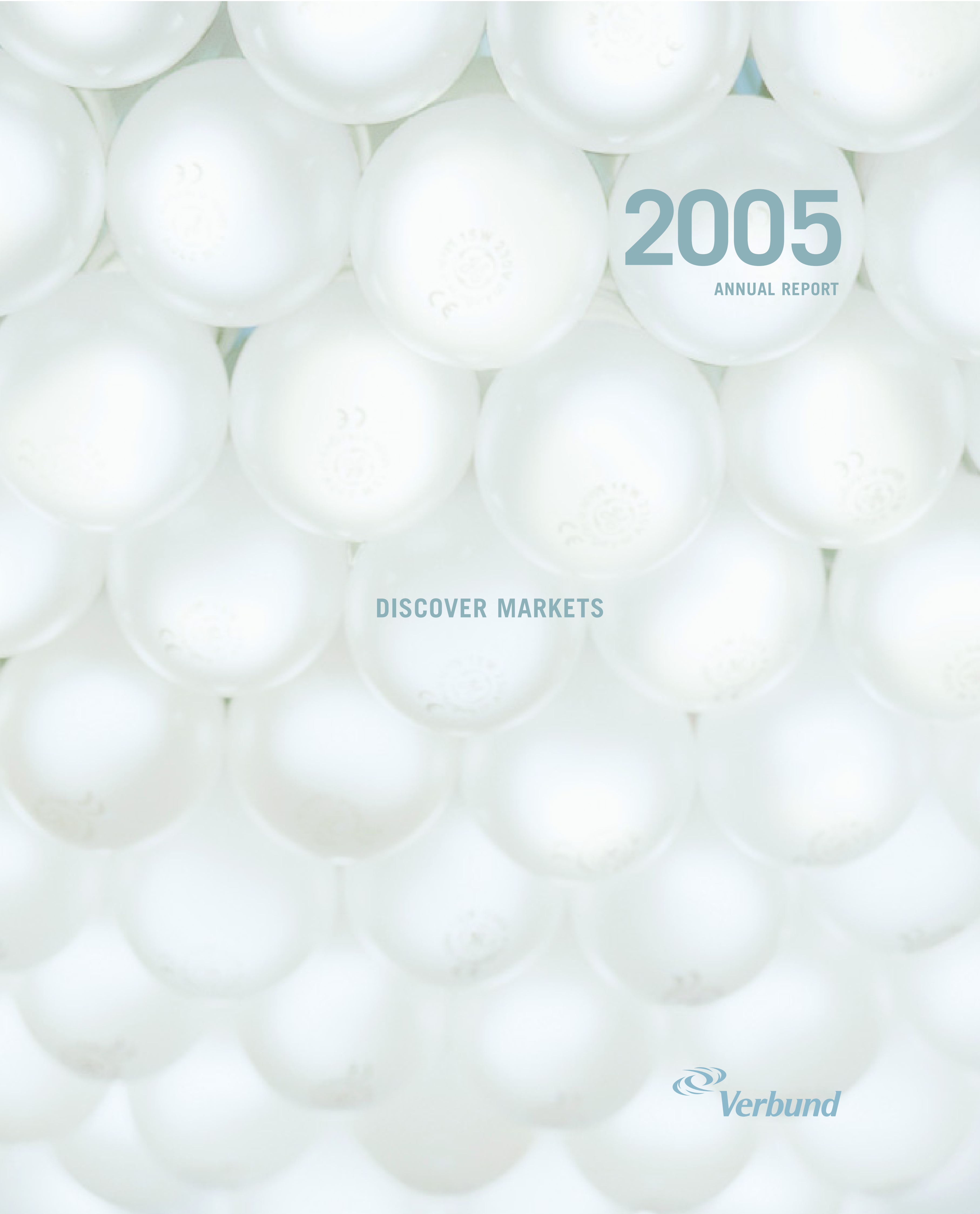


2005

ANNUAL REPORT

DISCOVER MARKETS

Verbund

CONTENTS

VERBUND GROUP FISCAL 2005, IFRS, FIVE-YEAR COMPARISON

	Unit	2005	2004	2003	2002	2001
Sales revenues[1]	€ million	2,506.7	2,022.0	1,653.2	1,258.0	1,183.1
Operating result (EBIT)	€ million	526.5	385.5	321.6	331.1	316.7
Group result (excluding minority interests)	€ million	349.3	235.4	200.1	154.9	115.3
Balance sheet total	€ million	6,596.7	6,237.3	6,208.3	6,918.1	7,080.3
Shareholders' equity	€ million	1,965.5	1,648.8	1,437.6	1,263.0	1,137.8
Interest-bearing net debt	€ million	1,795.1	2,214.1	2,372.0	2,879.0	2,629.2
Investment in property, plant and equipment	€ million	117.7	77.9	74.6	45.0	48.7
Operating cash flow	€ million	680.5	438.5	410.1	315.1	279.8
Free cash flow	€ million	597.3	269.0	481.9	295.7	353.1
EBITDA margin[1]	%	28.2	28.1	30.6	41.7	43.0
EBIT margin[1]	%	21.0	19.1	19.5	26.3	26.8
Net operating margin[1]	%	16.0	13.3	13.2	13.0	10.4
ROIC	%	11.3	8.0	6.9	6.2	5.2
ROE	%	22.2	17.4	16.1	13.6	11.1
Capital-to-assets ratio (adjusted)	%	35.7	31.2	27.2	22.2	20.1
Net gearing	%	91.3	134.3	165.0	227.9	231.1
Gross debt coverage (FFO)	%	40.6	25.8	22.0	20.1	17.7
Gross interest cover (FFO)	X	4.7	3.5	2.9	2.9	2.6
Peak price	€	301.30	165.64	92.60	97.08	134.00
Lowest price	€	163.90	92.92	77.50	70.05	71.29
Closing price	€	301.30	163.90	92.60	81.14	84.00
Market capitalization	€ million	9,286.07	5,051.40	2,853.93	2,500.75	2,588.88
Earnings per share	€	11.33	7.64	6.51	5.03	3.74
Cash flow per share	€	22.08	14.23	13.34	10.24	9.08
Carrying amount per share	€	63.77	53.50	46.65	40.98	36.92
P/E (Ultimo)	X	26.59	21.45	14.22	16.12	22.44
Price/cash flow	X	13.65	11.51	6.94	7.92	9.25
Price/carrying amount	X	4.72	3.06	1.99	1.98	2.28
(Proposed) dividend/share	€	5.00	3.00	2.00	1.40	1.25
Dividend yield	%	1.66	1.83	2.16	1.73	1.49
Pay-out ratio	%	44.12	39.26	30.72	27.81	33.42
EV/EBITDA	X	15.68	12.80	10.31	10.25	10.26
No. of employees (annual average)		2,436	2,500	2,680	2,827	3,053
Electricity sales[2]	GWh	100,269	86,440	76,690	71,001	55,485
Hydro coefficient		0.98	0.99	0.87	1.11	1.07

[1] Sales revenues after netting for external-electricity trade

[2] Electricity sales after netting for external-electricity trade 2005: 57.282 GWh, 2004: 52.296 GWh

HIGHLIGHTS

Sales revenues € million	03	1,653.2		
	04	2,022.0		
	05	**2,506.7**		**+ 24.0 %**
Operating result € million	03	321.6		
	04	385.5		
	05	**526.5**		**+ 36.6 %**
Earnings per share in €	03	6.5		
	04	7.6		
	05	**11.3**		**+ 48.3 %**
Dividend per share in €	03	2.0		
	04	3.0		
	05	**5.0**		**+ 66.7 %**
Operating cash flow € million	03	410.1		
	04	438.5		
	05	**680.5**		**+ 55.2 %**

We are the leading electricity company in Austria and are growing in the European market.

We generate electricity in environmentally friendly plants, primarily from hydropower.

With the Austrian transmission grid, we guarantee the quality of the power supply.

We offer all customers optimal services through our electricity trade and distribution activities.

We practice sustainability, communicate openly and are committed to our social responsibility.

Verbund has undertaken a voluntary commitment to adhere to uniform rules which serve as a framework for the management and control of the company and aim at promoting transparent and efficient corporate management practices that focus on long-term value creation. This has also resulted in the achievement of consistent, group-wide transparency which greatly enhances the efficiency of corporate management.

Verbund played an active role in the drafting of the Austrian Corporate Governance Code and, directly after it was enacted in September 2002, implementation within the company was strongly advocated by the Supervisory Board and the Managing Board.

In a corresponding declaration issued by the Managing Board, Verbund was one of the first companies in Austria to undertake a commitment to comply with code rules from fiscal 2003 onwards. The principles of responsible and sustainable corporate management which had already been applied for many years only required minor adjustment. Nevertheless, the high internal standards are optimized on an ongoing basis.

In 2005, the Supervisory Board was elected at the General Meeting in line with the recommendations of the Austrian Corporate Governance Code leading to a reduction in members from 18 to 15. Since undertaking the commitment to comply with the code, an external institution is voluntarily commissioned each year to independently monitor adherence to the rules stipulated herein. The findings of the external evaluation are published on the Verbund homepage (www.verbund.at).

Regarding the external evaluation, which has now been carried out for the third time, the Managing Board declares: "The Austrian Corporate Governance Code was applied and adhered to at Österreichische Elektrizitätswirtschafts-Aktiengesellschaft in fiscal 2005 in accordance with the explanations also provided on the Verbund homepage (www.verbund.at). Any departure from certain rules results, in part, from legal provisions which were adopted specially for Verbund or is merely of a formal nature. Compliance with the code will continue in fiscal 2006 and individual rules which are currently being handled differently will, to the greatest extent possible, be implemented. For Verbund, the application of the Austrian Corporate Governance Code has always been of immense importance and it can be seen as a critical building block that serves to enhance the confidence shareholders, business partners, employees and the public have in our company."

The voluntary commitment to adhere to the Austrian Corporate Governance Code requires that details relating to any non-compliance with C-Rules (Comply or Explain) be disclosed. In addition, Verbund also provides information of deviations from R-Rules (Recommendation). The seven deviations from the 79 rules stipulated in the code are based on legal provisions or are merely of a formal nature.

C-Rule No. 2: Due to the currently applicable constitutional law, which regulates the ownership structure of the companies in the Austrian electricity sector and also forms a basis for the company's articles of incorporation, Shares cannot be construed in accordance with the principle of “one share – one vote” at this time.

C-Rule No. 34: The cooperation between the Managing Board and the Supervisory Board is defined in detail in the internal rules of procedure of the Supervisory Board and the Managing Board. The reporting obligations of the subsidiaries are currently laid down on the basis of a Supervisory Board decision. An appropriate regulation shall be adopted at the next amendment of this rule of procedure.

C-Rule No. 38: An age limit for the nomination of members of the Managing Board is not defined at this point and time. At the time the decision was taken relating to the nomination of the Managing Board 2003, an age limit that complies with the intention of C 38 was defined and this shall be anchored in the rules of procedure at the next planned amendment.

C-Rule No. 45: The rule stating that Members of the Supervisory Board may not assume any functions on the boards of other enterprises which are competitors of the company is not being complied with by all members of the Supervisory Board at this time. A proposal for including this provision in the articles of incorporation is aimed at.

C-Rule No. 49: In fiscal 2005, the following contracts were concluded with companies to which individual members of the Supervisory Board are affiliated. The services were rendered for various companies in the Verbund group. The contracts are submitted to the members of Supervisory Board for their attention:

Contracting party	Service provided	Total fee
Technical University of Vienna Institute for Power Systems and Energy Economics[1)]	Various studies for APG	€ 95,500
smart technologies Management Beratungs- und Beteiligungsgesellschaft m.b.H.[2)]	Supply and maintenance of software for APG, VMSG and APT	€ 85,220

1) The Supervisory Board member Dr. Günther Brauner is the Chairman of the Institute for Power Systems and Energy Economics.

2) The Supervisory Board member Dipl.-Ing. Hansjörg Tengg is a managing partner of smart technologies Management Beratungs- und Beteiligungsgesellschaft m.b.H.

C-Rule No. 54: The articles of incorporation at this point and time do not provide for an age limit for being voted onto the Supervisory Board. An appropriate stipulation shall be aimed at the next amendment of the rules of procedure of the Supervisory Board.

R-Rule No. 3: The adoption of a provision in the articles of incorporation which, in the interest of treating all shareholders equally, excludes the applicability of the maximum permissible reduction of 15 % allowed under the Takeover Act is not necessary due to the currently applicable constitutional law which regulates the ownership structure of the companies in the Austrian electricity sector as mandatory bids are not possible.

Summary of the findings of the report on the evaluation of adherence to the Austrian Corporate Governance Code in fiscal 2005

We have monitored the extent to which Österreichische Elektrizitätswirtschafts-Aktiengesellschaft adhered to the recommendations of the Austrian Corporate Governance Code (ÖCGK – issued by the Austrian Working Group for Corporate Governance in 2002) in fiscal 2005. The responsibility for reporting on the implementation of and adherence to the principles set down in the Austrian Corporate Governance Code ("Declaration of Conformity") lies with the Managing Board. It is our task to assess, on the basis of our evaluation, whether or not the statements in the Declaration of Conformity are accurate.

We have performed our evaluation on the basis of a questionnaire drafted by the Austrian Working Group for Corporate Governance for the voluntary external monitoring of compliance to ÖCGK with due diligence. The evaluation is based on interviews held with the board members and company employees named by the board members as well as on an inspection of the documents that were made available to us by the company. Our evaluation is also based on a randomized examination of the evidence and details provided. We are convinced that our auditing procedures form an adequately sound basis for the evaluation and assessment of the appropriateness of the Declaration of Conformity.

In our assessment, the Declaration of Conformity issued by the Managing Board shows that the recommendations of ÖCGK were implemented at Österreichische Elektrizitätswirtschafts-Aktiengesellschaft in an appropriate manner in fiscal 2005.

Vienna, 31 January 2006

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H

Mag. Helmut Maukner
(Certified Public Accountant)

Mag. Elfriede Baumann
(Certified Public Accountant)

SUPERVISORY BOARD

SHAREHOLDERS

DDr. Erhard Schaschl, Chairman
Member of the Managing Board of ETN Vermögensverwaltung AG, Chairman of the Supervisory Board of Treibacher Industrie AG, Deputy Chairman of the Supervisory Board of Immofinanz AG, Member of the Supervisory Board of Immoeast AG, Austrian Airlines Österreichische Luftverkehrs AG, RHI AG and Generali Vienna Holding AG

Dr. Gilbert Frizberg, First Deputy Chairman
Managing Partner in Hereschwerke Holding GmbH, Vice President of Styrian Chamber of Commerce, Member of the Managing Board of FI Beteiligungs- u. Finanzierungs AG

Dr. Maximilian Eiselsberg, Second Deputy Chairman
Attorney at Law, Member of the Supervisory Board of Lafarge Perlmooser AG and Kurier Beteiligungs-Aktiengesellschaft

o.Univ.- Prof. Dipl.-Ing. Dr. Günther Brauner,
University Professor, Member of the Managing Board of the Institute for Power Systems and Energy Economics

Dipl. Betriebswirt Alfred H. Heinzel,
Managing Partner in Heinzel Holding GmbH, Member of the Supervisory Board of ÖIAG, MIBA AG, Allianz Elementar Versicherungs AG, Zellstoff Pöls AG and Wilfried Heinzel AG

Dr. Burkhard Hofer,
Spokesman of the Managing Board of EVN AG, Member of the Supervisory Board of Energie AG Oberösterreich, BEWAG Burgenländische Elektrizitätswirtschafts AG, BEGAS Burgenländische Gaswirtschafts AG, Burgenland Hoding AG and RAG-Beteiligungs AG

Dr. Michael Losch, since 10.03.2005
Head of Department at the Federal Ministry for Economy and Labor, Center 1 – Economic Policy, Innovation and Technology

Dkfm. Peter Püspök,
Chairman of the Managing Board of Raiffeisenlandesbank NÖ-Wien, Member of the Managing Board of Raiffeisen-Holding NÖ-Wien reg. Gen.m.b.H., Member of the Supervisory Board of Raiffeisen-Zentralbank Österreich AG, Raiffeisen-Bausparkasse Ges.m.b.H., UNIQA Versicherung, Tatra Banka a.s. Bratislava and UNILEVER

Dipl.-Ing. Hansjörg Tengg,
Managing Director of smart technologies GmbH, Chairman of the Supervisory Board of EXAA AG, Saubermacher Dienstleistungs AG and Konsum Österreich reg. Gen., Deputy Chairman of the Supervisory Board of APCS AG and AGPS AG

Ing. Siegfried Wolf,
General Director of Magna Holding Europa AG, CO-CEO Magna International Inc., Member of the Supervisory Board of ÖIAG and Siemens Österreich AG

STAFF REPRESENTATIVES

Herbert Bernold
Commercial Clerk

Ing. Hannes Brandl,
Engineer

Kurt Christof,
Engineer

Johann Kratzer
Engineer

Harald Novak,
Engineer

RETIRED

Univ-Doz. Dr. Heinz Handler, up to 10.03.2005

Komm.-Rat Dipl.-Ing. Helmut Kastl, up to 10.03.2005

o.Univ.-Prof. Mag. Dr. Dieter Mandl, up to 10.03.2005

Dr. Helmut Mayr, up to 10.03.2005

Hubert Umschaden, up to 10.03.2005

MANAGING BOARD

DIPL.-ING. HANS HAIDER

Born in 1942 in Oberneukirchen/Upper Austria. On completion of a course of studies in Telecommunications at the Technical University of Vienna in 1968 as well as at the Graduate School of Business at Stanford University, Mr. Haider held various management positions at Siemens AG Österreich. In 1989, he was appointed as a Member of the Managing Board of Siemens AG Österreich and CEO of an independent business segment with worldwide responsibility. Since 1994, Hans Haider has been working for Verbund (Österreichische Elektrizitätswirtschafts-Aktiengesellschaft), initially as Spokesman of the Managing Board, from 2003 as Chairman of the Managing Board and since April 2004 as General Director.
Since 1994, Mr. Haider has been a Member of the Board of the Austrian Association of Electricity Utilities.
From 2002 to 2005, he was the President of the Union of the Electricity Industry (Eurelectric), and has served as Honorary President since June 2005. Since April 2003, Hans Haider has presided over the National Committee of the World Energy Council in Austria. Since joining Verbund, Mr. Haider has served as Chairman of the Supervisory Board and as a Member of the Supervisory Board in all of the larger subsidiaries of the Verbund group.

DR. MICHAEL PISTAUER

Born in 1943 in Salzburg. Mr. Pistauer was awarded his doctorate in 1968 and served as University Assistant in the Faculty of Legal and Political Science at the University of Innsbruck. From 1970, he held various management positions at Großglockner-Hochalpenstraßen AG (GROHAG) and was appointed Sole Director and General Director of Großglockner-Hochalpenstraßen AG in 1985. After a further four years as Member of the Managing Board of Tauernkraftwerke AG and Managing Director of Verbundplan GmbH and Tauernplan Consulting GmbH, Mr. Pistauer moved to Verbund (Österreichische Elektrizitätswirtschafts-Aktiengesellschaft) in 1994 where he then served as a Member of the Managing Board. Since 2003, he has been the Deputy Chairman of the Managing Board.
Mr. Pistauer is the Vice President of the Austrian Association of Electricity Utilities (VEÖ). He is also the President of the AAEE (Austrian Association for Energy Economics). Michael Pistauer is the Chairman of the Supervisory Board and Member of the Supervisory Board in various subsidiaries of the Verbund group.

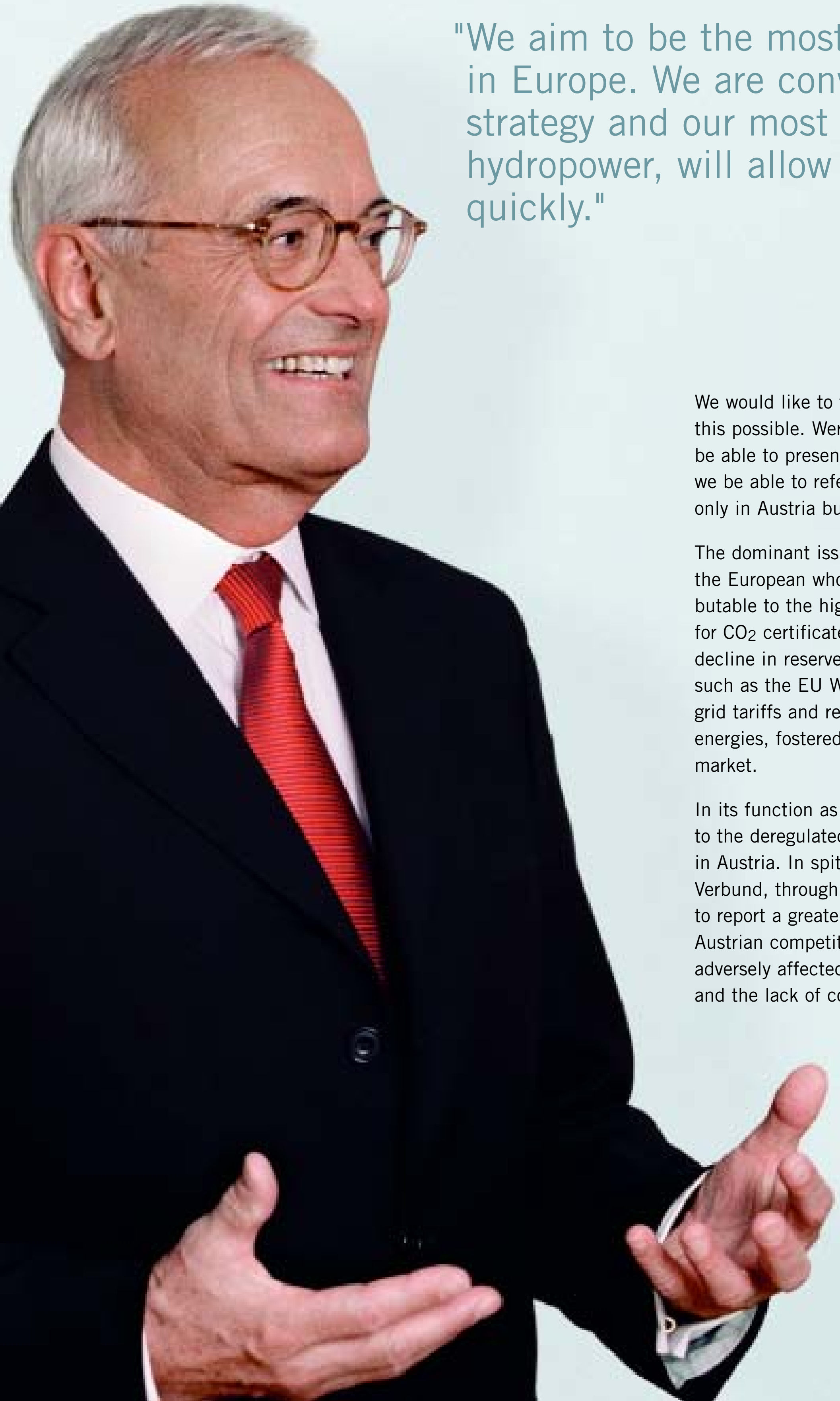
DR. JOHANN SEREINIG

Born in 1952 in Villach. On completion of a course of studies in Basic and Integrative Sciences at the University of Vienna in 1976, Mr. Sereinig took up a position at Österreichische Länderbank AG. From 1984, he was an advisor to the Federal Minister of Finance and later served as an advisor to the Federal Chancellor. In 1988, he was appointed Head of Cabinet of the Federal Chancellor. Mr. Sereinig has been a Member of the Managing Board of Verbund (Österreichische Elektrizitätswirtschafts-Aktiengesellschaft) since 1994. From 1995 to 1997, he served as Chairman of the Comité Restreint (UCPTE) and from 1998 to 2001 as a member of the Energy Consultative Committee of the EU Commission.
Mr. Sereinig is a member of the Industry Association's Committee for Foreign Trade Issues and European Integration and is also a member of the Danube European Institute. In addition, he is a Member of the Managing Board of the AAEE (Austrian Association for Energy Economics). Mr. Sereinig serves as Chairman of the Supervisory Board and Member of the Supervisory Board in various subsidiaries of the Verbund group.

