for transmission to the Supervisory Board on 16 February 2006. The Supervisory Board is responsible for reviewing and approving the consolidated annual financial statements.

Governing bodies 32

The governing bodies of the parent company are:

Management Board

Anton Wais	(Chairman of the Management Board)
Rudolf Jettmar	(Deputy Chairman of the Management Board)
Herbert Götz	
Walter Hitziger	

Supervisory Board

Peter Michaelis	(Chairman of the Supervisory Board)
Rainer Wieltsch	(Deputy Chairman of the Supervisory Board)
Dieter Bock	
Horst Breitenstein	
Stephan Koren	
Hans Jörg Schelling	
Hans Wehsely	
Gerhard Fritz	
Andreas Grüneis	until 13 April 2005
Helmut Köstlinger	from 14 April 2005
Martin Palensky	
Manfred Wiedner	

Vienna, 16 February 2006

The Management Board

Anton Wais m.p.
Chairman of the Management Board

Rudolf Jettmar m.p.
Deputy Chairman of the Management Board

Herbert Götz m.p.
Member of the Management Board

Walter Hitziger m.p.
Member of the Management Board

Auditors' report

We have audited the consolidated financial statements of Austrian Post, Vienna for the fiscal year from 1 January to 31 December 2005. The Company's management is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and for the preparation of the management report for the Group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the Group is in accordance with the consolidated financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement and whether we can state that the management report for the Group is in accordance with the consolidated financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the Group as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the consolidated financial statements on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the group as of 31 December 2005 and of the results of its operations and its cash flows for the fiscal year from 1 January to 31 December 2005 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The management report for the Group is in accordance with the consolidated financial statements.

Vienna, 16 February 2006

KPMG
Wirtschaftsprüfungs- und Steuerberatungs GmbH

Martin Wagner **Johann Perthold**
Chartered accountants and registered auditors

This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the financial statements are identical with the audited version attached to this report. Section 281 (2) Austrian HGB applies.

Report of the Supervisory Board

Report of the Supervisory Board of the parent company Österreichische Post AG, to the Annual General Meeting on the 2005 financial year

The Supervisory Board held five meetings during the 2005 financial year, and the Board's Financial Committee met twice. At these meetings the Board fulfilled the duties incumbent upon it by virtue of the law and the Company's articles of association.

Important issues discussed and resolved upon by the Board were the 2008 medium-term plan, the expansion programme for the period after 2008, and Group strategy for the domestic CEP business and operations of Austrian Post in Southeastern Europe.

The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the business and financial situation of the Company as a whole, and of its business areas and principal subsidiaries, as well as its business performance and outlook.

The Management Board has submitted the company annual financial statements of the parent company for the year ended 31 December 2005, together with consolidated annual financial statements for the Group, to the Supervisory Board. The company annual financial statements and the consolidated annual financial statements including the notes thereto prepared in accordance with International Financial Reporting Standards (IFRS) have been audited by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH[1)] respectively and have been granted an unqualified auditors' opinion. The management report is consistent with the company and consolidated annual financial statements.

The Supervisory Board approves the annual financial statements for the year ended 31 December 2005, which are hereby adopted in accordance with section 125 (2) Austrian Companies Act (AktG) and declares its acceptance of the consolidated financial statements and Group management report prepared in accordance with section 244 et seqq. Austrian HGB.

The Supervisory Board concurs with the Management Board's proposal to make a distribution of EUR 40,000,000 from the net profit of EUR 75,616,998.43 to apportion EUR 34,000,000 to the statutory reserve, and to carry forward the balance of EUR 1,616,998.43 to new account.

The Supervisory Board thanks the members of the Management Board and the staff for their contribution during the 2005 financial year.

Vienna, 3 March 2006

Peter Michaelis
Chairman of the Supervisory Board

1) The Vienna auditing unit of KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft has been demerged and transferred to KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH as universal successor; this change took place between rendering of the opinion on the Austrian HGB company statements and that on the IFRS consolidated financial statements.

Glossary
of general terms

Inbound letter mail	Letters transferred to Austrian Post by foreign postal operators for delivery in Austria.
Outbound letter mail	Letters transferred to foreign postal operators by Austrian Post for delivery abroad.
Corporate Governance	The rules and principles of responsible management and control in the interests of stakeholders; the standards for Austrian companies are enshrined in the Austrian Code of Corporate Governance.
Direct entry	Direct delivery of postal items at the domestic terms and conditions of the destination country.
J+1, J+2	The time that elapses between the day when a postal item is posted and the day when it is delivered to the recipient. J (for "jour") stands for the day of posting. J+1 and J+2 indicate delivery one and two working days after posting. This is an important yardstick for measuring the speed of letter and parcel delivery services.
EMS	Austrians Post's Express Mail Service – Austria's leading express service.
Info.Mail	Addressed direct mail.
Info.Post	Unaddressed direct mail.
Info.Post select	Brand name for a direct mail product involving the delivery of items not addressed to individuals but bearing the postal addresses of given buildings whose inhabitants conform to the target group defined by the sender. The buildings are selected using information from an Austrian Post database.
IPC	The International Post Corporation – an international association of postal operators from a total of 23 member countries.
CEP	Courier, express and parcel services (form part of the Parcel & Logistics Division)
Liberalisation	The EU aims to fully liberalise the letter mail market by 2009. In the first phase of deregulation the Austrian market for letter mail and addressed direct advertising items weighing over 350g was opened to competition on 1 January 1998. Market opening was extended to cover items weighing over 100g and all outbound mail with effect on 1 January 2003. The final intermediate liberalisation phase, which came into force on 1 January 2006, was the extension of free competition to all letters weighing over 50g.
Media Post	The Media Post Business Area, which forms part of the Mail Division, operates in the highly specialised print media delivery market.
Mystery shopping	Anonymous test visits and phone calls to post office branches serve to increase the quality of service and friendliness of employees, and evaluate the point of sale.
PQ	Austrian Post's acronym for "post office branch quality"; this quality index, introduced in order to increase customer satisfaction, and applied in the mystery shopping programme, makes customer orientation at branches objectively measurable on the basis of standardised criteria.
Universal Service Ordinance	This ordinance was issued by the Austrian Minister for Transport, Innovation and Technology at the start of 2002. It defines the quality and scope of the universal postal service which Austrian Post is obliged to provide. The purpose of the ordinance is "to ensure that universal postal services are provided which meet the needs of customers, are of high quality, cover the entire country and are affordable."
Delivery bases	Nodes in the distribution network that act as bases from which postmen and women serve their delivery areas.