LETTER OF THE MANAGING BOARD

DEAR SIR, DEAR MADAM,

In fiscal 2005, Verbund reported a record result for the third time in a row. Sales were up 24 % and both operating result and earnings increased disproportionately by 36.6 % and 48.4 % respectively. All of the group's subsidiaries improved their results. Hence, fiscal 2005 was the best year in the history of Verbund. The growing electricity prices did, of course, contribute to this positive result. Prior to the deregulation of the electricity market, the energy industry operated in a similar price environment but earnings then were merely one-third of the earnings generated today. We can therefore conclude that the successful internationalization of the electricity business and the optimization of the capital structure, the restructuring measures and the reorganization of the company paved the way for this positive result.



"We aim to be the most profitable energy utility in Europe. We are convinced that our sustainability strategy and our most important source of energy, hydropower, will allow us to achieve this goal very quickly."

DIPL.-ING. HANS HAIDER

We would like to thank all our employees and executives for making this possible. Were it not for their commitment, we would now not be able to present the best results in company history. Nor would we be able to refer to Verbund's excellent competitiveness – not only in Austria but also in the European energy industry.

The dominant issue in 2005 was undoubtedly the strong increase in the European wholesale prices for electricity. This increase is attributable to the high costs for primary energy sources, growing prices for CO_2 certificates, which were traded for the first time, and the decline in reserve capacities. Developments at a regulatory level, such as the EU Water Framework Directive, the regulation of the grid tariffs and regulations governing the subsidization of renewable energies, fostered further uncertainty in the European electricity market.

In its function as producer and wholesaler, Verbund is more exposed to the deregulated European market than other electricity suppliers in Austria. In spite of the decline in sales volumes in Austria, Verbund, through its enhanced focus on foreign business, managed to report a greater increase in sales and earnings than any of its Austrian competitors. Nevertheless, the company's growth strategy is adversely affected by the varying degrees liberalisation in Europe and the lack of competition in Austria.

"We are one of the best positioned electricity utilities in the European capital market. The result we achieved in 2005 exceeded all financial targets. In 2006, we will be even more successful."

DR. MICHAEL PISTAUER

Verbund has reacted to these conditions by enhancing its focus on the group's core activities – the generation, trading, distribution and transmission of electricity. By successfully expanding its end-customer business in Austria and enhancing the internationalization of it wholesale activities, Verbund has – in the sense of forward integration – taken decisive steps towards covering the entire value chain and improving the margin structure. Parallel to this, the cost structure in the generation and administration area was streamlined in a sustainable manner through the implementation of consequent restructuring measures which are now more or less fully completed. In addition, the capital structure was clearly optimized as a result of the ongoing debt-clearing program. When implementing all of these measures, we adhered at all times to the principles of sustainable management.

In 2005, Verbund completed the restructuring phase and further enhanced its focus on competition at a European level. Exemplary measures here include the company's direct involvement in the end-customer business via VERBUND-Austrian Power Sales GmbH and through the interest that is held in public utilities such as Stadtwerke Klagenfurt. In 2005, we also took the first steps towards profitable growth through investment.

"To achieve a good performance, it is vital that we focus on the internationalization and diversification of our sales markets. We have made optimal use of the opportunities arising from the liberalisation of the European electricity market and we will continue to further enhance our market position in the coming years."

DR. JOHANN SEREINIG

The construction of new power plant capacities and the intensification of our interest in Italy provide a sound basis for the realization of our € 1.4 billion investment program up to 2011.

Politics, – both at a national and European level – have a major influence on the business development at Verbund. This, on the one hand, refers to deliberations on how to regulate competition and, on the other hand, to measures that subject the electricity business to extensive ecological criteria.

Verbund has always signaled its willingness to actively participate in a real consolidation of the Austrian electricity industry. The company did, however, reject all solutions that would have had a negative impact on the group's earning power or its assets. At a European level, Verbund is a fervent proponent of comprehensive liberalisation throughout the entire EU electricity market.

Our strategy in the coming years will focus on the continued achievement of profitable growth through investments and

acquisitions in Austria and abroad. Assuming that the economic conditions do not change, that the strong demand for electricity will not decline and that further progress is made in the liberalisation of the European electricity market, we are confident that we can continue our dynamic earnings trend. At the beginning of 2006 our targets are set at +10 % for the operating and the group result. We are aiming at a net gearing of 80 %, which would be a historic all-time high for this ratio. We plan to raise the Economic Value Added (EVA), a control measure which is of great significance to Verbund, by 20 %.

Dipl.-Ing. Hans Haider

Dr. Michael Pistauer

Dr. Johann Sereinig

With a performance of +83.8 %, the Verbund share was a top performer among the listed European utility stocks in 2005. Hence, the Verbund share developed well ahead of the relevant benchmark indices.

POSITIVE INTERNATIONAL STOCK MARKET SITUATION

Last year, the development of the international finance and stock markets was marked, among other things, by the effects of extreme events such as terrorist attacks and natural catastrophes. Oil prices – influenced by the dwindling resources and the freak weather conditions – climbed to an unusually high level. On the capital markets, the 10-year yields in the Euro zone reached an all-time low and in the USA, the trend was influenced by increases in the base bank rates and dropping yields.

The international stock markets quickly recovered from the correction phase at the beginning of the year and, in most cases, recorded a further upswing. Overall, the European markets once again performed well ahead of the US markets in 2005.

The Dow Jones Industrial Average (DJIA) Index dropped slightly by 0.6 %, the S&P 500 increased slightly by 4.0 % and the technology exchange NASDAQ was down 3.9 %. In Europe, the DJ Euro STOXX 50 increased by 21.3 % and the Deutsche Aktienindex (DAX) by 27.1 %. DJ STOXX Utilities, the index of the major European utility stocks and an important benchmark for Verbund, was up 25.9 % thus indicating that the utilities profited greatly from the existing conditions. The Austrian Traded Index (ATX), the index that comprises the largest Austrian stocks, improved by a substantial 50.8 % and was therefore once again poised to reach new heights. This substantial increase is attributable, above all, to the above-average earnings growth displayed by Austrian companies and the close proximity to the economies in Central and Eastern Europe which are experiencing dynamic growth.

VERBUND SHARE

VERBUND SHARE'S ANNUAL PERFORMANCE UP 83.8 %

After an excellent performance in the previous year (77.0 %), the Verbund share started into the 2005 stock market year at € 164.00. Directly after the publication of the best results in the company's history, the share climbed to a record high of € 186.80 in Q1/2005. On conclusion of the road show to present the annual results in London, Frankfurt and Zurich, the investment banks upgraded their price targets for the Verbund share significantly. This reflected the high level of acceptance for the Verbund strategy and the group's excellent positioning in the international capital market.

Over the year, the Verbund share displayed an unbroken upwards trend: in Q3/2005, the share climbed to an all-time high of € 292.00. This positive development was mainly due to the sharp rise in electricity wholesale prices caused by a significant increase in the prices for CO_2 certificates, high oil and gas prices and dwindling generation capacities in Europe.

At the end of October, there was a temporary drop in the share price to € 246.00 due to profit-taking, a general weakening of the share environment and an unexpected drop in the wholesale prices for electricity. Following the publication of the record result in Q3/2005 and numerous investor meetings, lost ground was, however, more than recovered by the end of the year and the share closed at a new high of € 301.30 on 31 December 2005. Consequently, the Verbund share continued to develop well ahead of the DJ STOXX Utilities index and the ATX with a positive performance of 83.8 % and is therefore one of the top performers among the listed utility stocks.

SHARE PRICE DEVELOPMENT

SHARE PRICE DEVELOPMENT €

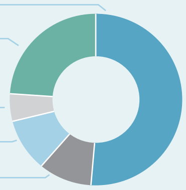
SHAREHOLDER STRUCTURE REMAINS UNCHANGED

Verbund has a share capital of € 223,978,000, which is spread across a total of 30,820,000 shares. 51 % of the shares are owned by the Republic of Austria and the remaining 49 % are quoted on the stock exchange. Major shareholders include EVN-AG and Wienstrom GmbH each with >10 % and the Tiroler Wasserkraft AG (TIWAG) with >5 %. The remaining <24 % are in free float.

The Verbund share is quoted on the Vienna Stock Exchange. In addition, the share can also be purchased in Frankfurt, at the regional exchanges in Germany, in London and in the USA through an American Depositary Receipt.

SHAREHOLDER STRUCTURE

%



SIGNIFICANT INCREASE IN SALES AND MARKET CAPITALIZATION

Stock exchange turnover in Verbund shares reached € 1,839.9 million. On average, 31,822 shares were traded every day. As of 31 December 2005, Verbund had the fourth highest valuation of all companies listed on the Vienna Stock Exchange. The total value derived from its market capitalization amounted to € 9,286.1 million; its weighting at the ATX was 4.6 %.

STOCK-SPECIFIC FIGURES

	Unit	2005	2004	2003	2002
Peak price	€	301.30	165.64	92.60	97.08
Lowest price	€	163.90	92.92	77.50	70.05
Closing price	€	301.30	163.90	92.60	81.14
Performance	%	83.83	77.00	14.12	-3.40
Market capitalization	€ million	9,286.07	5,051.40	2,853.93	2,500.73
Weighting ATX	%	4.57	3.99	4.39	5.73
Stock exchange turnover	€ million	1,830.90	761.61	269.00	616.46
Stock exchange turnover/day	Units	31,822	22,527	13,205	29,757
Earnings/share	€	11.33	7.64	6.51	5.03
Cash flow/share	€	22.08	14.23	13.34	10.24
Carrying amount/share	€	63.77	53.50	46.65	36.42
P/E	X	26.59	21.45	14.22	16.12
Price/cash flow	X	13.65	11.51	6.94	7.92
Price/carrying amount	X	4.72	3.06	1.99	2.23
Dividends	€	5.00	3.00	2.00	1.40
Dividend yield	%	1.66	1.83	2.16	1.73
Pay-out rate	%	44.12	39.26	30.72	27.81
EV/EBITDA	X	15.68	12.80	10.19	10.20

"Thanks to its environmentally-friendly energy production from hydropower, Verbund is, from an international viewpoint, one of the most attractive utility stocks. The company is in an excellent competitive position and should benefit greatly from the further deregulation of the European electricity markets."

MAG. CHRISTIAN RAMBERGER
PORTFOLIOMANAGER ALLIANZ INVESTMENTBANK AG

INVESTOR RELATIONS

At Verbund, investor relations activities focus on providing analysts and investors with comprehensive and transparent information at the same time. Within the framework of numerous roadshows in Europe and the USA, management communicated not only the excellent results but also the strategic positioning of the company. The capital market honoured Verbund's excellent positioning in the European electricity market. The analysts at the investment banks assessed the group as being "one of the best positioned utility stocks" in Europe and repeatedly upgraded their price target for the Verbund share. The willingness of the investors to purchase the share remained unbroken and ultimately led to Verbund's excellent share performance.

VERBUND ANNUAL REPORT RECEIVES NUMEROUS AWARDS

The Verbund Annual Report 2004 was honoured with several awards. At the Annual Report Competition (ARC) in New York, the Verbund report competed against approx. 1900 entries from 25 countries and won not only the "Golden Award" but also the "Grand Award" for the best business report in the German language. In addition, Verbund won the Galaxy Award in Gold which is awarded for excellent marketing performance. These awards honour the comprehensive, high-quality information that the group provides to its stakeholders.

EXTENSIVE INTERNATIONAL RESEARCH

In addition to the research reports of the major investment banks and the rating reports of the agencies Moody's und Standard & Poor's, which are published on a regular basis, the Verbund share was also covered by the Deutsche Bank and the Société Génerale in 2005.

The following investment banks regularly publish research reports on Verbund:

Bank Austria Creditanstalt (Harald Weghofer), CDC Ixis (Philippe Ourpatian), Deutsche Bank (Roland Neuwirth), Erste Bank (Christoph Schultes), Merrill Lynch (Simon Flowers), Raiffeisen Centro Bank (Klara Szekkfy), Sal. Oppenheim (Stephen Wulf), Société Génerale (John Honoree)

Discovering markets. We are committed to discovering new markets. We identify the laws under which these markets

function. The similarities to the markets we are familiar with.

And how they differ.

In 2005, the European energy market was marked, above all, by the sharp rise in wholesale prices. The significant increase in the prices for the primary energy sources oil and gas took place parallel to the implementation of CO_2 certificate trading. The situation was further intensified by the decline in reserve capacities.

From a regulatory viewpoint, the EU Water Framework Directive, the regulation of the grid tariffs and the eco-electricity regulation created a tense economic situation. Other challenges that still need to be addressed include the harmonization of the European electricity market and investment in new generation and transmission capacities. With its hydrothermal power plant park, its central location in Europe and the competitiveness the group has fostered in the last years, Verbund is well positioned to provide for the future. Important obstacles that have yet to be overcome do, however, include the failure, in part, to implement the single market directive in the individual member states and the strong trend towards consolidation in the European energy industry.

EUROPEAN ENVIRONMENT

MARKET LIBERALISATION, PRICE DEVELOPMENT AND INDUSTRY CONSOLIDATION

The EU Commission, formed after the EU election in 2004, curbed the consolidation trend in the European energy industry. Decisions relating to company mergers and acquisitions are now guided by a stricter set of rules.

In 2005, the Commission initiated an analysis of the European energy market to examine the results of deregulation. The benchmarking report compiled by the Commission referred to the growing trend towards consolidation in the energy industry. According to the Commission, the market is still far removed from efficient competition and also displays monopolistic structures which are growing in strength.

In this the seventh year of the liberalisation process, the aim of creating a single market in Europe is still a long way from being realized. The anticipated price advantages are threatened by growing consolidation within the sector. Competition has declined as a result of the many vertical and horizontal mergers at a regional and supra-regional level. The intensity of the competition tends to decline proportionate to the degree of fragmentation within the customer segment: industry and other large consumers can select a competitive supplier from the open market. This, however, does not apply to smaller consumers: the smaller the order volume, the more dependent they become on local suppliers.

The development of the competitive market in Central and Eastern Europe is also unsatisfactory. With the exception of Slovenia, this market zone displays strong protectionist tendencies.

Prices, demand and capacities

The EU market as a whole has more than 230 million electricity consumers who together consume just under 3,000 TWh of electricity each year. This is approx. 50 times higher that the power requirement of the Austrian market. The European market is, however, marked by the different speeds of liberalisation in the individual countries. Only 10 electricity markets are fully deregulated (one of which is Austria).

In the enlarged EU Europe, Austria and Germany represent a coherent trading market with homogeneous prices. There is a high degree of correlation between the German electricity exchange EEX in Leipzig and the Austrian electricity exchange EXAA in Graz. France and Switzerland could be allocated to the same price zones.

The wholesale prices for electricity rose significantly in 2005. The annual average for base spot prices at the EEX lay at € 46.0 /MWh and was therefore 61 % higher than the average value recorded in 2004 (€ 28.5 /MWh). The average peak spot prices displayed a similar development and increased by 67 % from € 37.7 /MWh in 2004 to € 63.1 /MWh in 2005.

SPOT MARKET PRICE DEVELOPMENT – BASE AND PEAK AT THE EEX

The price development on the spot markets also influenced the forward markets, even if the price increases on the latter were much more moderate. Cal 06 Base was traded at an average of € 34.1 /MWh in 2004. Last year, the corresponding average value rose to € 41.2 /MWh. This corresponds to an increase of 21 %. The peak prices displayed a slightly smaller increase from € 51.1 /MWh (annual average) in 2004 to € 56.3 /MWh last year. This represents an increase of 10 %.

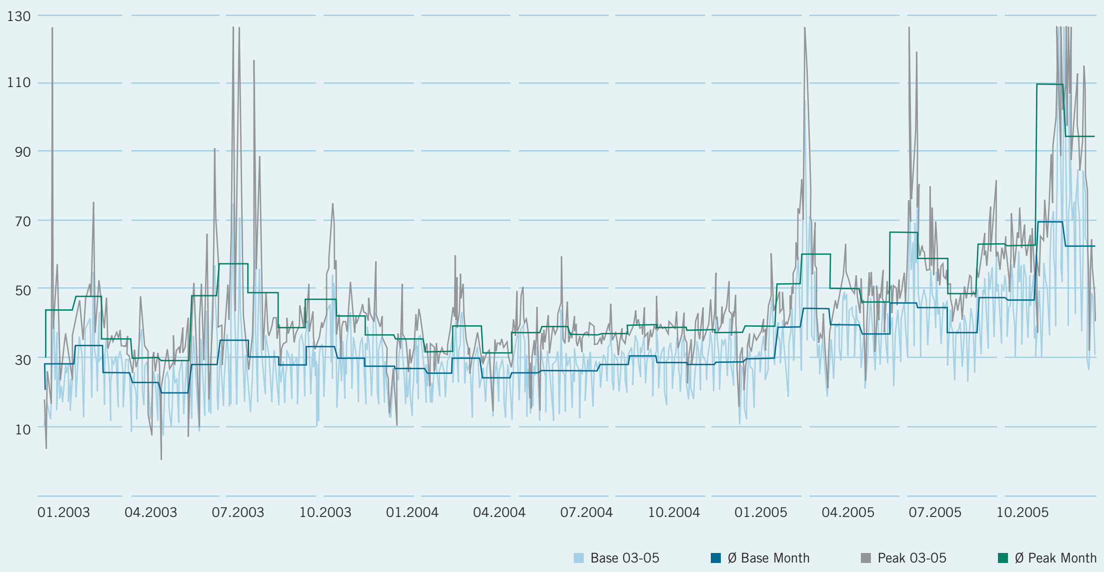
Electricity prices are essentially influenced by the following factors:

> the reduction of overcapacities
> the consolidation process through mergers and cooperations
> the increase in prices for primary energy sources
> the prices for carbon dioxide certificates
> the subsidization of renewable forms of energy

"Including futures trading, 90 % of electricity production in Europe is now traded via the electricity exchanges. They offer price transparency and security and also make the European electricity market more dynamic."

DR. HANS-BERND MENZEL
CEO AT EEX EUROPEAN ENERGY EXCHANGE AG, LEIPZIG

SPOT MARKET PRICE DEVELOPMENT – BASE AND PEAK AT THE EEX €/MWh



DEVELOPMENT OF GENERATION CAPACITIES AND DEMAND

At the commencement of market deregulation in February 1999, electricity prices lay within a corridor of € 15 – 18 /MWh. At that time, the market was characterized by high overcapacities and, given the high level of competition, pricing was only possible in the area of variable costs. Electricity producers who offered competitive prices could not cover their full costs on the market. Generation capacities have declined significantly since the start of liberalisation. Parallel to this, however, there was a substantial increase in the demand for electricity and today, some markets already display a lack of capacity.

Since 1999, the prices for electricity have risen to a level close to the full costs of modern power plants. The rise in the price level was driven on by the development of the fuel prices and the price impact of the CO_2 certificates.

Electricity consumption will increase by an average of 1.5 % p.a. up to 2030. This value was determined in a study carried out by the Technical University of Vienna for the EU 15. A value of 2.6 % was obtained for annual consumption growth in the new member states. To cover this rise in consumption, the EU countries will require up to 1,000 new large power plants in the next 25 years.

INCREASE IN FUEL PRICES

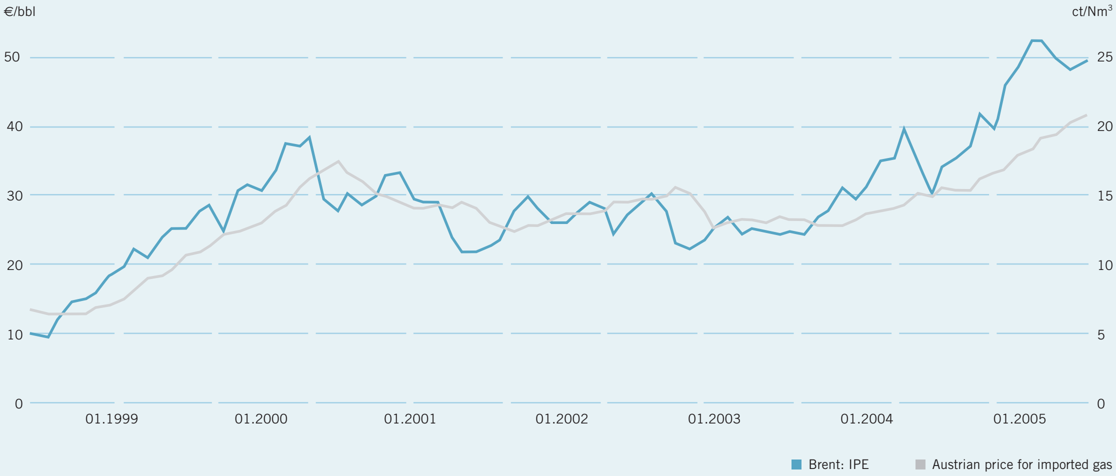
In 2005, the crude prices were pushed up by the hurricanes “Katrina” and “Rita” which, incidentally, also had a devastating effect on the American oil industry. On 01 September 2005, the North Sea oil Brent reached a new intra-day high at approx. USD 68 /bbl (€ 55 /bbl). The subsequent release of crude oil and mineral oil products from the strategic reserves of the member states of the International Energy Agency (IEA) did, however, curb the prices slightly.

The further price development is shrouded in uncertainty. The increase in demand, particularly in China, has resulted in a continuous increase in crude oil prices since 2003. The heavy strain on oil production capacities creates risks that could lead to increased prices on the forward markets. The 30-dollar hike in the oil price per barrel since 2003 is primarily attributable, above all, to short-term effects and the speculation that accompanies such effects. Sooner or later, the price will normalize at a lower level. It can be expected, however, that the oil prices will be higher than the average value of the last decades.

Taking the monthly average on a dollar basis, Brent blend crude oil had in any case almost doubled in price in December 2005 compared to January 2003; this corresponds to an increase of just over 70 % on a Euro basis.

Although crude is not used as a primary energy source in electricity production, it does have a direct effect on Verbund's prime costs as the price for crude is a correlating indicator for the gas import prices that Austria has to pay. As a result, the gas import price for Austria has risen significantly, particularly since the beginning of 2005.

DEVELOPMENT OF CRUDE OIL AND NATURAL GAS PRICES (MONTHLY AVERAGES)



INCREASE IN COSTS FOR EMISSION RIGHTS

Trading in CO_2 certificates was introduced in the EU at the beginning of 2005. The operators of thermal power plants require certificates that allow them to emit carbon dioxide. After a sluggish start, CO_2 certificate trading is now very buoyant. Sales and prices have increased significantly. At the beginning of the year, the "EU-Allowances" were priced at € 7-8 /t carbon dioxide. This starting price was very much in line with the expectations of most of the analysts.

Mid-March 2005, however, marked the beginning of a steady upward trend in this young market. By the beginning of July, the price had climbed to almost € 30 /t. Towards the end of the year, the price settled at approx. € 21 /t. The increase in the price for CO_2-certificates pushed up the forward prices for 2006 to as much as € 54 /MWh for base load.

EMISSION RIGHTS CARBON DIOXIDE, PRICE DEVELOPMENT ON SPOT MARKETS 2005 €/t

The prices for emission rights influence the prime costs of thermally generated power. At a price of € 20 /t carbon dioxide, the full costs per MWh in a new coal-fired power plant increase by approx. € 18. The corresponding increase in a modern gas and steam-generating power plant comes to € 8.

THE SUBSIDIZATION OF RENEWABLE FORMS OF ENERGY

The subsidies for feeding electricity from solar, wind or small hydropower plants into the grid are too high at the present and therefore cannot be continued indefinitely. It the medium term, it will be necessary to concentrate on a cost-effective way of realizing the climate targets. The introduction of subsidization that reflects the market conditions is essential if eco-electricity plants are to survive long-term in the liberalised electricity market.

These market factors reveal three megatrends for the European electricity market:

- The dependency on gas, one of the primary energy sources, is increasing.
- The convergence between electricity and gas will grow.
- The European electricity market will experience a second wave of consolidation.

Further regulatory measures of the EU

In 2005, the European Commission focused its regulatory actions, above all, on the promotion of renewable energy sources to safeguard security of supply of electricity and infrastructure investment and also introduced measures that aim at increasing end-energy efficiency and promoting energy services.

SUBSIDIZATION OF RENEWABLE ENERGY SOURCES

In mid-December 2005, the European Commission presented a report on the subsidization of electricity from renewable energy sources.

This report concludes that eco-electricity is not adequately subsidized in more than half of the member states. The Commission believes that targeted public support will also be necessary in the future. The Commission calls on the member states to optimize their subsidization policies and remove all obstacles for eco-electricity.

PROPOSAL FOR A DIRECTIVE TO SAFEGUARD SECURITY OF SUPPLY OF ELECTRICITY AND INFRASTRUCTURE INVESTMENT

Against the backdrop of the major blackouts in the USA, Italy and Scandinavia in summer 2003, the EU has now enhanced its focus on creating Europe-wide standards to guarantee the security of supply. The member states will be required to maintain a balance between demand and generation capacity, observe the minimum standards for grid security and ensure that the investment plans of the transmission grid operators provide for sufficient cross-border connection capacities. This proposal met with strong criticism, particularly from countries with powerful energy groups such as Germany, France and Great Britain. The draft directive was adopted by the European Council at the end of 2005.

PROPOSAL FOR A DIRECTIVE ON END-ENERGY EFFICIENCY AND ENERGY SERVICES

On 13 December 2005, the European Parliament and the European Council agreed on a directive on energy efficiency and energy services. Under this directive, the member states are required to reduce energy consumption by at least 1 % per year over the next 9 years.

AUSTRIA

FURTHER DEVELOPMENT OF RENEWABLE ENERGIES

In August 2005, the Eco-Electricity Feed-In Tariff Directive was published. This directive extends the deadlines for the commissioning of biomass and biogas plants and the revitalization of small hydropower plants and hence also extends the period in which standardized tariffs specified in the Directive BGBI II 508/2002 are granted, by 18 months to the end of 2007.

Furthermore, a trilateral agreement on the Eco-Electricity Act, which regulates the subsidization of eco-electricity plants up to 2011, was concluded at the end of 2005. In addition to the importance of increasing funds, it is essential that legal security be maintained for all – existing and future – operators of eco-electricity plants as well as for the processing and administration of the subsidies.

It is expected that this new legislation will have a boosting effect on hydropower plant construction in Austria. Under this legislation, the medium-sized hydropower plants with an annual capacity of 50 to 100 million kWh will qualify for subsidization - as proposed by Verbund, Austria's largest hydropower producer, on several occasions.

This will not only increase the economic efficiency of this environmentally friendly and domestic form of power generation but will also massively support Austria's advanced independence in the area of electricity production and pave the way for the realization of important environmental targets.

The new Eco-Electricity Act can be enacted once it has been adopted by the European Council.

IMPLEMENTATION OF THE WATER FRAMEWORK DIRECTIVE

The EU Water Framework Directive stipulates that all waters in Europe have to be in a "good ecological condition" by 2015 or, in the event of an extension being granted, by 2027. A recent study shows the possible effects that measures implemented to achieve this goal could have on hydropower utilization in Austria.

Based on total hydropower generation in Austria, generation losses would lie between 2 % and 7 %. The investment costs up to 2027 for the construction of fish ladders and the connection of tributaries are expected to be in the region of € 90 million for small hydropower plants and as high as € 144 million for large hydropower plants.

Verbund attaches great importance to electricity that is generated from hydropower for Austria's power supply. In view of the constantly growing demand, it is extremely important that the losses that are expected as a result of the Water Framework Directive – both in terms of efficiency and labor – are reduced to a minimum.

MARKET AND COMPETITIVE SITUATION IN THE AUSTRIAN ELECTRICITY MARKET

In April 2005, the Regulatory Authority and the Austrian Federal Competition Authority presented an interim report on the Austrian electricity market. The central statements were: "EnergieAllianz and the proposed Austrian Electricity Solution inhibit the development of competition" and "the liberalisation of the electricity market only functions for large customers." The Regulatory Authority then announced a competition revival package that aims at simplifying the distribution process, enhancing the position of electricity customers and intensifying competition.

INCENTIVE REGULATION IN THE SYSTEM UTILIZATION TARIFF DIRECTIVE

The System Utilization Tariff Directive 2006 (Systemnutzungstarife-Verordnung SNT-VO 2006) of the E-Control Commission was enacted on 1 January 2006 along with an incentive regulation system.

This incentive regulation system represents the introduction of a completely new tariff monitoring model: under this system, the regulatory authority does not use isolated costs as a basis but rather the costs of a particularly efficient grip operator (comparisons within Austria).

The new grid tariff model will initially apply for two four-year regulatory periods. At the end of the first period, which runs from 2006 to 2009, the system will be evaluated. In the second period (1 January 2010 – 31 December 2013), the focus will lie, above all, on the appropriate treatment of future grid investors.

Although the new Austrian model is probably one of the strictest in Europe, it does provide legal, planning and financing security for the next four years.

In the course of the grid tariff reduction as of 1 January 2006, the grid tariffs for the whole of Austria will be reduced by an average of 3 % in the wake of a reduction of just over 25 % between 2001 and 2005. With its current incentive regulation system, E-Control aims to reduce the grid tariffs by a further 11 – 12 % by 2009 and once again by 7 – 8% in the following period. This will result in a total tariff reduction of 35 % since the market was fully deregulated in 2001.

The latest round of grid tariff reductions will result in distribution grid operators having to contend with annual revenue losses in the amount of approx. € 70 million. By the end of 2006, the revenues generated by the grid operators will have dropped by a total of approx. € 500 million p.a. since the commencement of grid tariff regulation by E-Control in 2001.

PROSPECTS FOR THE ENERGY MARKET

The world economy is currently in a phase of buoyant growth in spite of the high energy prices. In 2005, global production increased by 5 % and the world trade volume rose by 8 %. The future prospects are, however, dampened by the existence of economic disequilibrium and strong protectionist tendencies.

Economic development was largely shaped by the USA, China and other Asian countries. The Chinese economy grew at a rate of over 9 % and its share in world production has already increased to 13 %. In spite of the fact that industry in the USA is highly energy-intensive compared to Europe, the US economy appeared to be unaffected by the high oil prices and grew by a considerable 3.6 %.

The development of the European economy was rather muted and displayed little or no momentum. In 2005, economic growth within the EU-15 merely came to 1.6 %. The new members of the European Community, however, achieved growth rates of 4.3 %. The Austrian economy, which, according to an estimate of the economic research institute WIFO, recorded real growth of 1.9 %, profited from this development.

ELECTRICITY CONSUMPTION CONTINUES TO RISE

Electricity consumption in the EU 15 nations is likely to rise by 1.5 % p.a. up to 2015. Consumption in the "new" countries is expected rise by as much as 2.6 %. Approx. 1,000 new power plants will be needed in Europe in the next 25 years to cover this growing demand. According to WIFO, the demand for electrical energy in Austria will grow by 2.3 % p.a. up to 2010 and by 2.7 % p.a. in the period from 2010 to 2020. Hence, Austria too will have to focus not only on the renovation of older power plants but also on the construction of new capacities. Several investment uncertainties do, however, exist at the current time. These include the implementation of the Water Framework Directive, the volatile prices for primary energy sources, an insecure regulatory environment at EU level, the uncertainties relating to the implementation of the Kyoto protocol and the resulting cost burdens to say nothing of the noticeable fluctuations in the actual electricity prices.

Investment in new power plants has now become a decisive competitive factor in the European energy industry. At the end of the day, those companies that enhance their flexibility by creating an optimal power plant mix, guarantee that they can supply favorably priced electricity at any time in a deregulated electricity market with volatile volume and price development and, in the sense of vertical integration, dispose of an extensive value chain – from gas production to the power outlet – will be well positioned.

Verbund pursues the goal of being the most profitable electricity company in Europe based on Economic Value Added (EVA). Verbund will concentrate on further expanding its core business, engage in value-creating investments and acquisitions in Austria and the rest of Europe, practice consequent cost management and demonstrate a clear orientation towards sustainable corporate management to achieve this goal by 2010.

Verbund has adopted the following corporate activity principles:

- The cost-effective generation of hydropower, supplemented by flexible thermal generation
- Professional electricity trade and distribution from risk-optimized viewpoints
- The sale of approx. 25 % of own generation via its own efficient, direct distribution system to promote vertical forward integration
- Efficient electricity transmission via the high and extra-high-voltage grids

In fiscal 2005, the individual measures were examined and adapted within the framework of a group-wide strategy process. The central aim here is to enhance Verbund's corporate value and earning power in a sustainable manner.

Specifically, this means increasing the current generation capacity from 30 TWh by 33 % to 40 TWh in Austria and abroad by 2010. In addition to strengthening its position as the biggest electricity producer in Austria, Verbund also aims to become Austria's largest end-customer supplier. 10 TWh of own production – this corresponds to 25 % of total production – should be sold directly to consumers in Austria and other markets. Hence, the distribution business will have to be expanded.

INCREASE OF GENERATION CAPACITIES

Generation capacities will be increased through the expansion of hydropower plants and the construction of thermal power plants in Austria. Activities outside of Austria will centre on the construction of power plants and the acquisition of interests in generation plants. The development of a balanced mix of primary energy sources and Verbund's influence in terms of plant management will play a central role here. Projects that focus on the utilization of regenerative energy sources such as wind and biomass will also be included in the Verbund portfolio. Special attention will also be paid to enhancing the efficiency of existing power plants from ecological and economic viewpoints.

EXPANSION OF TRADE AND DISTRIBUTION

In the trade and distribution area, the expansion of the relevant business units within the group will take precedence. Work on the establishment of a direct distribution system in Austria commenced in the second half of 2005 and will be pushed ahead vehemently in the coming years. The acquisition of further interests in Austrian distribution companies also represents an attractive option. In addition to the existing trade and distribution companies in Germany, Hungary, Slovenia and Poland as well as the joint venture in Italy, further companies are currently being planned in the Czech Republic, Slovakia and Greece. The central aim here is to promote domestic industry abroad. Distribution activities could well be rounded off through the acquisition of integrated distribution companies outside of Austria.

EFFICIENT ELECTRICITY TRANSMISSION

In the transmission area, the closure of the gaps in the Austrian high-voltage grid will take priority. By optimizing the grid connections to the neighbouring countries Italy, the Czech Republic, and Slovakia, Verbund is accommodating the EU goal of promoting better competition conditions in an integrated European electricity market.

The feasibility of all planned acquisitions will be examined according to strict criteria. These criteria include the contribution to the expansion of the market position and to enhancing the value of Verbund's existing portfolio. The expansion should take place primarily in Austria as well as in the Central and Eastern European Region as the potential/risk ratio in this market cluster is most favourable from the viewpoint of sustainable value-enhancement.

OPTIMIZATION OF THE BALANCE SHEET STRUCTURE

Internal measures will be implemented to secure market growth in a sustainable manner. These measures include, above all, the optimization of the balance sheet structure to lower capital costs and the further development of employee training.

Capital costs will be reduced by focussing on assets that are necessary for operations of the group, adhering to the existing debt-clearing policy and improving the group's rating. Verbund's medium-term goal focuses on reducing net gearing below the 100 % mark and upholding a strong Single A rating.

The necessary adjustment of employee training will take place by way of ongoing retraining measures and the targeted acquisition of new know-how carriers.

The Verbund strategy will be implemented with a clear orientation towards sustainable economic success. In the process, Verbund's traditionally high environmental standards will be preserved. The requirements of the employees under the heading of constructive performance orientation will continue to be viewed as an important growth driver in the future. Customer orientation, innovation, a willingness to compete and open communication form the basis for the achievement of the declared goals.

Sustainable corporate value enhancement takes first priority in all decisions that are made within Verbund.

For this reason, Economic Value Added (EVA) is a decisive indicator for all control measures as, in contrast to EBIT, cash flow or margin-oriented ratios, it also embraces the risk-adjusted capital costs and helps to prevent false allocations. EVA is used in all corporate divisions as a central control criteria.

The following targets are defined within the value-based management concept:

- Increased transparency and comparability when measuring and analysing performance at all corporate levels
- Improvement of the efficiency of the capital employed by enhancing investment responsibility
- Creation of an awareness for capital costs by integrating these in the performance analysis
- Development of an understanding for the value-creation mechanisms and identification of the individual value drivers
- Continuous development and technical implementation in standard reporting

EVA provides an answer to the three most important questions on corporate value development: What is the generated result? What is the volume of appropriated, interest-bearing capital? What is the volume of the risk-specific capital costs?

The contributions to value enhancement are determined on a quarterly basis by deducting the capital costs from the overperformance reflected in the business result. The operating result is the operating profit before financing costs, including the result from participating interests less income taxes.

The capital costs are determined by multiplying the working capital, this being the sum of all interest-bearing capital items at carrying amounts, by the weighted capital costs.

WACC = 6.5 %

The interest on capital costs is based on a WACC (Weighted Average Cost of Capital) approach by way of a peer analysis and a target capital structure. The WACC for fiscal 2005 within the Verbund group comes to 6.5 %.

The essential steps taken in 2005 to develop the value-based management concept were adjustment of capital costs and implementation of the EVA computational logic into operative reporting.

ADJUSTMENT OF CAPITAL COSTS

The adjustments in the WACC refer, on the one hand, to the lowering of the corporate tax rate from 34 % to 25 % and, on the other hand, the adjustment to create a representative target capital structure. A peer group of European utilities was used here. Due to the contrary effects of the components, the WACC does, however, remain unchanged.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

Market Risk Premium (MRP)	5.0 %
x Beta Verbund	1.13
= Equity Risk Premium	5.6 %
+ Risk-free interest rate	4.5 %
= Equity expense ratio	**10.1 %**
x Equity ratio	40 %
= Weighted equity expense ratio	4.1 %
Risk-free interest rate	4.5 %
+ Borrowed capital spread	1.0 %
= Borrowed capital expense ratio before taxes	5.5 %
x (1 – Tax rate)	75.0 %
= Borrowed capital expense ratio after taxes	**4.1 %**
x Borrowed capital ratio (Leverage)	60.0 %
= Weighted borrowed capital expense ratio	2.5 %
WACC	**6.5 %**

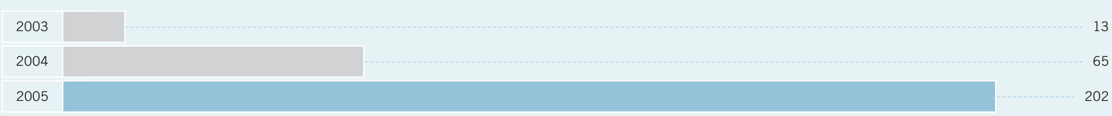
UTILISATION IN OPERATIVE REPORTING AND PROJECT EVALUATION

The computational logic of the EVA was integrated into operative reporting using SAP. Future investment and acquisition projects will also be evaluated on the basis of uniform criteria. The decision-making process is based exclusively on value-oriented and strategic criteria.

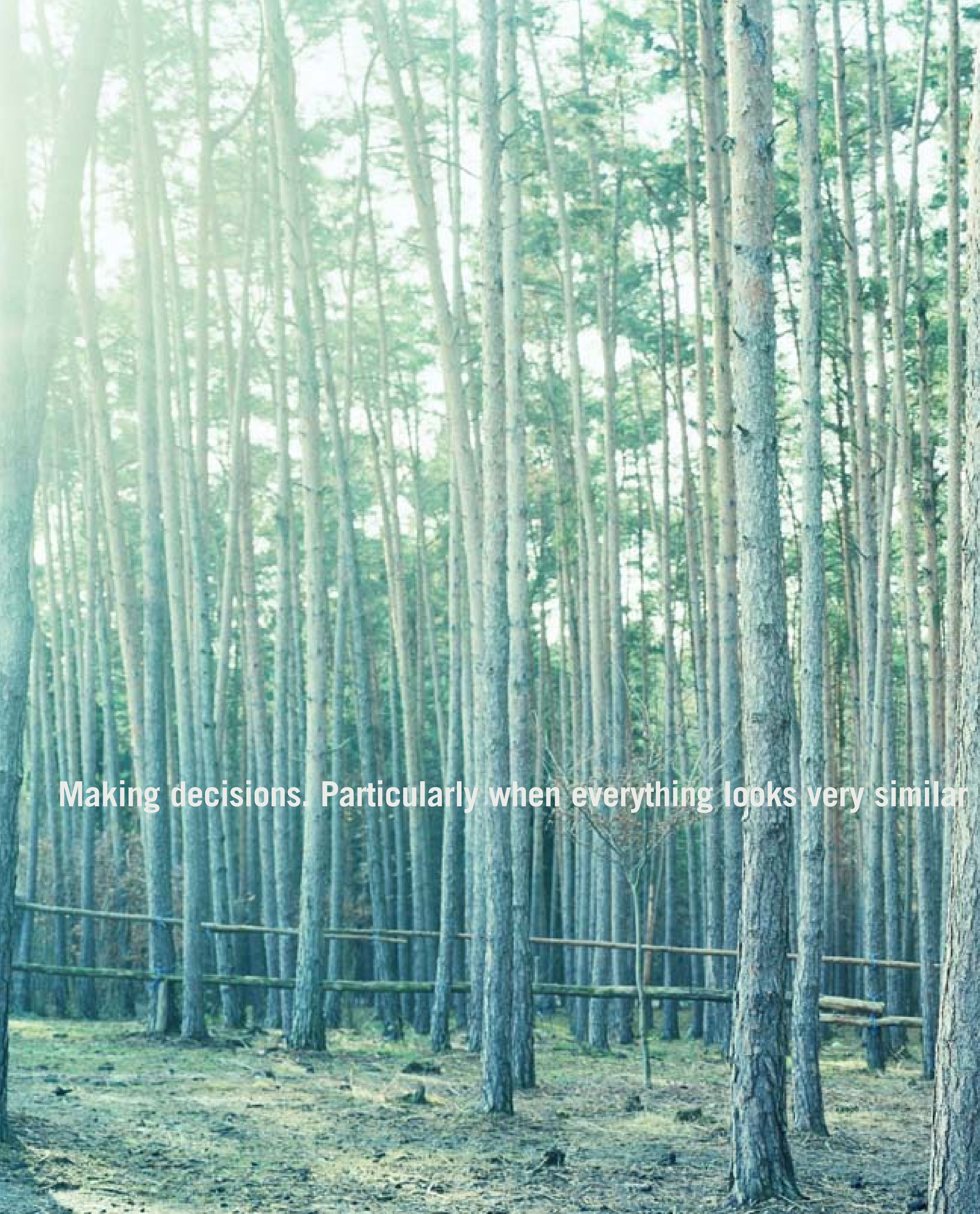
Hence, a central criterion for the analysis of future projects is the cash value of the future Economic Value Added. This always leads to the same result as the discounted cash flow method if the same assumptions are used. To ensure optimal capital allocation, those projects that display the highest cash value will be realised. The integration of the EVA in the decision-making process ensures that the analysis of the periodic value contributions from implemented projects is carried out using the same principles that were employed when making a decision on the projects.