Glossary
of financial indicators

Earnings before interest and taxes (EBIT)	Profit/loss from operations + share of profit/loss of associates
EBIT margin	EBIT/revenue
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	EBIT + depreciation and amortisation
EBITDA margin	EBITDA/revenue
Earnings before taxes (EBT)	Earnings before taxes.
Equity ratio	Ratio of equity to total capital.
Free cash flow	The amount of cash available to service the company’s interest-bearing debt: Net cash from operating activities + Net cash used in investing activities
Net debt	<u>Interest-bearing debt</u> + financial liabilities + other interest-bearing liabilities + employee benefit obligation + other interest-bearing provisions <u>Interest-bearing assets</u> – investments in securities – loans – cash and cash equivalents
Return on equity (ROE)	A measure of the earnings performance generated by a company: Profit after tax/equity[1] as at 1 Jan., less dividends paid
Gearing ratio	Indicator of the indebtedness of a company: Net debt/equity[1]

1) Equity excluding discontinued operations

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Key indicators 2003–2005[1)]

		2003	2004	2005
Income statement				
Revenue and earnings from the insurance business	**EUR m**	**1,644.6**	**1,654.4**	**1,701.6**
Other operating income	EUR m	71.7	73.0	52.9
Raw material, consumables and services used	EUR m	–228.8	–241.8	–241.9
Staff costs	EUR m	–1,020.7	–1,046.6	–1,064.0
Depreciation and amortisation	EUR m	–129.5	–120.9	–120.8
Other operating expenses	EUR m	–250.6	–236.7	–223.5
Expenses arising from the insurance business	EUR m	–71.0	n/a	n/a
Profit from operations	**EUR m**	**15.7**	**81.4**	**104.3**
Share of profit/loss of associates	EUR m	0.8	0.7	–1.3
Earnings before interest and tax (EBIT)	**EUR m**	**16.5**	**82.2**	**103.0**
Earnings before interest, tax, depreciation and amortistation (EBITDA)	**EUR m**	**146.0**	**203.1**	**223.8**
Other financial result	EUR m	12.0	–5.4	–2.1
Earnings before tax (EBT)	**EUR m**	**28.5**	**76.7**	**100.9**
Income tax	EUR m	–11.5	–29.9	–10.9
Profit from discontinued operations[2)]	EUR m	n/a	3.2	9.9
Profit for the period	**EUR m**	**17.0**	**50.0**	**99.9**
Attributable to:				
Equity holder of the parent	EUR m	14.8	47.1	99.9
Minority interests	EUR m	2.2	2.9	0.0
Balance sheet				
Total assets	**EUR m**	**1,617.9**	**1,795.7**	**1,563.0**
Non-current assets	EUR m	1,270.9	1,011.4	997.4
Current assets	EUR m	347.0	393.7	542.6
Non-current assets held for sale and discontinued operations[2)]	EUR m	n/a	390.6	23.0
Capital and reserves[3)]	EUR m	692.2	712.5	762.1
Minority interests[3)]	EUR m	6.7	n/a	n/a
Non-current liabilities	EUR m	489.5	287.5	361.3
Current liabilities	EUR m	429.5	421.0	439.6
Liabilities of discontinued operations[2)]	EUR m	n/a	374.7	0.0
Cash flow statement				
Operating cash flow before changes in working capital	EUR m	168.1	248.3	283.9
Cash flow from operating activities	EUR m	156.7	193.6	279.4
Cash flow from investing activities	EUR m	–56.1	–95.3	–74.0
Free cash flow	EUR m	100.6	98.3	205.4
Cash flow from financing activities	EUR m	–102.9	–64.4	–81.3

1) 2003 including insurance business; 2004–2005 excluding insurance business
2) 2004–2005 income statement items, 2004 assets, equity and liability of the insurance business
3) 2003 separate item (minority interests) shown after capital and reserves

Annual Report 2005 special issue

Austrian Post is going far ...
... and that goes for stamps – like this one, specially designed for this year's annual report. It is a valid stamp for use in Austria, and as in 2005 it is being issued as part of the Meine.Marke **(www.meine-marke.at)** personalised stamp service, a highly successful Austrian Post product.