At Verbund, the EVA displayed the following development:

EVA®-DEVELOPMENT Million €



We anticipate that the EVA in 2006 will again increase significantly by approx. 20 %. Given that the capital market only honours sustained value enhancement, the periodic changes in the EVA level are considered to be an important indicator in addition to the absolute (high) values.


Making decisions. Particularly when everything looks very similar

at the first glance. Identifying the differences,

that is what counts. So that we can make the right decision:

at the right time and for the right offer.

BUSINESS DEVELOPMENT

Basic conditions

> P. 20
„Market and Industry“

In 2005, the European energy market was marked, above all, by the sharp rise in wholesale prices. The significant increase in the prices for the primary energy sources oil and gas took place parallel to the implementation of CO_2 certificate trading. The situation was further intensified by the decline in reserve capacities. From a regulatory viewpoint, the EU Water Framework Directive, the regulation of the grid tariffs and the eco-electricity regulation created a tense economic situation. Other challenges that still need to be addressed include the harmonization of the European electricity market and investment in new generation and transmission capacities. With its hydrothermal power plant park, its central location in Europe and the competitiveness the group has fostered in the last years, Verbund is well positioned to provide for the future. Important obstacles that have yet to be overcome do, however, include the failure, in part, to implement the single market directive in the individual member states and the strong trend towards consolidation in the European energy industry.

NEW RECORD RESULT GENERATED

For the third time in a row, the Verbund group reported a record result in fiscal 2005 under the existing economic conditions (see Market and industry). Sales revenues increased from € 2,021.7 million in 2004 to € 2,506.7 million. This corresponds to a growth of 24.0 %. The earnings ratios, which display a disproportionate improvement compared to sales, are particularly positive. The operating result rose by 36.6 % from € 385.5 million to € 526.5 million. Profit after taxes climbed from € 268.8 million to € 402.1 million. This is equivalent to an improvement of 49.6 %.

The group result comes to € 349.3 million after € 235.4 million in the corresponding period the previous year. Hence, the bottom line of the income statement discloses a growth rate of 48.3 %. In fiscal 2005, the Economic Value Added (EVA), the control-specific ratio for value creation within the Verbund group, more than doubled to € 201.8 million. This clearly shows that sustainable value is created at Verbund year for year both from an absolute and relative perspective.

Influencing factors

Apart from the favourable sales development, the Verbund income statement was influenced by the following factors:

- energy trading contracts recognized net
- strong rise in European wholesale prices
- lower water supply
- one-off accounting measures burden the result

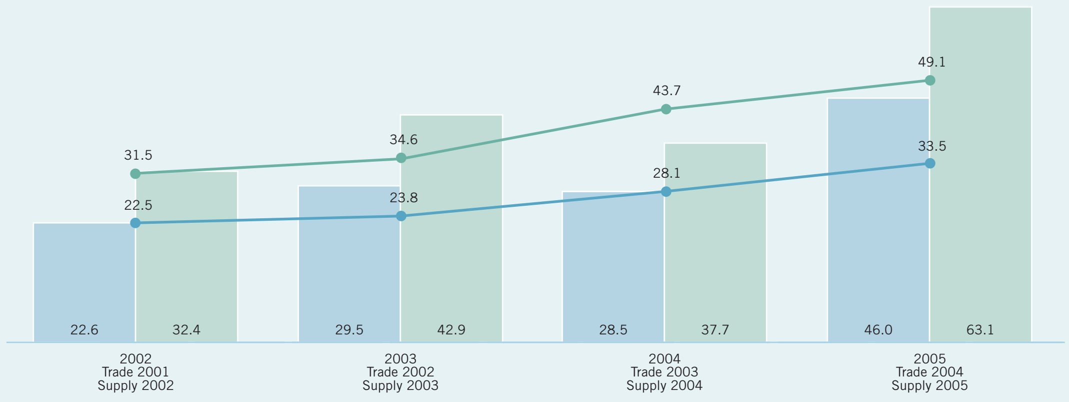
ENERGY TRADING CONTRACTS RECOGNIZED NET

In 2005, trading business with energy trading contracts was recognized net for the first time. Energy trading contract purchases are now netted against sales. This lowers the sales revenues recognized in the income statement but, parallel to this, also reduces the expenses for electricity purchases; hence, the result is not affected by this adjustment. The figures for previous periods were also adjusted accordingly. The Verbund group therefore fully complies with the international procedures for IFRS reporting in the energy sector.

STRONG RISE IN EUROPEAN WHOLESALE PRICES

The intelligent positioning of the trade and distribution activities in the relevant international markets paves the way for the maximum utilization of acquisition and sales opportunities. Optimal use was therefore made of the very positive price development in wholesale markets in 2005.

SPOT AND FORWARD PRICE DEVELOPMENT €/MWh



Source: Forward (Platts German Market Assessments); Spot (European Energy Exchange)

The wholesale prices for electricity in Europe climbed to a level last seen prior to the deregulation on the energy market. The current results do, however, display a clear improvement, not least due to the successful restructuring and reorganisation measures that were implemented within the group. In 2005, Verbund generated a group result that was three times higher than the results achieved prior to deregulation when wholesale prices were at a similar level.

LOWER WATER SUPPLY

The average water supply from the rivers, which is measured with a hydro coefficient and plays a decisive role in the area of hydropower generation, is another important factor that can influence the result. A one-percent deviation in the water supply affects the EBIT in the amount of approx. € 7 million. In 2005, the energy coefficient was 2 % below the long-term average of the last 30 years and 1 % below the value reported in 2004.

ONE-OFF ACCOUNTING MEASURES IN THE AMOUNT OF APPROX. € 75 MILLION BURDEN THE RESULT

The earnings trend was also very negatively impacted by one-off accounting measures which resulted in a significant increase in provisions and therefore lowered the final operating result. Updated death probabilities, which take account of the increased life expectancy of the population, had to be considered when calculating the provisions for severance payments and pensions. Added to this, the interest rates for discounting the provisions had to be lowered again to account for the further drop in the interest rates in the international capital markets. In addition, further provisions were accrued for early retirements. These three measures burdened the operating result by € 64.5 million in 2005.

The one-off provision for the implementation of an amendment in the business plan of the defined-contribution Investment and Risk Community at BAV Pensionskassen AG represents a further negative one-off effect. In this context, a provision of € 36.9 million was accrued.

Positive one-off measures included the reversal of provisions in connection with the stranded costs for the Voitsberg power plant and the controversial receivables from transport contracts in the high-voltage grid.

The one off accounting measures burdened the operating result in the net amount of € 75 million.

Earnings position

CONSOLIDATED INCOME STATEMENT (SHORT VERSION) — **Million €**

	2003	2004	2005	Change
Sales revenue	1,653.2	2,021.7	2,506.7	+24.0 %
Operating result	321.6	385.5	526.5	+36.6 %
Group result	200.1	235.4	349.3	+48.3 %
Result per share (€)	6.51	7.64	11.33	+48.3 %

The sales revenue of the Verbund group was up 24.0 % at € 2,506.7 million compared to the previous year.

FURTHER INCREASE IN ELECTRICITY REVENUE

This improvement is attributable, above all, to the 29.1 % jump in electricity revenue which reflects the benefits derived from the increased wholesale prices in market price indexed contracts. The sales volume of own-produced electricity was 2.8 % down on the previous year but the volume of purchased electricity sold increased by 30.5 % due to the expansion of the wholesale activities in Europe.

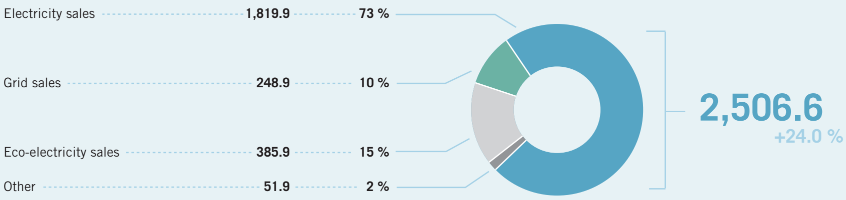
The Electricity segment – not including revenue from eco-electricity – therefore accounted for 73 % of total sales in 2005. Revenue from electricity sales to resellers improved by 19.8 %. The decline in sales to provincial companies was more than compensated by the increase in the volume of electricity sold, above all, to German resellers.

The further expansion of the European wholesale activities paved the way for a 70.4 % improvement in sales with traders to € 806.3 million. Sales revenue from end customers fell by 31.6 % to € 143.9 million. This decline is attributable to the sale of VERBUND-Austrian Power Stromvertrieb GmbH to the Slovenian company Istrabenz in 2004.

55.9 % of the electricity revenue was generated abroad with the largest growth being recorded on the German and French markets.

Grid revenue dropped slightly by 4.8 % to € 248.9 million mainly due to the tariff reduction which came into effect in February 2005 resulting in an average lowering of the tariff-relevant grid revenues by 11 %. Revenue from the Grid segment accounted for approx. 10 % of group sales. Revenue from eco-electricity rose by 27.2 % to € 385.9 million on account of the ongoing expansion of publicly subsidized generation capacities and made a 15 % contribution to total sales in 2005.

SALES REVENUES Million €



POSITIVE ONE-OFF EFFECTS BOOST OTHER OPERATING INCOME

Other operating income rose significantly by 66.3 % to € 108.1 million. This development is essentially attributable to two one-off effects that are recognized in the income statement. The accruals for stranded costs for the thermal power plant Voitsberg were almost totally reversed on account of the improved legal security and the value adjustments for controversial receivables from transport contracts were reversed following an out-of-court settlement and have a positive impact on the result.

HIGHER PURCHASE PRICES PUSH UP ELECTRICITY PROCUREMENT COSTS

Expenses for electricity purchases increased by 42.5 % from € 622.5 million to € 887.2 million mainly due to the rise in purchase prices on the procurement markets. This development is attributable to the price increases on the European wholesale markets.

RISE IN EXPENSES FOR CO_2 CERTIFICATES PUSH UP FUEL EXPENSES

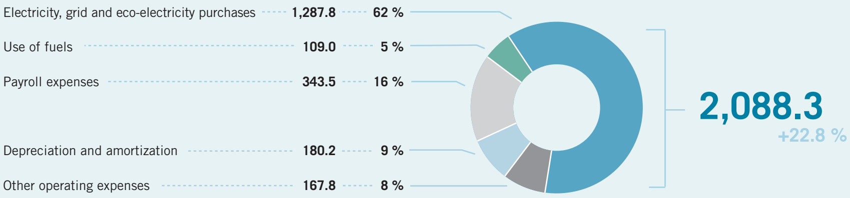
Fuel expenses for primary energy sources used to power the thermal generation plants increased slightly by 2.9 % from € 105.9 million to € 109.0 million. This increase is largely due to the rise in costs for CO_2 certificates which Verbund has to purchase to operate the thermal power plants in line with the Austrian emission targets. Given the significant increases in the European wholesale prices, it made sound economic sense to utilize the existing thermal power plants to a greater extent in spite of the additional costs for CO_2 certificates and the higher fuel costs.

PAYROLL EXPENSES STRONGLY BURDENED BY ONE-OFF BALANCE SHEET MEASURES

Payroll expenses were up 22.9 % on the value reported in 2004 at € 343.5 million.

Expenses for salaries and wages remained more or less unchanged from the previous year. Here, the slight drop in employee numbers compensated for the collective agreement increase of 2.45 %. The increase in payroll expenses is attributable, above all, to the 76.6 % jump in expenses for severance payments and pensions to € 143.5 million.

EXPENSES Million €



This resulted, above all, from the clear increase in provisions for social capital necessitated by the application of modified death probabilities to take account of increased life expectancy, the lowering of the discount rate used to calculate the provisions and the fact that new early retirement regulations had to be considered. In addition, there was a one-off burden resulting from an allocation for the amendment of the parameters of the business plan of the defined-contribution pension fund.

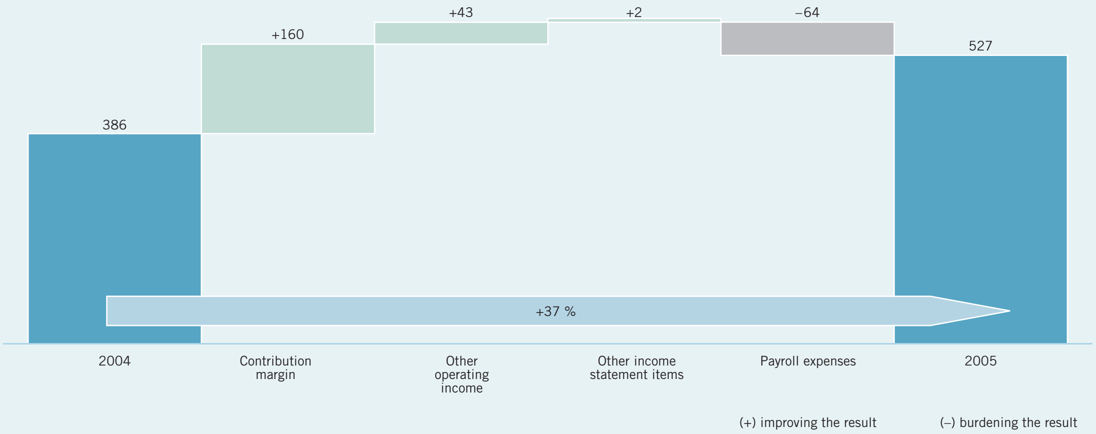
OTHER OPERATING COSTS DOWN SLIGHTLY

Other operating costs fell by 0.1 % to € 167.8 million, above all due to lower value adjustments on the receivables side. All in all, other operating costs have dropped significantly in the last years.

SIGNIFICANT 36.6 % IMPROVEMENT IN OPERATING RESULT DESPITE MASSIVE ONE-OFF EFFECTS

On the basis of the influencing factors and developments described above, the operating result increased by 36.6 % from € 385.5 million to € 526.5 million and this in spite of the net burden of approx. € 75 million from one-off measures.

OPERATING RESULT (CHANGES) Million €

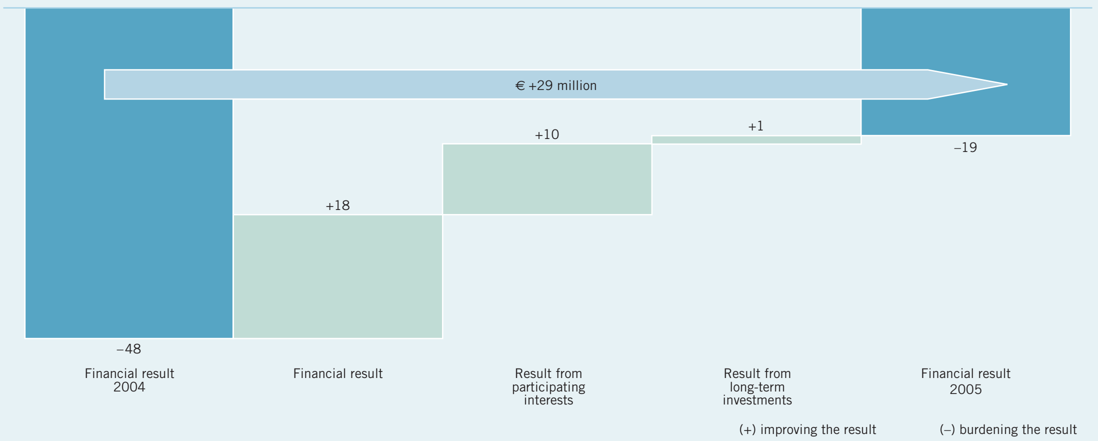


OPERATING RESULT IMPROVED BY DEBT CLEARING

The financial result improved from - € 48.1 million to - € 19.0 million. Further debt clearing in the amount of € 417.6 million, which was financed from the operating cash flow without any need for refinancing, and a one-off interest payment received from an out-of-court settlement relating to controversial receivables from transport contracts paved the way for a substantial improvement in the financing result from - € 91.5 million to - € 73.2 million. The valuation-related foreign currency effects of financing in Swiss Francs and Japanese Yen also has a slightly positive effect in fiscal 2005 (compared to 2004) in the amount of € 1.6 million. Adjusted for foreign currency effects, the financing result was up 19.2 % at - € 70.3 million.

The result from participating interests improved by 26.9 % to € 47.0 million. This is attributable to the positive development of the companies consolidated at equity and, in particular, the contributions from KELAG-Kärntner Elektrizitäts-Aktiengesellschaft and Ennskraftwerke AG.

FINANCIAL RESULT (CHANGES) Million €



The effective tax rate was 20.8 % compared to 20.3 % the previous year. The deviation in the tax rate from the corporate tax rate of 25 % is mainly due to tax-exempt investment income from the companies consolidated at equity.

Minority interests in profit increased by € 19.4 million to € 52.8 million. This is largely due to the jump in earnings at VERBUND-Austrian Hydro Power AG (AHP), in which minority shareholders hold an interest of ca. 19.67 %.

The group result under IFRS (earnings for the period, attributable to shareholders of the parent company) rose by 48.3 % to € 349.3 million and the earnings per share for 2005 to € 11.33. This is the highest increase in the company's history.

BEST GROUP RESULT IN THE COMPANY HISTORY +48.3 %

Financial positions

CONSOLIDATED BALANCE SHEET (SHORT VERSION) Million €

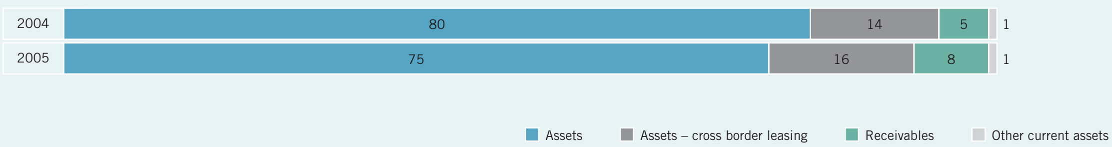
	2004	Share	2005	Share
Total assets	6,237.3	100 %	6,596.7	100 %
Non-current assets	5,852.5	94 %	6,008.0	91 %
Current assets	384.8	6 %	588.7	9 %
Total equity and liabilities	6,237.3	100 %	6,596.7	100 %
Shareholders' equity	1,648.8	26 %	1,965.5	30 %
Long-term liabilities	3,660.7	59 %	6,584.9	54 %
Short-term liabilities	927.8	15 %	1,046.3	16 %

LONG-TERM ASSETS INCREASED BY HIGHER INVESTMENTS

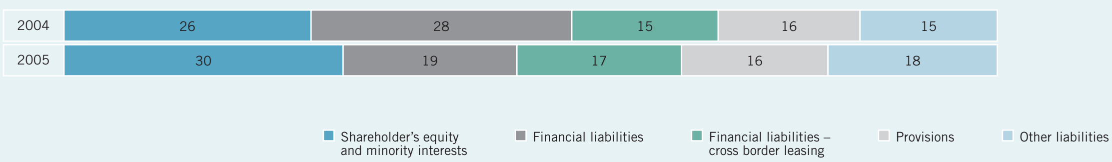
Long-term assets were up € 155.5 million on the previous year at € 6,008.0 million. With investments in the amount of € 117.7 million, the capitalization of investments is still lower than the depreciation of existing property. Accordingly, plant, property and equipment fell by € 64.1 million to € 4,044.5 million. As of 2006, this trend should be reversed as Verbund – and the energy utilities in general – will increase investment in expansion projects to counter the growing scarcity of generation and transmission capacities. The valuation of the companies consolidated at equity increased through the pro rata consideration of the annual profits generated. Long-term investments from cross border leasing increased, valuation-related, by € 177. 7 million to € 1,037.4 million.

Short-term assets increased by € 203.9 million to € 588.7 million, not least due to a rise in receivables in the amount of € 194.1 million resulting from a valuation of receivables from electricity derivatives.

TOTAL ASSETS %



TOTAL LIABILITIES %



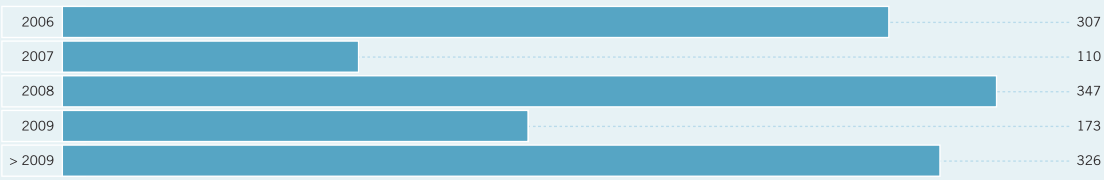
SHAREHOLDER'S EQUITY GREATLY STRENGTHENED

The profits in fiscal 2005 allowed the shareholders' equity to increase by € 316.7 million to € 1,965.5 million. Following an adjustment for closed items, the equity ratio comes to 35.7 % after 31.2 % on the balance sheet date the previous year.

SUBSTANTIAL DEBT CLEARING REDUCES LONG-TERM LIABILITIES

Long-term liabilities were reduced by € 75.8 million to € 3,584.9 million. This is essentially due to the decrease in long-term financial obligations through the repayment of € 417.6 million. This was, however, partially offset by the increase in long-term provisions in the amount of € 37.5 million. The increase is attributable to an allocation to the provisions for pensions and severance payments.

MATURITY STRUCTURE OF FINANCIAL LIABILITIES Million €



Short-term liabilities rose on account of the increase in other liabilities by € 290.9 million to € 1,046.3 million. This is attributable to the valuation of liabilities from electricity derivatives in accordance with IFRS.

NET DEBT SIGNIFICANTLY LOWER THAN SHAREHOLDERS' EQUITY FOR FIRST TIME

Net debt was reduced by a further € 419.0 million to € 1,795.1 million. Financial obligations in the total amount of € 417.6 million were cleared.

INDEBTEDNESS Million €

	2003	2004	2005
Long-term and short-term financial liabilities	2,973.6	2,712.1	2,394.3
Other interest-bearing debt	641.8	664.6	721.5
Interest-bearing gross debt	3,615.4	3,376.7	3,115.7
Interest bearing net debt	2,372.0	2,214.1	1,795.1

NET DEBT (SHORT VERSION) Million €

	2003	2004	2005
Short and long-term financial liabilities	1,988.2	1,759.1	1,244.8
Financial liabilities – cross border leasing	985.4	952.9	1,149.5
Interest-bearing provisions	626.1	643.3	677.7
Other interest-bearing depts	15.7	21.2	43.7
Interest-bearing gross dept	**3,615.4**	**3,376.5**	**3,115.7**
Cash and cash items	-28.1	-12.3	-29.7
Securities and loans	-295.8	-236.1	-244.8
Securities and loans – cross border leasing	-890.5	-859.8	-1,037.3
Other	-28.9	-54.2	-8.8
Total long-term assets	**-1,243.4**	**-1,162.4**	**-1,320.6**
Interest-bearing net debt	**2,372.0**	**2,214.1**	**1,795.1**

Financial situation

CONSOLIDATED CASH FLOW STATEMENT (SHORT VERSION)			Million €
	2003	2004	2005
Operating Cash-flow	410.1	438.5	680.5
Cash-flow from investing activities	71.9	-169.5	-83.2
Cash-flow from financing activities	-521.3	-284.9	-579.9
Changes to cash and cash items	-39.4	-15.8	17.4
Cash and cash items as of 31.12.	**28.1**	**12.3**	**29.7**

OPERATING CASH FLOW UP 55.2 %

The operating cash flow amounted to € 680.5 which corresponds to an increase of 55.2 % on the value reported in the previous year. This improvement was due, above all, to the positive business development, higher dividend inflows and lower interest payments. In addition, the inflow of allowances for stranded costs and the settlement of controversial transport receivables had a one-off positive effect. All in all, the operating cash flow was more than doubled in the last four years.

The cash outflow from investing activities amounted to - € 83.2 million. This represents a change of € 86.3 million compared to the previous year. This change was mainly due to the high long-term investment volume in 2004 in connection with the topping up of the interest in Energia S.p.A. In 2005, investment in plant, property and equipment was up € 39.8 million on the value reported the previous year.

The cash outflow from financing activities amounted to - € 579.9 million. The main influencing factors here include the clearing of debts totaling approx. € 675.5 million, new financial obligations in the amount of € 247.5 million and the distribution of dividends in the amount of € 92.8 million.

STRONG FREE CASH FLOW ENHANCES CLEARING AND DISTRIBUTION POTENTIAL

The free cash flow, i.e. the operating cash flow plus the cash flow from investing activities, increased from € 269.0 million in 2004 to € 597.3 million in the year under review. The free cash flow shows the surplus that can be used for dividend payouts and reducing the financial obligations.

Control-specific ratios

The key financial ratios of the Verbund group underpin – also when compared to the peer group - the excellent earnings trend and the solid balance sheet structure. The company is therefore well positioned to achieve further profitable and sustainable growth.

When computing ratios, which also includes balance-sheet items, Verbund eliminates the effects from cross-border leasing transactions, since this involves closed items on the asset and liabilities side of the balance sheet.

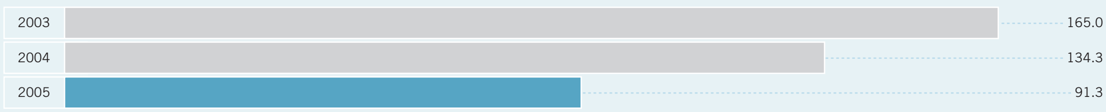
FINANCIAL CONTROLLING RATIOS

	Unit	2003	2004	2005	Change
EBIT margin	%	19.5	19.1	21.0	+9.9 %
Net gearing	%	165.0	134.3	91.3	+32.0 %
Gross Interest Cover	x	2.9	3.5	4.7	+34.3 %
Economic Value Added	€ million	12.7	64.5	201.8	+204.2 %

EBIT MARGIN AMONG THE BEST IN EUROPE

The EBIT margin, the ratio of operating result to sales revenues, improved from 19.1 % in 2004 to 21.0 % in the year under review. This increase is attributable, above all, to the higher contributions from the electricity business at a low cost level. In addition, the change in the electricity-trading volume from derivative contracts had a positive impact on the margin. Based on an international peer group comparison, Verbund has therefore secured a top position.

NET GEARING Million €



TARGETED CAPITAL STRUCTURE ACHIEVED

The further reduction of the net interest-bearing debt combined with an increase in shareholders' equity paved the way for a lowering of the net gearing from 134.3 % to 91.3 % in 2005. Hence, Verbund has reached the targeted corridor of 100 % – 130 % one year earlier than planned.

The gross interest cover, which is primarily used by the rating agencies as a basis for the credit rating, increased to 4.7 as a result of the lower interest expenses after the high debt clearance and the much improved operating result. In this way, Verbund met all the prerequisites for a further upgrading of the rating.

VALUE SIGNIFICANTLY ENHANCED

In fiscal 2005, the EVA improved by € 137.3 million to € 201.8 million and reflects the value increase that was targeted for the stakeholders. This ratio shows the overperformance that is generated after deduction of all cost items, including the risk-adjusted equity and borrowed capital costs (WACC group: 6.5 %).

Dividend and distribution policy

The individual accounts of the listed Verbundgesellschaft, which are used as a basis for determining the amount that can be distributed to the shareholders, were prepared in accordance with the Austrian Commercial Code (HGB). The net profit for the year in accordance with the Austrian Commercial Code comes to € 157.5 million. After changes to provisions, the net profit for the year comes to € 154.1 million.

A distribution in the amount of € 5.00 per share will therefore be proposed to the General Meeting. This corresponds to an increase of 66.7 % compared to the previous year. In terms of dividend increases, Verbund is therefore one of the most dynamic utility stocks in Europe.

In line with its distribution policy, Verbund is once again aiming at a pay-out ratio of at least 40 % of the group result, in spite of the fact that the level of investment will be increased significantly in the future.

STOCK-SPECIFIC FIGURES

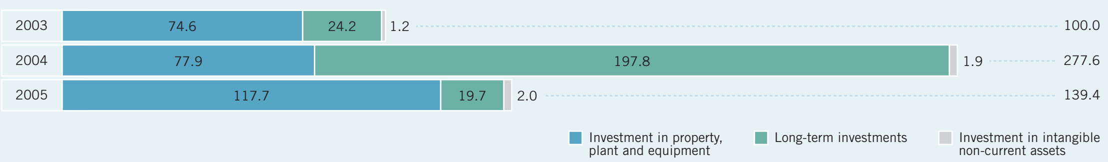
	Unit	2003	2004	2005
Dividend/share	€	2.00	3.00	5.00
Pay-out ratio	%	30.72	39.26	44.12
Dividend yield	%	2.16	1.83	1.66

Investments

INVESTMENT STILL AT LOW LEVEL

The investment volume totaled € 139.4 million and was therefore 49.8 % down on the value reported in the previous year. Of this amount, € 119.7 million was invested in plant, property and equipment as well as in individual assets and long-term investments accounted for € 19.7 million.

INVESTMENT 2005 Million €



The main investments in plant, property and equipment in the year under review included the implementation of the automation concept at the hydropower plants and the completion of the Vienna-Nußdorf and Leoben power plants as well as the continuation of work on the storage power plant Gerlos. In addition, substantial amounts were invested in repair and maintenance work on the transmission grid.

Long-term investments totaled € 19.7 million. All in all, it should be noted here that investment is still at a very low level.

INVESTMENT IN PLANT, PROPERTY AND EQUIPMENT IN DESCENDING ORDER BASED ON SIZE	Million €
Automation of hydropower plants of VERBUND-Austrian Hydro Power AG	13.0
Leoben power plant	11.9
Gerlos II power plant	10.4
Phase-shifting transformers	6.3
380 kV line Tauern-Pongau-Salzach-St.Peter	6.2
380 kV switching unit at substation Bisamberg	5.5
220 kV line Ernsthofen-Bisamberg (renovation)	5.4
380 kV line Kainachtal – Southern Burgenland	3.2
Others with individual amounts under € 3 million	55.8
Total	**117.7**

Financial strategy and financing

Verbund's financial strategy is founded on five pillars:

> need-oriented, centralized group financing of the subsidiaries
> upholding a strong Single A rating
> guaranteeing adequate liquidity reserves
> maintaining extensive financial flexibility
> optimizing the risk structure on the basis of predefined limits

In accordance with this strategy, Verbund introduced a number of measures in 2004 which were continued in 2005.

FOUNDING OF VERBUND INTERNATIONAL FINANCE B.V. IN AMSTERDAM

In January 2005, the financing company Verbund-International Finance B.V. (VIF) was founded in Amsterdam with the aim of centralizing all of the medium and long-term financing of the Verbund group in line with the requirements of the rating agencies. To achieve this goal, all existing loans of the subsidiaries were – to the extent that this was economically viable – transferred to VIF in 2005. Hence, VIF will, in future, act as the sole debtor, under the guarantee of the rated Verbund company, and finance the group subsidiaries in a need-oriented manner.

SYNDICATED LOAN SECURES LIQUIDITY

Another focal point in 2005 was the conclusion of a five-year syndicated loan in the amount of € 750 million within the framework of VIF's first major European transaction. The terms that were agreed rank among the best in Europe. The syndicated loan was concluded to provide the group with adequate liquidity reserves and extensive flexibility for future acquisitions.

LONG-TERM GOAL: STRONG SINGLE A RATING

The Verbund group communicates regularly and intensively with the rating agencies S&P and Moody´s with the aim of upholding a strong Single A rating and negotiating the best financing terms on the international capital market. At present, Verbund has an A1/stable outlook rating from Moody´s and an A/stable outlook rating from Standard & Poor´s.

OPTIMIZATION OF RISK STRUCTURE ON THE BASIS OF PREDEFINED LIMITS

The financing activities of Verbund were carried out in strict accordance with the guidelines of the Risk Management Treasury which has already received many awards. This Risk Management System, which is the subject of continuous improvement, is considered to be one of the most developed systems of its kind in the German-speaking territory.

KEY FINANCIAL RATIOS DISPLAY VERY POSITIVE DEVELOPMENT

FINANCIAL RATIOS

	Unit	2003	2004	2005
Net interest expenses incl. currency effects	€ million	204.1	181.9	166.9
Net interest expenses excl. currency effects	€ million	192.5	173.7	160.5
Gross interest cover	X	2.9	3.5	4.7
Gross debt cover	%	22.0	25.8	40.6

Net interest expenses were lowered by 8.2 % to € 166.9 million. This was mainly achieved through consequent debt clearing in the amount of € 417.6 million from the cash flow. Over the last three years, Verbund has cleared debts in the total amount of € 1,653.8 million.

SIGNIFICANT IMPROVEMENT IN RATIOS RELEVANT FOR RATINGS

The Gross Interest Cover and Gross Debt Coverage ratios, which show the adjusted operating result in relation to the interest expenses and the interest-bearing gross debt, were further improved in the year under review. This is attributable to the increase in the operating result and the continued debt-clearing program.

Research and development

Research activities at Verbund focus on application-oriented and innovative projects with the ultimate aim of utilizing and implementing these projects at an operational level in the core areas of generation, transmission and trade. They embrace activities that allow the company to implement the latest technological developments, create new applications for this expertise and further develop its technical plant and machinery, products and processes in a systematic way on the basis of scientific methods.

In 2005, 67 innovative and application-oriented research projects were processed. Of these, 19 were completed. The research projects have an overall project volume of € 53.1 million, with € 25.6 million of this amount coming directly from Verbund. In fiscal 2005, research expenses at Verbund amounted to € 4.5 million. In addition, Verbund is currently involved in six EU projects with a total project volume of € 38.1 million.

Outlook and goals

POSITIVE OUTLOOK FOR 2006

Fiscal 2005 was another record year for Verbund. The results confirm the success of our strategy. We believe that the conditions on the European electricity market will again be positive in 2006, although "regulatory uncertainty factors" are becoming more and more apparent.

VERBUND TO BENEFIT FURTHER FROM THE HIGH WHOLESALE PRICES

We expect that the price level on the European wholesale markets will remain at a high level in 2006. This development will be sustained by the deteriorating reserve capacities in the European electricity markets, the high costs for the primary energy sources oil and gas and the rise in costs for CO_2 certificates. According to current estimates, the actual reserve capacity in the major electricity markets Germany, France and Italy only lies at approx. 5 %. International energy experts believe that reserve capacities of approx. 10 % are necessary to ensure that wholesale prices are not under sustained pressure. Furthermore, the costs for primary energy sources, which have a decisive impact on electricity generation costs in Europe, are still at a very high level on account of the supply bottlenecks and geopolitical uncertainty. The gas confrontation between Russia and the Ukraine further intensified this situation towards the end of 2005.

The price for CO_2 certificates, which was expected to be in the region of € 7 per ton at the beginning of the trading period, has now increased to between € 20 – 30 per ton. This leads to a strong increase in generation costs for thermal energy and also puts the wholesale prices under additional pressure.

PROFITABLE GROWTH THROUGH INVESTMENTS AND ACQUISITIONS IN EUROPE

In fiscal 2006, we shall enhance the focus on profitable investments and acquisitions in Austria and abroad. Investments totaling approx. € 1.4 billion are planned up to 2011. This breaks down into approx. € 450 million for hydropower plants, approx. € 750 million for thermal power plants and approx. € 200 million for the high-voltage grids.

In addition, we plan to strengthen our M&A activities in Europe. The central aim is to extend existing interests in resellers in Austria and acquire vertically integrated suppliers and generation companies abroad. The primary target markets are, above all, the neighboring markets Italy, France, Germany, Slovenia and the Balkan States.

EXPANSION IN DOMESTIC END CUSTOMER MARKET

The further expansion of end customer activities in Austria represents a further focal point. In July 2005, Verbund founded the end-customer company VERBUND-Austrian Power Sales GmbH. By the end of the year, the company had already acquired over 15,000 customers. To further secure our own generation in Austria and win a higher market share in a customer segment that is less sensitive to prices, we plan to sell approx. 25 % of own generation to end customers in Austria and abroad in the medium term.

We have massively exceeded the ambitious goals that were defined for sales, operating result, earnings per share and net gearing in 2005.

AMBITIOUS GOALS FOR 2006

Taking account of the current conditions and on the basis of an average water supply, we aim to further improve the results and key ratios in 2006. A further increase in the dividend distribution is also planned for fiscal 2006.

Recognizing advantages. Success on the market is not

coincidental. Success is the recognition of own advantages and

own strengths. The result of extensive knowledge and indepth

evaluation of all information on the players in the market.

BUSINESS DIVISIONS

Electricity

Verbund generates most of its electricity in hydropower plants. In addition, the company operates four modern thermal power plants. The group conducts bilateral wholesale transactions with traders and resellers at the European electricity exchanges and sells electricity not only to large customers in the domestic and foreign markets but also to households and small enterprises in Austria. These activities are conduced in the Electricity segment.

RATIOS – POWER PLANTS

	Number	BC	SC	2003	2004	2005
		MW	GWh	GWh	GWh	GWh
Hydropower plants	87	5,865	21,823	20,047	21,978	21,816
Thermal power plants	9	1,850	–	5,564	4,891	4,223
Procurement rights for hydropower plants	20	587	3,027	2,472	2,984	2,972
Total	**116**	**8,302**	**24,850**	**28,083**	**29,853**	**29,011**

The hydropower output of the group primarily comes from 66 run-of-river plants (including procurement rights for the power plants of EON-Wasserkraft GmbH) and 21 storage power plants as well as from procurement rights for the hydropower plants of Ennskraftwerke AG, the Österreichisch-Bayerische Kraftwerke AG and the Donaukraftwerke Jochenstein AG (a total of 20 run-of-river plants). In total, Verbund therefore has a bottleneck capacity (BC) of 6,452 MW and a standard capacity (SC) of 24,850 GWh from hydropower generation.

"**Environmentally friendly hydropower generation is the basis for our success in business. Today, we are the cost leader in European electricity generation; the further expansion of hydropower is vital to guarantee sustainable security of supply in Austria.**"

DI DR. HERBERT SCHRÖFELBAUER
CHAIRMAN OF THE MANAGING BOARD

ING. MAG. MICHAEL AMERER
MEMBER OF THE MANAGING BOARD

VERBUND-Austrian Hydro Power AG (AHP) covers more than one third of Austria's electricity consumption with environmentally friendly hydropower production. It is therefore the biggest electricity producer in Austria by a long stretch and also one of the most important hydropower producers in Europe.

Group generation is supplemented with output from four thermal power plants that have a bottleneck capacity of 1,145 MW. Two further thermal power plants have been shut down and a further five are taken off line or leased out. Verbund therefore has a highly flexible power plant park which is capable of generating base load or peak load electricity in line with the requirements of the market. Today, Verbund's thermal power plants are operated with a view to meeting the needs of the market. Hence, they are no longer capacity-oriented.

Verbund carries out wholesale transactions in the European market in the form of standardized trading via electricity exchanges and bilaterally (over the counter; OTC). The group is represented at the electricity exchanges in Graz, Leipzig, Paris and Rome. Verbund is also involved in key account sales and, in this capacity, supplies resellers and industrial enterprises in Austria and abroad. The company has numerous subsidiaries in Germany, Slovenia, Hungary and Poland, a joint venture in Italy and new subsidiaries will commence operation in the Czech Republic and Slovakia in 2006. Through its trading activities, Verbund optimizes power plant utilization and markets own generation in the best possible manner. Verbund's is one of the leading electricity traders in Europe with a trading volume of approx. 100,000 GWh. This is more than one and a half times the amount of electricity that is physically consumed in Austria.

On 1 July 2005, Verbund commenced direct distribution to Austrian end customers with the aim of strengthening its market position in Austria and becoming more vertically integrated. The slogan "Clean Electricity at a Clean Price" was truly effective: by the end of the year, the targets had been well exceeded and 15,000 households and commercial enterprises had already been acquired as new customers. The highest number of customers was acquired in Upper Austria, Vienna and Lower Austria. Thanks to the elimination of the middlemen, a lean distribution structure and an efficient IT structure, it was possible to offer end customers price advantages of up to 20 %. Verbund aims to achieve sales of 5 TWh with Austrian end customers by 2010. This would correspond to a market share of approx. 10 %. Direct sales to end consumers should also compensate for the decline in sales to regional utility companies.

ECONOMIC DEVELOPMENT

RATIOS – ELECTRICITY SEGMENT

	Unit	2003	2004	2005	Change
External sales	€ million	1,198.4	1,443.4	1,860.0	+28.9 %
EBITDA	€ million	384.4	449.9	608.9	+35.3 %
EBIT	€ million	251.8	320.4	481.0	+50.2 %
Invested Capital	€ million	3,460.4	3,267.8	3,435.8	+5.1 %
ROIC	%	5.9	8.3	12.0	+44.6 %
Investments	€ million	40.0	44.8	63.1	+40.8 %

The sales revenue in the Electricity segment, which comprises electricity production, electricity trade and electricity distribution, rose by 29 % to € 1,860.0 million. This increase can be attributed to higher wholesale prices, the rise in contract prices and expanded sales in all core markets. The Electricity segment contributed approx. 74.2 % to consolidated sales.

The EBIT increased by 50 % to € 481.0 million. Due to the marked increase in own production from hydropower compared to the previous year, greater electricity volumes were sold on the electricity trading markets at increased prices. The Electricity segment generated approx. 91.3 % of the group EBIT.

Return on capital employed (ROCE), the return on all interest-bearing capital, was increased to 12.0 %. Although the result deteriorated slightly, significant debt clearance did lead to a 5 % reduction in invested capital to € 3,435.8 million. As a result, profitability within the Electricity segment was improved once again.

INVESTMENT IN 2005

Investment in plant, property and equipment was up on the level of the previous year at € 63.1 million. Investment in the Electricity segment accounted for approx. 53 % of the overall investment volume.

The most important investment and renovation projects in the hydraulic generation area included the completion of the Leoben and Vienna-Nußdorf power plants and the drinking water power plant Kolbnitz, the ongoing work at the power plant Gerlos II, the continuation of the automation of the hydropower plants and the preparatory work for the machine replacement at Aschach.

The Leoben power plant recommenced operations in mid-November 2005. Here, a run-of-river plant, which dates back to the pre-World War 1 era, was completely renovated. The output of the plant has now been quadrupled to 9.9 MW and the standard capacity has been increased to 50 GWh.

The Kolbnitz drinking water turbine in Carinthia was commissioned in 2005. Although this plant only has a capacity of 30 kW, it serves as an excellent example of how Verbund incorporates sustainability and environmental protection into its energy production activities. The fall of the newly constructed drinking water tunnel is used to produce energy.

The power plant Gerlos II is a storage power plant in Zillertal. A new power plant with an output of 135 MW is being constructed on an existing site. This will lead to a total output increase of 65 MW to 200 MW. As a result, a higher volume of cost-effective peak-load electricity can now be generated in considerably less time and without any increase in water consumption. Work at the plant should be completed in spring 2007.

Work on the implementation of the automation concept was also continued. This concept, which was introduced in 2000, combines all efficiency enhancement measures and the centralization of all power plant control systems in central control stations. In a first step, all of Verbund's storage power plants will be controlled from a central control station in Kaprun from 2006. The automation of the Drau power plants will also be completed in 2006. The Danube power plants and the Styrian power plants will be centrally controlled from 2010. In addition to cutting costs this automation concept will also increase the availability of the plants.

The model tests for the four master machine sets at Aschach power plant were completed this year. One machine set will be replaced each year from 2006. This measure will increase generation by 45 GWh. This corresponds to a 4 % improvement in the previous standard capacity.

The groundwork for the construction of the gas and steam-generating power plant Mellach represented the largest investment in the area of thermal generation. The project was submitted for the environmental impact analysis in May. The corresponding verbal negotiations were conducted in December and a decision is expected by mid-2006. Construction is due to commence in 2006. The power plant, which will be equipped with the latest technology and will have an output of 800 MW – this is more than half of the capacity of Verbund's thermal power plant park –, should be connected to the grid from 2009. Furthermore, a system for the simultaneous combustion of sewage sludge was commissioned at Mellach power plant.

This capacity increase will also enhance productivity. In 2002, 9.7 GWh of electricity was generated per employee. In 2005, this value had already risen to 15 GWh and is expected to reach the 30 GWh mark by 2010. Moreover, the availability of the thermal power plants was increased significantly each year since 2002.

GENERATION OF ELECTRICITY GWh

GENERATION

	2003	2004	2005	Change
Hydropower	22,519	24,962	24,788	-0.7 %
Thermal power	5,564	4,891	4,223	-13.5 %
Own generation	**28,083**	**29,854**	**29,011**	**-2.8 %**
Eco-electricity	3,114	4,295	4,594	+7.0 %
External procurement	14,655	18,147	23,677	+30.5 %
Group generation	**45,852**	**52,296**	**57,282**	**+9.5 %**
Forward contracts	30,838	34,144	42,987	+25.9 %

"Thanks to the reorganization measures, the costs of our thermal generation are now competitive. The company is thriving in Europe's competitive business environment. The significance of thermal generation in the European energy market of the future will increase substantially."

DI ANTON SMOLAK
MANAGING DIRECTOR

DR. OSWIN KOIS
MANAGING DIRECTOR

VERBUND-Austrian Thermal Power GmbH & Co KG (ATP) generates approx. 5 billion kWh of electricity each year in four thermal power plants and therefore covers approx. one-ninth of Austria's total electricity consumption. The company is also the second largest supplier of district heating in Austria.

MAG. DDR. KARL GOLLEGGER
MANAGING DIRECTOR

MAG. DR. EVELINE STEINBERGER
MANAGING DIRECTOR

"The direct marketing of electricity to Austrian end customers creates enormous business potential. This is proofed by the success of the Verbund electricity distribution company since the commencement of business in July this year. We aim to achieve a marketshare of 10 % by 2010."

VERBUND-Austrian Power Sales GmbH (APS) ensures that the level of competition in the Austrian electricity market remains high and brings momentum into this market. The lean and innovative company supplies electricity to households, commercial and agricultural companies as well as to small and medium-sized enterprises.

The generation ratio of the run-of-river power plants came to 98 % of the long-term average and was therefore slightly down on the value recorded in the previous year (99 %). The corresponding ratio for the daily storage power plants displayed a slight improvement on last year's value. The inflow of natural waters to the annual storage reservoirs remained unchanged. The storage level at the end of the year was 130 GWh below the value recorded at the end of 2004. Generation at these power plants was increased by 230 GWh due to the enhanced pumping activities. Generation from hydropower plants was therefore down 174 GWh on the 2004 value.

In spite of the high spot market level, utilization of the thermal power plants was lower than in the previous year on account of the parallel increase in fuel costs and the necessary acquisition of CO_2 certificates. The decommissioning of the St. Andrä power plant also played a role here. Consequently, generation from thermal power plants was 668 GWh below the corresponding value last year.

SALES

In mid-2005, prior to the publication of the half-yearly report, Verbund changed the accounting and valuation methods for external electricity trade/third party trading in compliance with the international reporting procedures in the energy sector. In accordance with the net value method under IAS 39, purchases and sales from standard forward contracts in third party trading were netted out.

The adjusted group electricity sales amounted to 57,282 GWh (including own consumption). Of this amount, approx. 29,217 GWh were sold on the domestic market and the remaining 28,065 GWh were sold abroad. This corresponds to an increase of 9.8 % compared to 2004. Verbund's three main customer segments are end customers, resellers and traders in Austria and abroad. The turnover before netting comes to 100,269 GWh.

End-customer business declined by 31 % on account of the enhanced focus on trading business and the withdrawal from the Austrian end-customer market in mid-2004 so as to meet the conditions that were imposed for the Austrian Electricity Solution. To counter this development new acquisition activities were initiated from mid-2005. The number of new customers acquired by the end of the year well exceeded all expectations. 1,373 GWh were supplied to end customers in Austria for own consumption.

Since the beginning of the year, Verbund has, however, been operating on the Greek market for the first time and this involvement also partly compensated for the decline in the end-customer segment.

SALES GWh

	2003	2004	2005	Change
Traders	8,150	14,813	21.938	+48.1 %
Resellers	25,387	26,006	24,896	-4.3 %
End customers	7,497	5,084	3,498	-31.2 %
Eco-electricity	3,278	4,529	4,862	+7.4 %
Own consumption	1,540	1,864	2,088	+12.0 %
Group consumption	**45,852**	**52,296**	**57,282**	**+9.5 %**
Forward contracts	30,838	34,144	42,987	+25.9 %

Sales to resellers fell by 4 % to 24,896 GWh. An increase in sales to resellers abroad could therefore not fully compensate for the drop in supplies within Austria.

Sales to traders improved considerably. All in all, sales in this customer segment rose by 48 % to 21,938 GWh. Business with standard forward contracts, which is also primarily conducted with traders (now netted in sales) increased by 26 % to 42,987 GWh. The volume of eco-electricity sold came to 4,862 GWh.

The increased utilization of circulation pumps led to a 12 % rise in own consumption to 2,088 GWh in a period in which grid losses remain unchanged.

A breakdown of sales on the basis of regional markets clearly shows – after netting out the forward trading business – that 50 % of the volumes sold were sold outside of Austria. Disregarding the processed and administered eco-electricity volumes, the foreign share comes to approx. 54 %.

Sales to foreign markets therefore increased significantly (+39 %) . A total of 2,079 GWh were sold to end customers (59 % of total sales to end customers) and 6,626 GWh were sold to resellers (27 % of total sales to resellers). Substantial increases were recorded, above all in the German and French markets. Germany accounted for almost 75 % of sales to foreign markets.

"Today, we already sell 60 % of our electricity abroad. Over the years, we have developed to become an important player in the European electricity market. We intend to use this strong position and enhance our involvement in the defined target markets."

MAG. CHRISTIAN KERN
MEMBER OF THE MANAGING BOARD

DI DR. GÜNTHER RABENSTEINER
SPOKESMAN OF THE MANAGING BOARD

VERBUND-Austrian Power Trading AG (APT) is the controlling company for the trade and distribution of electricity in Europe. APT sells electricity directly via its distribution subsidiaries all over Europe and trades at the European electricity exchanges and in the bilateral trading market.

SALES BY COUNTRIES %

In Austria, 1,419 GWh were sold to end customers (this corresponds to 41 % of total sales to end customers) and 18,269 GWh were sold to resellers (73 % of total sales to resellers).

PRICES

In 2005, price development was guided by the decline in reserve capacities, higher costs for the primary energy sources oil and gas and the massive influence CO_2 emission certificates had on generation costs.

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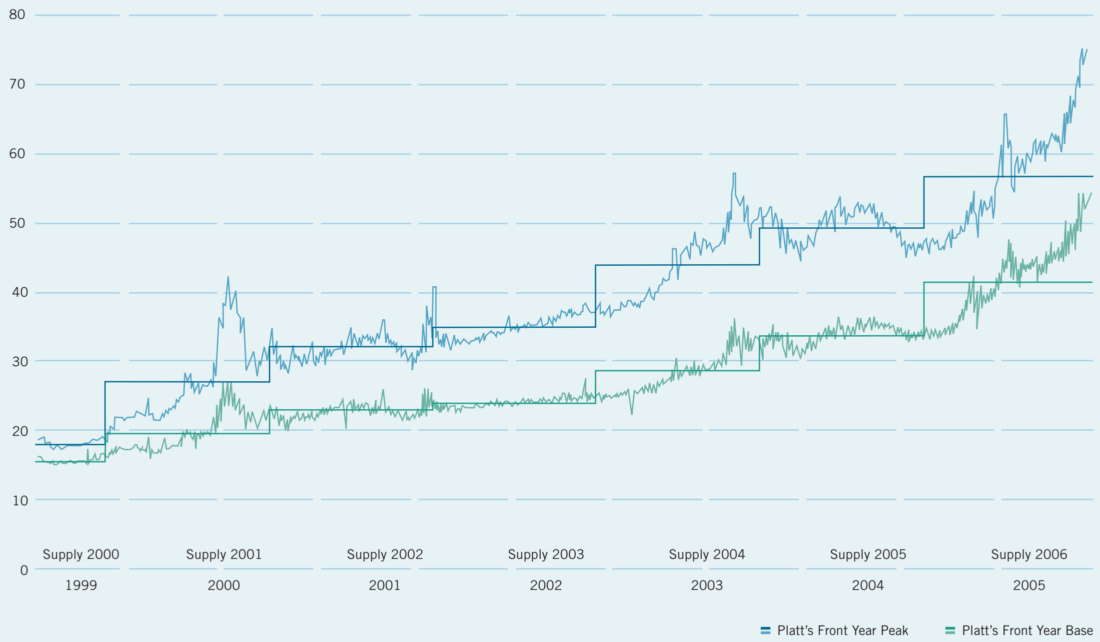
„Market and Industry“

The electricity prices for forward contracts base 2005 traded in 2004 were 19 % higher that the level recorded the previous year. The average base spot market prices, however, rose by 61.2 % compared to 2004. The prices for forward contracts peak 2005 traded in 2004 were 12 % above the price level the previous year and the average peak spot market prices climbed by 67.2 % compared to 2004.

The development on the spot market also strengthened the development of the forward market prices for 2006 leading to a further increase of 23 % for base load and 14 % for peak load compared to the year under review.

ELECTRICITY PRICES €/MWh



OUTLOOK

In 2006, investment in hydropower will focus on the construction of the pumped-storage power plant Limberg II (Kaprun) as well as on the construction of a run-of-river power plant on the Salzach which will be operated in cooperation with Salzburg AG. Two-thirds of the hydropower potential in Austria is currently being used. In principle, experts believe that a further expansion in the vicinity of 16 TWh is technically feasible. Taking account of the EU Water Framework Directive and commercial profitability criteria (see Value-based management), only 1 TWh of this potential will actually be used in the next five years. This corresponds to an additional output of 1,500 MW.

One of the greatest challenges in the coming years will undoubtedly be the implementation of the Water Framework Directive. In this context, surge reduction at the storage power plants will be a focal point. As a result, the ability of some plants to provide standard and reserve output could deteriorate by up to 87 %. The implementation of the directive also leads to a general reduction in the volume of electricity that can be generated from hydropower on account of the stipulations relating to residual waters and the construction of fish ladders. All in all, the Water Framework Directive will lead to increased planning security and counteract the European effort to reduce greenhouse gas emissions.

The Kyoto protocol represents another uncertainty factor for future investment. Unclarity still remains with regard to the national allocation plans for the period 2008 to 2012. The allocation of certificates has exactly the same effects on the profitability of investments as the prices for certificates purchased on the market.

The ongoing decline in reserve capacities, higher costs for the primary energy sources coal and gas and the obligations on the part of the power plant operators, which have been strengthened with the enactment of the Kyoto protocol and became effective with the commencement of the EU emission trading system, should have a positive impact on the prices in the European electricity markets. The optimal marketing of own generation, in particular, the electricity that is generated from hydropower, offers additional market opportunities and is also the central focus of trading business. The trading business also offers important growth prospects, above all in the foreign markets. In addition to strengthening its market position in markets where the company is already well established, Verbund is also enhancing its position in other markets and, in particular, in the East and South East European market, through its recently established subsidiaries in Slovakia and the Czech Republic and the planned subsidiary in Greece.

However, like all other market participants, Verbund has to contend with difficult regulatory conditions. The auctions which, since 2004, are obligatory within the EU-25 in the event of congestion, could result in great restrictions for existing long-term supply agreements but also create new growth potential. These auctions provide Verbund with access to markets which, for technical reasons, could previously not readily be accessed by foreign market participants. In contrast to the situation abroad, a further consolidation of the market is expected in Austria. The central aim here is to compensate for the drop in sales to traditional customers from the EnergieAllianz area and further secure the market position in Austria. The procurement behavior of EnergieAllianz is expected to result in Verbund losing further market shares in Austria.

All trading activities are conducted in accordance with clearly defined profitability goals.
The Verbund group will continue to focus on result-oriented growth in 2006.

Grid

Verbund operates the largest supra-regional high and extra-high voltage grid in Austria with voltage levels of 110 kV, 220 kV and 380 kV and is also responsible for the planning, operation, maintenance and expansion of the grid.

The Verbund grid, which extends over a distance of 3,300 km (route kilometres) and accommodates lines with a total length of approx. 6,500 km (system length), forms the backbone of Austria's electricity supply. This grid facilitates the supra-regional, domestic and international exchange of energy between producers and consumers and serves to ensure the stable provision of energy to the underlying distribution grids. The optimal operation of the grid is a basic requirement for ensuring the safe supply of grid customers.

Moreover, the Austrian supra-regional high-voltage grid has been connected to grids in other European countries since the 1950ies and, together with these partner grids, forms the UCTE grid with a system length of approx. 200,000 km and hundreds of substations. Prior to deregulation, the international connection lines were primarily used to optimize the reserves and facilitate mutual backup deliveries. In the liberalized market, however, these lines also allow free electricity trade to enhance the competitiveness of Europe’s industrial locations.

In addition, Verbund, in its role as eco-balance group representative, has been responsible for the administration and processing of electricity generated from regenerative sources since 2003, i.e. for purchasing the eco-electricity, allocating the eco-electricity to the electricity traders and paying the regulated feed-in subsidies for eco-electricity from small hydropower plants, wind power, biomass and solar energy etc.

ECONOMIC DEVELOPMENT

RATIOS – GRID SEGMENT

	Unit	2003	2004	2005	Change
External sales	€ million	236.6	266.3	253.6	-4.8 %
EBITDA	€ million	123.1	121.4	115.6	-4.8 %
EBIT	€ million	76.2	75.3	70.1	-6.9 %
Invested Capital	€ million	751.7	768.7	751.3	-2.3 %
ROIC	%	7.1	7.4	8.1	+9.5 %
Investments	€ million	30.8	30.2	47.3	+56.3 %

In 2005, sales revenue in the Grid segment declined by 4.8 % to € 253.6 million. This drop is attributable to the reduction in the grid tariff as of 1 February 2005 as well as to the lower clearing quantities resulting from the increase in the volume of electricity fed into the grid from eco-electricity plants. The introduction of the auction procedure for the connection lines to Hungary, the Czech Republic, Slovenia and Italy had a positive impact. Sales revenue from the Grid segment accounted for approx. 11 % of total sales.

The decline in sales revenue led to a 6.9% drop in the EBIT to € 70.1 million. Increases in the individual cost items (above all, social capital) were compensated by one-off earnings from new contractual arrangements with grid customers. The Grid segment generated approx. 13 % of the group EBIT.

Return on Invested Capital (ROIC) improved to 8.1 % on account of the debt-clearing program and the improved result from one-off effects.

INVESTMENTS IN 2005

Investments in plant, property and equipment lay well above the value reported the previous year at € 47.3 million. The main investments include the 380 kV line construction projects in Styria and in Salzburg, the general renovation program for the 220 kV and 110 kV line sections and the preparatory measures for the installation of phase shifting transformers in 2006 to enhance the efficiency of the north-south line connections. The investments in the grid segment accounted for approx. 39 % of the group´s overall investment volume.

SECURITY OF SUPPLY AND CONGESTION MANAGEMENT

Due to the structurally weak north-south connections in the Austrian transmission grid, security of supply could only be maintained in 2005 through the implementation of restrictive measures. The unbalanced distribution of generation in Austria – with a production surplus in the North – combined with the increase in international energy flows in Europe led to increased loads on the inadequately dimensioned north-south lines.

"The volume of electricity we transport via our grid is ten times higher than it was 50 years ago. The deregulated European electricity market urgently needs higher transmission capacities."

MAG. THOMAS KARALL
MEMBER OF THE MANAGING BOARD

DI DR. HEINZ KAUPA
MEMBER OF THE MANAGING BOARD

VERBUND-Austrian Power Grid AG (APG) operates the Austrian high voltage grid and, in its role as control area manager of the largest domestic control zone, carries out supra-regional tasks.

Congestion management measures were implemented to reduce, to the greatest extent possible, the periods in which grid security is endangered. The (n-1) criterion, a reliability criterion that aims at reducing the redundancy of grid components to a minimum, is a measure that is obligatory at an international level. This criterion is based on the premise that no single event, such as the failure of the Vorarlberg–Tyrol connection as a result of the floods in August, should trigger a series of failures resulting in a total disruption of the power supply (blackout). Adequate line capacities are vital to guarantee sustainable security of supply.

In 2005, the lines were heavily overloaded over most of the 12-month period. In spite of the implementation of all available congestion measures at grid and power plant level, it was not always possible to meet the (n-1) criterion. The pending closure of unprofitable generation units in the South of Austria and the noticeable increase in the volume of electricity trade is likely to lead to a drastic intensification of this problem in the future.

A fundamental improvement can, however, only be expected following the closure – through the line projects in Styria and Salzburg – of the 380 kV ring. This 380 kV ring is the key to safe power supply in Austria and is also a prerequisite for a strong line connection to the industrial regions Vienna, Graz, Linz and Salzburg.

EXPANSION OF THE GRID

In 2005, Verbund continued and intensified its efforts to carry out the vital expansion measures in the 380 kV high-voltage grid in Styria and Salzburg. On 21 March 2005, a positive EIA (Environmental Impact Analysis) decision was issued by the authorities in Styria and Burgenland for the 98 km Styria line from Rotenturm to Zwaring. Appeals relating to the decision have been submitted to the environment tribunal. This authority of the second instance will now evaluate the appeals. The results of the evaluation are expected for mid-2006.

The project for the Salzach/neu–St. Peter line, which will have a total length of approx. 46 km, was submitted for the environmental impact analysis at the end of April 2005. The Environmental Impact Declaration was also submitted at this time. The project was announced to the public by the EIA authorities in Salzburg und Upper Austria and was made available for inspection in all relevant municipalities and at all the relevant authorities. A decision in the first instance is expected in summer 2006.

As a further intensification of the line congestions on the Austrian north-south lines is also expected in 2006, comprehensive emergency measures involving the installation of phase shifting transformers to control the flow of loads will be implemented in 2006.

OUTLOOK

In 2006, the Verbund grid company will continue its focus on line construction in Styria and Salzburg to ensure that the gap in the 380 kV line is closed as quickly as possible. In the meantime, three phase shifters will be installed in the high-voltage grid in 2006 to lower the operation risks in the grid.

A model for incentive-regulated tariffing was introduced in Austria in 2005. The transmission grids were, however, not included in this model as special circumstances exist here regarding their supra-regional significance. Hence, the grid utilization tariffs for the grid area of the Verbund group will still be determined on the basis of the costs.

An 11 % cut in the tariff for the utilization of the high-voltage grid came into effect in February 2005. In spite of this, the grid segment once again managed to report an acceptable result in 2005. The primary objective for 2006 – in spite of the tariff reduction – is to secure an appropriate return on capital employed and achieve sustainable value enhancement.

Given the planned line investments (completion of the 380 kV line, phase shifting transformers) adequate financial resources are essential and hence, the economic development in the grid area will be a prime focus in fiscal 2006.

Participating Interests

Participating interests that are not fully consolidated are grouped in the Participating Interests segment. In fiscal 2005, Kärntner Elektrizitäts-Aktiengesellschaft (KELAG), STEWEAG-STEG GmbH and ENERGIA SpA made a significant contribution to group earnings. The Result from participating interests contains the results recorded by the participating interests in fiscal 2004 as the annual financial statements for 2005 are not yet available.

KÄRNTNER ELEKTRIZITÄTS-AKTIENGESELLSCHAFT (KELAG)

KELAG, which has been supplying electricity in Carinthia since 1923, generates its own electricity in run-of-river and storage power plants. The subsidiary KELAG Netz GmbH is responsible for the distribution of gas and electricity in Carinthia. Wärmebetriebe Gesellschaft m.b.H. is successful all over Austria in the Heat segment. Verbund has held 35.1 % of the KELAG shares since 1994 and is therefore the second largest shareholder after the provincial energy holding KEH.

Fiscal 2004 was marked by a strong growth in sales (+28.0 %) in KELAG's most important business area, namely, electricity business. Compared to the previous year, sales climbed to € 507.1 million (+14.2 %) and the operating margin increased to € 72.2 million (+11.8 %). This is also reflected in the after-tax profits which came to € 42.2 million (+21.9 %).

The contribution to consolidated earnings in 2005 improved to € 18.9 million (+41.0 %), above all due to higher periodical earnings. This includes a dividend distribution by KELAG to Verbund in the amount of € 5.1 million.

STEWEAG-STEG GMBH (SSG)

SSG is the provincial energy supplier in Styria. STEG – a regional electricity supplier in the Graz region – was a subsidiary of Verbund since 1992. In 2002, the company merged with STEWEAG to form STEWEAG-STEG GmbH. In the course of this merger, the generation capacities were transferred to Verbund. Verbund holds a 34.6 % interest in SSG. The remaining 65.4 % is held by the provincial energy holding ESTAG.

In fiscal 2004, sales at SSG increased to € 578.5 million (+22.1 %). This improvement is largely attributable to a much increased sales volume of 14,500 GWh and a price increase which was introduced in the middle of the year. The operating result rose significantly to € 84.3 million (+36.6 %). Profits after taxes declined, primarily due to the change to deferred taxes, by € 38.2 million (-31.1 %).

The contribution to consolidated earnings in fiscal 2005 fell to € 11.3 million (-23.1 %). The first-time omission of scheduled amortization of goodwill did not compensate for this decline. A dividend distribution by SSG to Verbund in the amount of € 14.6 million is included here.

ENERGIA SPA (ENERGIA)

Energia, a joint-venture established with the Italian industry holding CIR in 1999, is the fifth-largest electricity group in Italy. Energia generates electricity and trades in electricity and gas. Verbund's share in the company comes to 38.0 %. Given that there are too few power plants in Italy to cope with the increasingly growing demand, Italy is an electricity importer. The critical supply situation also results in the electricity prices in Italy being among the highest in Europe.

Energia's most important investment projects include the 770 MW gas power plant in Termoli which is now almost completed and the planned 770 MW gas power plant in Modugno near Bari. Projects to implement a further gas power plant are currently in the approval phase. Energia also has access to a further 800 MW of power plant capacity through its 31 % stake in Tirreno Power.

In fiscal 2004, sales at Energia were up 16.7 % at € 943.2 million, above all due to the improved sales volume in the electricity and gas divisions. The decline in the operating result to € 26.4 million

MAG. BIRGIT CSERNY
MANAGING DIRECTOR

MAG. GEORG LAUBER
MANAGING DIRECTOR

"Today we manage shareholdings with a carrying amount of over € 600 million. And with great success: plus 27 % in the result from participating interests in 2005 with an upward trend. Our booming shareholding in Italy displays great potential for the future."

VERBUND-BeteiligungsgmbH (VBG) is responsible for the investment management of all non-consolidated Verbund companies. The investment portfolio contains successful companies in Austria and abroad. Energy is a core business area for most of these companies.

(-6.4 %) resulted from the rise in other operating expenses. The improvement in the group result of Energia to € 36.4 million (+125.7 %) is attributable to the inclusion of stranded costs from the interest in Tirreno Power.

The contribution to consolidated earnings at Verbund dropped to € 2.6 million due to consolidation effects (-27.8 %). This includes a dividend distribution from Energia to Verbund in the amount of € 1.2 million).

ENERGIE KLAGENFURT GMBH (EKG)

Verbund will acquire a 49 % in EKG, which has yet to be established. The purchase amount comes to approx. € 130 million. This company will bundle the electricity, gas and district heating activities of the city of Klagenfurt with approx. 80,000 customers. This acquisition represents one further step towards Verbund's strategy of enhanced vertical integration. The closing is planned for February 2006.

POWEO SA (POWEO)

Verbund will acquire a 25 % interest in the listed company Poweo SA (Poweo). The purchase amount comes to approx. € 40 million. Poweo is the leading, privately-operated electricity and gas distribution company in France. Since commencing business in 2002, more that 84,000 customers have been acquired – mostly in the electricity area. Sales in 2005 totaled € 170 million. Verbund plans to construct gas power plants with Poweo. The closing is planned for April 2006.

SUSTAINABILITY

Environmentally-friendly electricity generation from hydropower requires long-term planning and action, not least because the power plants are operated over many generations. Sustainability has therefore been a central issue at Verbund since the founding of the company. The awareness of each employee is promoted through the ongoing expansion of activities.

At Verbund, sustainability centres on taking a holistic view of corporate activity. Here, the company follows the definition of the Brundtland Commission and all corporate decisions are equally guided by economic, social and environmentally-relevant aspects. Since 2003, details relating to the responsibility exercised by Verbund in this area are disclosed in an annual Sustainability Report.

INTENSIFICATION OF DIALOG WITH STAKEHOLDERS

Through its regional and supraregional projects, Verbund maintains constant contact with various interest groups. Comprehensive information, e.g. by way of environmental declarations, local information offices and events form the basis for open dialog with neighbouring municipalities, authorities and the media.

> Sustainability Report
http://www.verbund.at

To further intensify dialog with the stakeholders, a questionnaire was distributed with the Sustainability Report 2004. In addition, interviews were held with selected internal and external stakeholders. The results provide fresh impetus for further activities and form an important basis for the content of the Sustainability Report.

IMPLEMENTATION OF SUSTAINABILITY AT VERBUND

SUPPORT FOR SOCIAL PROJECTS

Organisation

The ultimate responsibility for sustainability lies with the group's Managing Board, which, together with the Strategy Team and the Sustainability Board, defines the current sustainability goals. The members of the Sustainability Board ensure that the principles of sustainability are observed in their respective areas and also inform the Sustainability Committee of any fresh impetus that is generated within their respective areas of responsibility.

The Sustainability Committee is the working group of the Sustainability Board. Its members propose definite lines of action on the basis of the goals and prepare the annual Sustainability Report. All sustainability activities are coordinated by the sustainability officers.

Today, investors attach growing importance to sustainable and holistic corporate activity. The capital market displays an interest not only in the economic ratios but also in information relating to activities in the environment and social areas as sustainable corporate policy has a positive effect on the results and the share price. The Verbund share is represented in numerous sustainability funds.

In 2005, a sustainability directive was drawn up to systematically integrate the various aspects that contribute to sustainable behaviour into the daily activities of each employee. The sustainability policies were also considered during the revision of the corporate principles and the Code of Conduct. The issue of sustainability is also covered in the Verbund training program. One-to-one discussions on segment-specific issues are carried out to provide executives with comprehensive information. Employees are informed, above all, via the intranet.

Social

In 1957, Verbund built the house "Schwalbennest" ("Swallow's Nest") in the SOS Children's Village in Hinterbrühl and has sponsored it annually ever since. Essential repairs were carried out in the last two years and a new extension was added in order to end the existing space problems. Further repairs will also be carried out this year.

"Electricity is consumed in the second in which it is generated. Nevertheless, I believe that Verbund has established an ideal pattern for practiced sustainability. Verbund displays great competence in investing in generations. The company's commitment to our SOS Children's Villages is just one example of this."

DR. WILFRIED VYSLOZIL
MANAGING DIRECTOR OF SOS CHILDREN'S VILLAGES AUSTRIA

Verbund's latest commitment takes the form of a cooperation with the organisation "Die Boje" (The Buoy). This organisation provides psychiatric support for children who are in crisis situations following a traumatic experience or great misfortune. Verbund has been supporting the project "Psychological Help for Children" since 2004. Under this project, experts in the various provinces can now also be trained in crisis intervention.

Environment

Approx. 90 % of the electricity that is generated at Verbund comes from resource and environmentally friendly hydropower. Hence, environmental protection has a decade-long tradition at Verbund. Integrated environmental protection was already extended to all areas of the company back in the 70s. The Environmental Management System was integrated into general management at Verbund as an equal component to control and improve the group's environmental protection activities.

This Environmental Management System is certified in the various plant locations in accordance with EMAS and ISO. Last year, the necessary reaudits were carried out and the Danube power plant Melk was re-certified. In addition, product audits have been carried out by external auditors each year since 1999. This guarantees customers that the product "hydroelectricity" is really generated from 100 % Austrian hydropower.

The commencement of emission trading with CO_2 certificates was a central issue in 2005. Here, the company needs a monitoring system to determine the exact level of CO_2 emissions at the respective plant locations. Austrian Thermal Power (ATP), which operates Verbund's thermal power plants, implemented such a system at the end of 2004. The preliminary external audit verified that this system fully complies with all the defined standards.

Last year, the efficiency of the existing plants was enhanced through the utilization of new technologies and the implementation of special behavioural strategies. Although the efficiency of the hydropower plants already lies well over 90 %, own consumption was further reduced through the implementation of construction and electrotechnical measures and the total efficiency of the plants was increased. This, however, did not compensate the generation losses resulting from the Water Framework Directive.

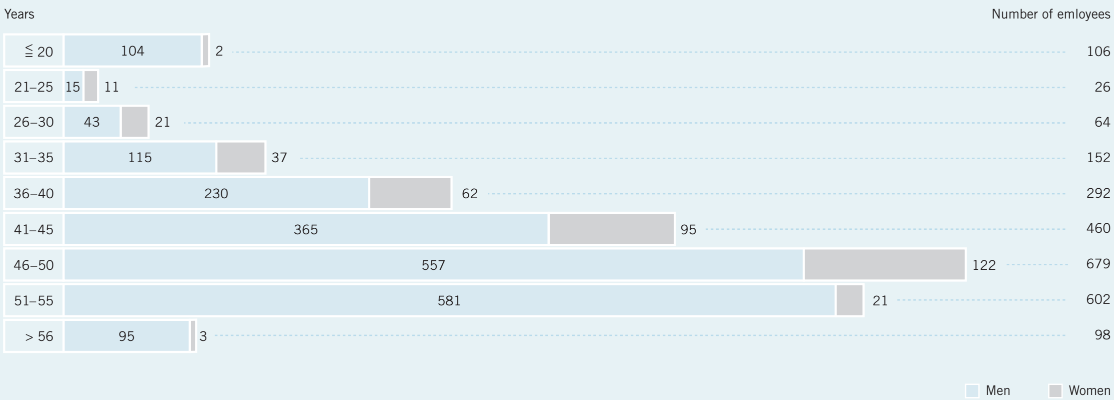
Employees

Corporate responsibility involves securing the competitiveness of the company in a sustainable manner. Within the framework of a 10-year process, Verbund successfully carried out the necessary reorganization measures within the group and implemented all of the associated staff cuts in a socially compatible manner. Models, which – to the greatest extent possible – take account of the individual situations of the employees, were developed in close cooperation with the employee representatives. In this way, the employees and the company both benefited from their active cooperation.

In 2005, Verbund had 2,436 employees. Salaried employees accounted for 94.5 % of the total workforce, waged workers for 1.9 % and apprentices for 3.6 %. The number of employees was cut by 64 compared to the previous year. The average age of the employees is 46. Two-thirds of the workforce are over 40 years of age.

The ongoing training and further training of the employees is a critical success factor and represents a long-term investment in the future of the company. The comprehensive program “GenerationsVerbund” offers each employee the possibility of further development under his/her own responsibility. This strategy aims at transforming Verbund into a 3-generation company. This calls for the promotion of responsible teams and age-appropriate work organisation thus ensuring an adequately supported transfer of knowledge. The fact that an increasingly larger share of the profit of the company is generated in the European electricity market is mirrored in the enhanced internationalisation of the teams. Especially in the group’s electricity trade and distribution companies, employees from all over Europe and overseas are now working and greatly contributing to the creation of an open, tolerant and productive working environment.

AGE STRUCTURE



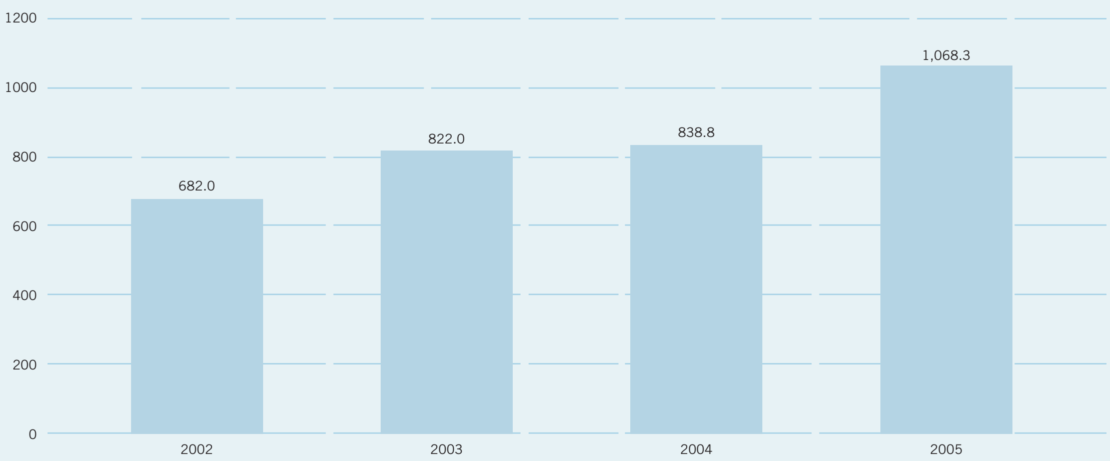
Verbund closely cooperates with training centres and universities. By actively supporting students with their dissertations and scientific projects, Verbund provides young people with unique opportunities to become more familiar with working life and the company.

From the very early stages of their careers, junior employees are presented with interesting and challenging tasks thus furthering their development. This, together with a performance-based salary model, greatly enhances employee motivation.

In 1999, Verbund introduced a performance-oriented salary system with variable salary components in the Holding and the Electricity Trade Business segments. Under this system, each employee can develop individually within a defined framework. A project which focuses on implementing a monitoring system as a first step towards passing on the advantages of this system to other group companies was introduced in 2004 and successfully completed in 2005.

On average, each Verbund employee claims approx. 4.6 training days every year. Approx. 86 % of all employees participated in training measures in 2005. In the year under review, the total training investment per employee amounted to € 1,068.3.

FEES FOR CONTINUED EDUCATION PER EMPLOYEE €



RISK MANAGEMENT

At Verbund, risk management forms the basis for corporate action. To enhance corporate value, it is essential not only that opportunities be identified and exploited but also that risks be accepted. Cross-company risk management has been installed at Verbund since 2001 to ensure that these risks can be identified and assessed as early as possible.

> P. 125 Notes
Risk Management

Tasks

At Verbund, cross-company risk management forms an integral part of the company's organizational and operational structures. Essential tasks include the exchange of information on risk-relevant matters and the further development of risk management in all areas. In 2005, risk awareness was strongly promoted in the non-consolidated companies and equity holdings. Other focal points included the processing and administration of concluded cross border leasing transactions as well as the handling of project risks and the group's crisis management activities.

Within Verbund, risk is defined as the possibility of a positive or negative deviation from the corporate objectives and ratios. The systematic risk management process begins with the annual identification of risks in the organizational units and fully consolidated Verbund companies. The individual risks that are ascertained are recorded in a central database and prioritized using a scoring procedure.

Risks 2006

The risk assessment process revealed the following main risks for 2006:

RISIKEN

Foreign currency risk
Results primarily from financing in Yen. Risk minimization through hedging strategies, limits and monitoring.

Price risks from securities
Risk of fluctuation in investment funds held to cover social capital provisions. Risk minimization through investment strategies, monitoring and quantification.

Rating risk
Risk minimization through orientation towards targeted capital structure and ongoing communication with rating agencies.

Interest rate risk
Caused by changes in interest rates. Risk hedged through hedging strategies, limits and monitoring.

GENERATION

Own electricity
This risk comprises the volume risk from the volatile water supply and the associated price risk. Risk minimization through analysis, water forecasts and long-term sales.

Investment risk
Resulting from damages to plant and equipment. Risk minimization through maintenance strategies and insurance.

Fuel risk
Risk of loss resulting from changes in the raw material prices. Optimization through price forecasts, volume planning and hedging strategies.

TRADING/DISTRIBUTION

Counterparty credit risk
The risk that business partners cannot meet their obligations or cannot meet these by the due date. Risk minimization through function separation, internal scoring, limiting and monitoring.

Price risk from electricity purchases
Risk of losses through high volatility in electricity market. An internal rule book for electricity trading with function separation, responsibility assignment, limits (incl. VaR) has been compiled to monitor risks in this area. Electricity forward transactions are also employed to minimize risks.

TRANSMISSION

Investment risk
Resulting from damages to plant and equipment. Risk minimization through maintenance strategies and insurance.

Legal environment
Risk of loss resulting from legislative amendments. Minimization through monitoring and lobbying activities.

NEW BUSINESS

Investment exposure
Resulting from fluctuations in the interest value, dividend or profit distribution and contingent liability risks or receivables. Risk minimization through identification, analysis, quantification and monitoring.

The main risks are quantified and documented continuously and aggregated on a quarterly basis to determine a corporate risk ratio. Modern risk tools and the most appropriate valuation methods (e.g. value at risk, sensitivity analysis, expert appraisals) are employed. Correlations derived using Monte Carlo are also considered in the aggregation process.

In line with standardized reporting, the Managing Board is informed of the results and subsequently reports to the Supervisory Board on the five most significant risks.

The calculated deviation (at a confidence level of 95 %) lies within a maximum range of +14 % (best case) and -22 % (worst case) from the targeted net profit for 2006.

The transparent risk reporting system serves as an early-warning system for Verbund and creates a sound basis for the introduction and execution of measures to control risks.

UTILIZATION OF FINANCIAL INSTRUMENTS

For details relating to the financial instruments and their utilization, the focal points of risk management in the Finance, Electricity, Information Technology and Grid segments and methods, please refer to the chapter "Risk/Risk Management" in the notes.

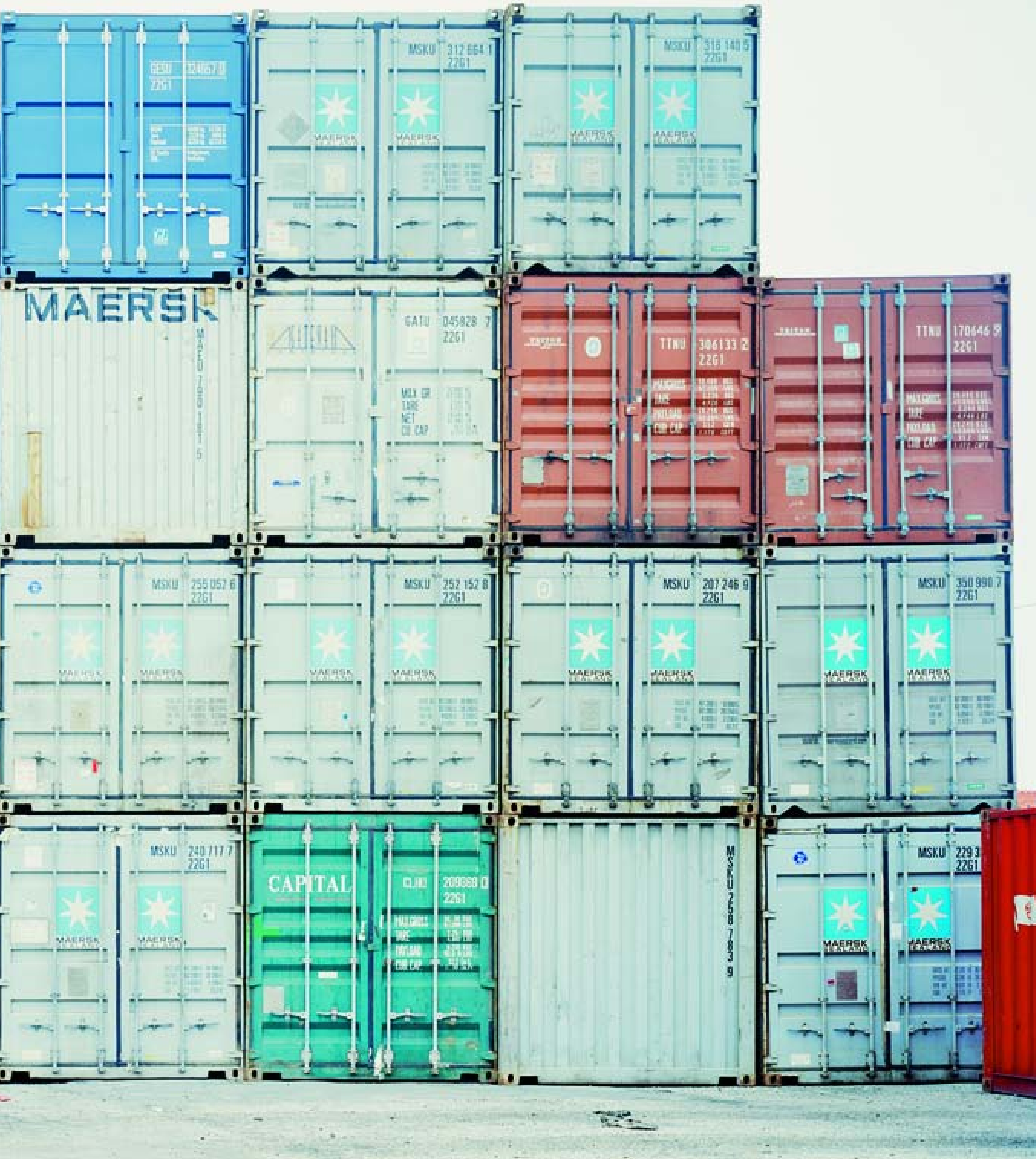
In 2005, a number of consulting companies named Verbund as being a best-practice company on account of the high quality of the risk management system. To promote continuous improvement, Verbund also exchanges experience with other energy companies at an international level.

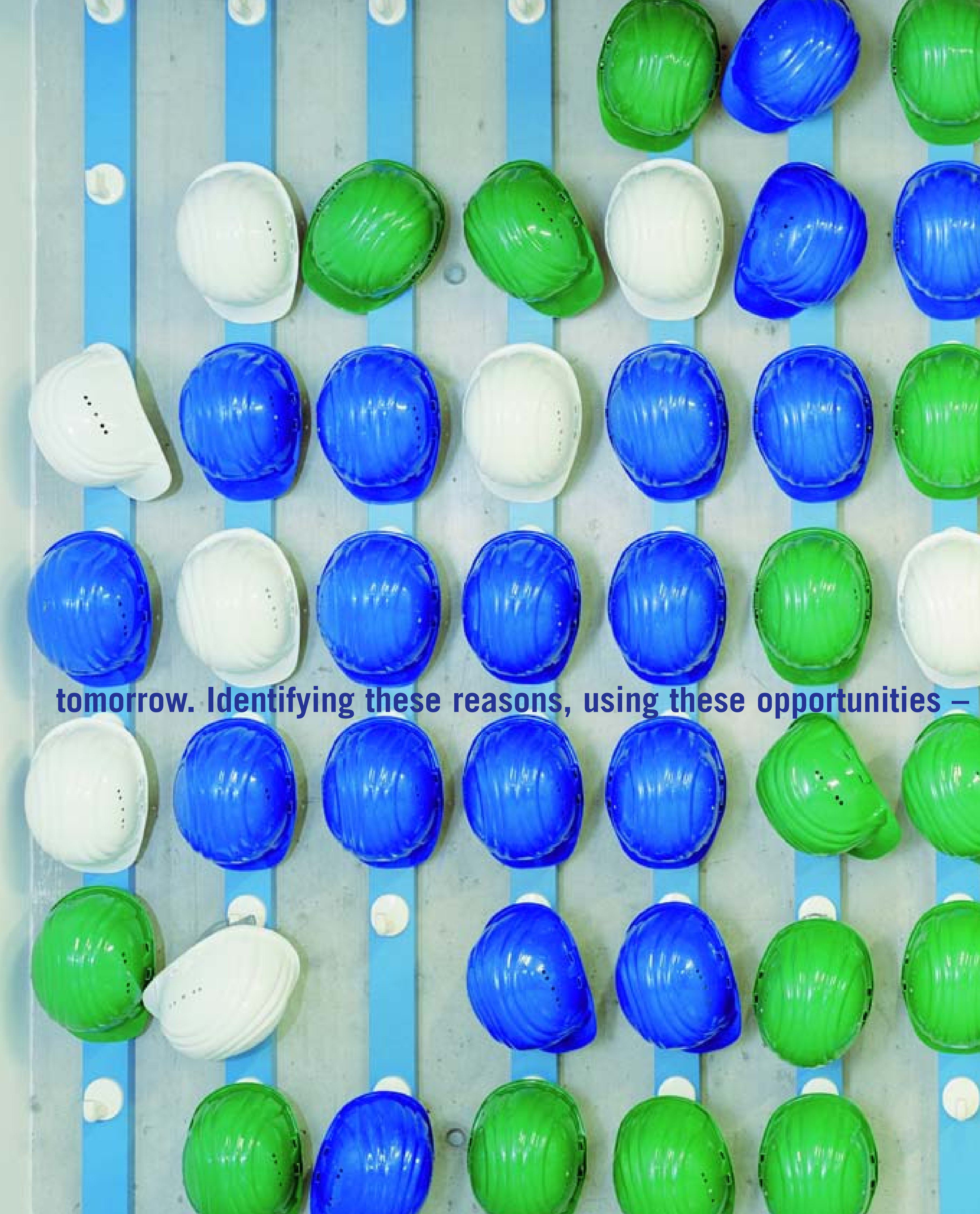
As of 31 December 2005, no risks have been identified for fiscal 2006 which, either individually or in connection with other risks, could have a substance-endangering effect.

Within the framework of reporting in accordance with Point 78 of the Austrian Corporate Governance Code, the functionality of the risk management system was evaluated by auditors and found to be appropriate.

Using opportunities. There are many good reasons for leaping at

one offer. And not at the next. Why you should buy today. And sell





tomorrow. Identifying these reasons, using these opportunities –

this is what distinguishes us as a successful company.

CONSOLIDATED FINANCIAL STATEMENTS 2005
(INTERNATIONAL FINANCIAL REPORTING STANDARDS)

CONSOLIDATED INCOME STATEMENT

[1] Figures of the previous year were restated

[2] Diluted = non-diluted

CONSOLIDATED INCOME STATEMENT			Thousand €
	Notes	2005	2004
Sales revenues	**1**	**2,506,653**	**2,021,708**
Electricity sales[1]		1,819,885	1,409,203
Grid sales		248,936	261,463
Eco-electricity sales		385,,942	303,407
Other		51,890	47,635
Other operating income	2	108,137	65,020
Expenses for electricity, grid, eco-electricity and emission right purchases (trade)[1]	3	-1,287,835	-965,818
Use of fuels and expenses for other purchased services		-108,974	-105,904
Payroll expenses	4	-343,482	-279,551
Depreciation and amortization	12	-180,184	-181,945
Other operating expenses	5	-167,790	-168,009
Operating result		**526,525**	**385,501**
Financing result	6	-73,175	-91,544
Result from interests accounted for using the equity method	7	36,443	31,598
Result from other participating interests	7	10,523	5,415
Result from long-term investments	8	7,211	6,388
Financial result		**-18,998**	**-48,143**
Profit before tax		**507,527**	**337,358**
Taxes on income	9	-105,444	-68,517
Profit for the period		**402,083**	**268,841**
attributable to shareholders of the parent (group result)		349,259	235,434
attributable to minority interests		52,824	33,407
Earnings per share[2]	**25**	**11.33**	**7.64**

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET			Thousand €
	Notes	31.12.2005	31.12.2004
Non-current assets		**6,007,958**	**5,852,475**
Intangible assets	10	8,601	9,525
Property, plant and equipment	11	4,044,489	4,108,592
Interests accounted for using the equity method	13	599,883	575,707
Other participating interests	13	35,377	36,509
Long-term investments – cross border leasing	14	1,037,407	859,687
Other long-term investments and other receivables	15	282,201	262,455
Current assets		**588,724**	**384,834**
Inventories	16	26,850	27,004
Receivables and other assets	17	532,176	338,082
Loans – cross border leasing	17	0	118
Securities	18	0	7,361
Cash and cash items	19	29,698	12,269
Total assets		**6,596,682**	**6,237,309**

	Notes	31.12.2005	31.12.2004
Shareholders' equity	**20-25**	**1,965.519**	**1,648,807**
Long-term liabilities		**3,584,885**	**3,660,714**
Financial obligations	26	944,695	1,297,099
Financial obligations – cross border leasing	26	1,149,503	952,808
Provisions	27	637,652	600,165
Provision for deferred taxes	9	137,252	77,761
Contributions to building costs	28	431,231	440,108
Deferred income – cross border leasing	29	262,593	268,544
Other liabilities	30	21,959	24,229
Short-term liabilities		**1,046,278**	**927,788**
Financial obligations	26	300,106	462,046
Financial obligations – cross border leasing	26	0	118
Provisions	27	274,760	236,150
Provision for deferred taxes	27	297	49,268
Other liabilities	31	471,115	180,206
Total liabilities		**6,596,682**	**6,237,309**

> See notes under point Other Disclosures

CONSOLIDATED CASH FLOW STATEMENT			Thousand €
	Notes	2005	2004
Group result		402,083	268,841
Write-ups and amortization/depreciation of intangible assets and property, plant and equipment		163,482	164,786
Write-ups/downs on long-term investments as well as at equity changes		-13,658	-17,323
Result from the disposal of assets and short-term securities		-4,225	-14,868
Changes in inventories		154	-9,291
Changes in short-term receivables and other assets		-224,266	-45,357
Changes in valuation-related foreign currency fluctuations, interest accruals and discounts		187	-6,411
Changes in provisions and deferred taxes		84,394	75,114
Changes in short-term liabilities excluding financial obligations		272,386	24,700
Disposals of consolidated subsidiaries – change in companies consolidated		0	-1,669
Operating cash flow		**680,537**	**438,522**
Investments in intangible assets and property, plant and equipment		-119,768	-79,752
Disposals of intangible assets and property, plant and equipment		6,810	21,298
Long-term investments		-19,680	-197,773
Disposals of long-term investments		41,455	63,705
Disposals of short-term securities		239	8,400
Changes in long-term receivables		7,747	8,640
Disposals of consolidated subsidiaries – change in companies consolidated		0	5,977
Cash flow from investing activities		**-83,197**	**-169,505**
Changes in own shares		0	8,704
Changes in short-term borrowings		-64,287	9,520
New bonds, loans and long-term credit		247,518	175,500
Redemption of bonds, loans and long-term credit		-675,526	-422,034
Repayment and disposals of long-term investments in connection with cross border leasing		-1,818	-1,514
Building-cost contributions received		7,819	6,229
Changes in other long-term receivables		-828	0
Changes in other long-term liabilities		-5	366
Distribution of dividends and withdrawals		-92,785	-61,640
Cash flow from financing activities		**-579,911**	**-284,869**
Changes to cash and cash items		**17,429**	**-15,852**
Cash and cash items at the beginning of the fiscal year		**12,269**	**28,121**
Cash and cash items at the end of the fiscal year	**19**	**29,698**	**12,269**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — Thousand €

	Share-capital	Capital-reserves	Retained earnings	Other reserves	Treasury shares	Minority interests	Total shareholders' equity
Notes	20	21	22, 25	23		24	
As of 01.01.2004	**223,978**	**10,936**	**1,053,541**	**-525**	**-7,350**	**157,023**	**1,437,603**
Income from the sale of treasury shares			1,354				1,354
Sale of treasury shares					7,350		7,350
Result from cash flow hedging				-3,690		86	-3,604
Profits and losses not recognized in the income statement	**0**	**0**	**1,354**	**-3,690**	**7,350**	**86**	**5,100**
Profit for the period			235,434			33,407	268,841
Total of recognized profits and losses	**0**	**0**	**236,788**	**-3,690**	**7,350**	**33,493**	**273,941**
Dividends			-61,640			-344	-61,984
Successive acquisition						-753	-753
As of 31.12.2004	**223,978**	**10,936**	**1,228,689**	**-4,215**	**0**	**189,419**	**1,648,807**
As of 01.01.2005	223,978	10,936	1,228,689	-4,215	0	189,419	1,648,807
Profits from available-for-sale assets				2,186		362	2,548
interests accounted for using the equity method				651			651
cash flow hedging				4,215			4,215
Profits and losses not recognized in the income statement	**0**	**0**	**0**	**7,052**	**0**	**362**	**7,414**
Profit for the period			349,259			52,824	402,083
Total of recognized profits and losses	**0**	**0**	**349,259**	**7,052**	**0**	**53,186**	**409,497**
Dividends			-92,460			-325	-92,785
As of 31.12.2005	**223,978**	**10,936**	**1,485,488**	**2,837**	**0**	**242,280**	**1,965,519**

FINANCIAL REPORTING PRINCIPLES

Together with its subsidiaries, Österreichische Elektrizitätswirtschaft-Aktiengesellschaft (Verbundgesellschaft), with its headquarters at Am Hof 6a, 1010 Vienna, registered at Vienna Commercial Court (FN 76023z), forms Verbund, for which the following financial statements were compiled for 2005 according to IFRS.

Verbund sells electrical energy to power exchanges, traders, provincial energy companies, industrial enterprises as well as to end customers and operates the Austrian extra-high voltage grid. Electricity trade, which is being intensified on an ongoing basis, now plays a critical role in the marketing of Verbund's own generation. Verbund contributes about 50 % to the generation of electrical energy in Austria, with more than 85 % of this electricity being produced from hydropower.

GENERAL BASIS

The consolidated financial statements of Österreichische Elektrizitätswirtschafts-Aktiengesellschaft (Verbundgesellschaft) were compiled in compliance with the International Financial Reporting Standards (IFRS), as applicable in the European Union.

The annual financial statements of the fully consolidated companies included in the consolidated statements are based on uniform accounting policies. The balance sheet date for all companies is 31 December 2005. VERBUND Italia S.p.A. was included on the basis of an interim financial report dated 31 October 2005.

The consolidated financial statements have been prepared in € thousand (T€) (Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity) and in € million (amounts shown in the notes). Due to the utilization of EDP devices, differences can arise in the addition of rounded totals and percentages.

CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

Österreichische Elektrizitätswirtschaft-Aktiengesellschaft (Verbundgesellschaft) is the parent company. All companies that are controlled by the parent company ("subsidiaries") are included, through full consolidation, in the consolidated financial statements. A controlling influence exists when the parent company is in the position to influence, either directly or indirectly, the financial and business policies of the company. The inclusion of a subsidiary commences at the time at which the controlling influence is acquired and concludes when this is forfeited.

Companies that are controlled jointly with another company ("joint ventures") and companies over which the parent company, either directly or indirectly, has significant influence ("associated companies") are accounted for using the equity method.

The first-time inclusion of a subsidiary is carried out using the purchase method by allocating the acquisition costs to the identifiable assets and liabilities of the acquiree (including contingent liabilities). Any excess of the cost of acquisition over the amount so allocated, i.e. the fair value of the net assets, represents goodwill.

Intragroup transactions, accounts receivable and payable and material intragroup profits are eliminated.

In fiscal 2005, two companies were fully consolidated for the first time. VERBUND-Austrian Power Sales GmbH (formerly VERBUND-110kV Grid GmbH), which was previously not consolidated for reasons of immateriality, and the newly founded VERBUND-International Finance B.V.

In fiscal 2005, the companies Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG and Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH, which had previously been recognized at cost in the consolidated financial statements as other participating interests, were accounted for using the equity method for the first time.

The consolidated financial statements include the parent company Verbundgesellschaft, 11 (previous year: 9) subsidiaries and 10 (previous year: 8) associated companies.

Affiliated companies not included in the consolidated statements (see table "Group companies") do not, as a whole, have any material influence on the consolidated financial statements.

A list of the consolidated companies can be found in the table "Group companies" at the end of the Notes section.

ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES APPLIED

The amendments to existing IAS ("Improvements Project"), new IFRS and IFRIC interpretations, as adopted by the European Union, were applied when compiling the consolidated financial statements. In addition to more extensive disclosure requirements, such application resulted in particular in modified accounting for available-for-sale financial instruments (see "Financial assets") and for hedged transactions within the meaning of IAS 39.

The amendments to existing or new standards and interpretations already adopted for application in the EU, which were issued, but not yet effective, by 31 December 2005 , were not voluntarily applied ahead of the effective date. Specifically, these are: IFRS 6 (Exploration and Evaluation of Mineral Resources); IFRIC 4 (Determining Whether an Agreement Contains a Lease); IFRIC 5 (Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds); amendments to IAS 19 (Employee Benefits (option to recognize actuarial gains and losses directly in equity)); and amendments to IAS 39 (Financial instruments: Recognition and Measurement (change of the stipulations on cash flow hedge accounting)). These amendments are not expected to have any significant impact on the financial statements of the group and are in part of no relevance for the Verbund-group.

The amounts of the previous year, within the meaning of the transitory provisions of IAS 39 (revised 2004), were not restated for reasons of immateriality.

In contrast to the accounting policies applied in the previous year, trading business with standardized forward contracts (electricity futures and electricity forwards) was presented net. Accordingly, purchases of standardized forward contracts were netted against sales in the trading business, the main focus of which is to benefit from the price fluctuations in the energy markets. Thus, the Verbund-group is complying with the international industrial procedures for IFRS reporting that have developed within the energy sector. The result from trading business is presented under electricity revenue. The figures for the previous period were adjusted as follows:

ELECTRICITY REVENUE AND ELECTRICITY PURCHASES 2004 AND 2005 – EFFECTS FROM PRESENTING TRADING BUSINESS NET

Million €

	2005	2004
Electricity revenue		
Electricity revenue before netting	2,711.7	2,465.5
Netting effect	-891.8	-1,056.3
Electricity revenue after netting	**1,819.9**	**1,409.2**
Electricity, grid and eco-electricity purchases [1]		
Electricity, grid and eco-electricity purchases before netting	-2,179.6	-2,022.1
Netting effect	891.8	1,056.3
Electricity, grid and eco-electricity purchases after netting	**-1,287.8**	**-965.8**

[1] 2005 including procurement of emission rights (trade)

Given that following the withdrawal of IFRIC 3 there is currently no interpretation nor a specific standard on the accounting for emission rights that are held for consumption to the extent of CO_2–emission, emission rights are accounted for on the basis of the provisions of IAS 38, IAS 20 and IAS 37. The rights are recognized as assets at their fair value or at cost on the day of allocation or acquisition. If the rights are freely allocated, deferred income is set up for the grant in the amount of the rights' fair value, which is reversed as the rights are consumed, amortized or sold. Those rights that are held for trading purposes are measured at their net realizable value, with the measurement effects being recognized in the income statement (IAS 2).

All other accounting policies were applied in the same manner as in the previous year.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets acquired against payment are recognized in the balance sheet at cost less scheduled straight-line amortization and unscheduled amortization for impairment losses, which are recognized under depreciation and amortization.

Development costs were recognized as an expense in the period in which they accrued due to the fact that the capitalization requirements under IAS 38 were not met or as a consequence of the amounts not being material.

Property, plant and equipment used over a period longer than one year is stated at acquisition and production cost less scheduled straight-line depreciation and unscheduled impairment losses.

In addition to direct costs, appropriate overhead expenses for material and labor have also been included under the production cost of self-constructed plant and equipment. Interest on borrowings is not capitalized.

Scheduled amortization and depreciation of intangible assets and of depreciable property, plant and equipment is based on the expected useful lives of the assets in the group. Within the group, the following useful lives are applied:

USEFUL LIVES	in years
Intangible assets with finite useful lives	10 – 30
Buildings	
Residential, office, plant and other plant facilities	20 – 50
Hydroplant buildings	75
Technical plant and machinery	10 – 50
Office and plant equipment	4 – 10

Intangible assets with indefinite useful lives (see Impairment of assets) do not have any material influence in the Verbund-group. As of 31 December 2005, there was no goodwill from fully consolidated subsidiaries.

PARTICIPATING INTERESTS

Shares in non-consolidated affiliated companies and other participating interests that must not be accounted for using the equity method are classified as available-for-sale financial assets according to IAS 39 and are in principle measured at their fair value. If the fair value cannot be determined reliably, they are measured at cost less impairment losses.

The values of the interests accounted for using the equity method are increased or decreased each year by the share in the result of the associated company that is due to the Verbund-group, depending on the capital share held by Verbund. Any goodwill included in the interests is, according to IFRS 3, not subject to scheduled amortization.

At each balance sheet date, the participating interests are assessed to see if there are any indicators of impairment. If so, an impairment test under IAS 36 is carried out.

If interests held in associated companies that are accounted for using the equity method include goodwill or other intangible assets with indefinite useful lives, an impairment test is carried out each year even if there are no indicators of impairment. The value is assessed on the basis of forecasts (medium-term planning, business plans) and future cash flows that are derived therefrom. Growth factors and a discount rate (6.5 %) that is adjusted in line with the industry and the corporate risk are applied. The impairment test is based on the fair value less costs to sell as the recoverable amount or otherwise, on the value in use. No impairment losses had to be recognized following the periodic impairment tests, which were carried out on the basis of current assumptions. If the estimates as to the recoverable amount of an asset, other than goodwill, for which impaired losses were recognized in previous periods change on the balance sheet date, impairment losses are reversed according to IAS 36.

FINANCIAL ASSETS

Securities, except for securities acquired in connection with cross border leasing transactions, are classified as "available-for-sale". All buys and sells are recognized using trade date accounting. The value in the balance sheet is the fair value, determined on the basis of the share prices. In accordance with IAS 39, changes in value are recognized directly in equity until disposal. Impairment losses, i.e. if there is a significant and sustained decline in the fair value, are recognized in profit or loss..

Securities acquired in connection with cross border leasing transactions constitute financial investments held to maturity (US Treasuries) or loans and receivables (medium-term notes) and are recognized at amortized cost less impairment losses.

The medium-term notes acquired in connection with cross border leasing transactions are not quoted on an active market. Hence, these financial assets, which were classified as held to maturity in the previous year, were reclassified to the category loans and receivables pursuant to IAS 39 (revised 2004) as applicable from 01 January 2005. This did not have any effect in terms of amounts.

Interest-bearing loans, including those in connection with cross border leasing transactions, are allocated to the category loans and receivables and are recognized at amortized cost, unless in case of impairment. In this case, measurement is based on the present value of the expected repayments.

LEASED AND LEASED OUT ASSETS

If, in the case of leased out assets, all essential risks and rewards with respect to such assets are passed on to the lessee (financial leasing according to IAS 17), the lessor will not recognize the leased out asset, but rather the present value of any future leasing installments yet to be received after they have been set off against any prepayments already received. The difference between the present value of the future leasing installments and the sum of the non-discounted leasing installments constitutes deferred income from interest and will be realized over the term of the agreements proportionate to the outstanding amount receivable. Similarly, in the case of leased property, plant and equipment, where Verbund holds all essential risks and rewards, the asset is capitalized under non-current assets and the present value of the obligation is carried as a liability.

RECEIVABLES AND OTHER ASSETS

Trade receivables, receivables from non-consolidated affiliated companies and receivables from companies in which participating interests are held are allocated to the category loans and receivables and are recognized at cost less value adjustments for expected uncollectible amounts.

Other long-term and current receivables and assets include receivables from financial leasing (see "Leased and leased out assets") and derivative financial instruments from the financial and electricity areas (see "Derivative financial instruments").

Notes to the accounting policies for loans can be found under "Financial assets".

Other assets are recognized at cost less value adjustments.

INVENTORIES

Primary energy sources, raw materials and supplies are recognized at cost or the lower net realizable value on the balance sheet date. In the case of marketable inventories, this amount is based on the current market price while planned income less future production costs is used as a basis for other inventories. Inventory risks resulting from the storage period and reduced usability are accounted for in this amount by means of value discounts based on empirical data. The use of primary energy inventories and raw materials and supplies is determined using the moving-average-price method.

Work in progress is recognized at production costs. Production costs comprise direct material and labor costs as well as material and labor overheads that can be allocated systematically.

IMPAIRMENT OF NON-FINANCIAL ASSETS

All assets that fall within the scope of IAS 36 are assessed for indications of impairment at each balance sheet date (impairment test). In the case of goodwill and intangible assets with indefinite useful lives, an impairment test is carried out each year even if there are no indications of impairment. The impairment test starts with the determination of the recoverable amount. This corresponds to the higher of the value in use and the fair value less costs to sell for the asset. Should this value lie below the carrying amount for the asset, it must be reduced to the recoverable amount. A discount rate of 6.5 % is used across the group. If the estimates as to the recoverable amount of an asset, other than goodwill, for which impaired losses were recognized in previous periods change on the balance sheet date, impairment losses are reversed according to IAS 36.

FINANCIAL LIABILITIES

Liabilities are recognized upon inflow and measured at the amount of the actual inflow less transaction costs. Premiums, discounts or other differences between the amount received and the repayment amount are shown in the financing result, distributed across the financing term.

PENSIONS, SIMILAR OBLIGATIONS AND STATUTORY SEVERANCE PAYMENTS

Due to plant agreements and contracts, employees must receive pension payments upon taking retirement and upon meeting certain conditions. These defined-benefit pension commitments are partially offset by the pension-fund assets of BAV Pensionskassen AG earmarked for this purpose. To the extent that these defined-benefit obligations must be met by BAV Pensionskassen AG, the employer is obliged to make contributions in case there are insufficient pension fund assets.

Provisions for current pension payments, vested rights to future pension payments and similar obligations were calculated according to IAS 19 using the projected unit credit method and actuarial gains and losses were recognized in accordance with corridor method. Actuarial gains/losses, i.e. differences between projected pension expenses and those actually calculated at the end of the period under review, are therefore only recognized (distributed over future periods) in profit or loss when the accumulated profit/loss exceeds 10 % of the present value of the obligation or the higher fair value of the fund assets. To the extent, however, the accumulated, non-recognized actuarial gains/losses exceed 20 % of the recognized provision or result from an adjustment of the actuarial assumptions for pension insurance (mortality charts), they are recognized immediately in profit or loss.

The pension obligations are determined on the basis of actuarial opinions for 01 January and 31 December 2005.

The calculations are based on “AVÖ 1999-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler” as applied to employees, with modified death probabilities due to increased life expectancy. The expenses in the amount of € 20.1 resulting from the increased life expectancy were recognized immediately in profit or loss.

The pension-fund assets are invested, primarily, by the pension fund, in different investment funds in compliance with the provisions of the Pension Fund Act.

Similar obligations comprise the employer’s contribution for the premiums that need to be paid for the supplementary health insurance following retirement. The provisions are calculated in the same manner as the pension provisions.

Due to the reorganization of the supplementary health insurance system, all new contracts are now concluded with deductibles. Holders of old contracts with no deductibles can move over to the new system at any time.

Employees with employment contracts commencing before 31 December 2002 receive, on the basis of statutory commitments, a one-off severance payment in the event employment is terminated by the employer or at the time of retirement. The amount of such payment depends on the number of years of employment and the salary drawn at the time of termination or retirement. This obligation is calculated according to IAS 19 using the projected unit credit method, applying an accumulation period of 25 years. Actuarial gains/losses are recognized in profit or loss immediately. Assumptions for the calculation that differ from those applied to the pension provision are listed separately in the table below.

Employees with employment contracts commencing after 31 December 2002 are not entitled to make a direct claim for a statutory severance payment against their employer. Instead, the employer pays, each month, 1.53 % of the remuneration into a corporate employee-benefits fund, where all those contributions are deposited into an account of the employee. With this new model for severance payment, the employer is only responsible for making regular contributions.

The calculations as of 31 December 2005 and 2004 are based on the assumptions contained in the table below:

ACTUARIAL ASSUMPTIONS

	2005	2004
Pension		
Discount rate	Margin 4.0 – 4.25 %	Standard 5.25 %
Pension increases	1.50 %	1.50 %
Salary increases	2.50 %	2.50 %
Fluctuations	none	none
Retirement age – women	56.5 – 65	56.5 – 65
Retirement age – men	61.5 – 65	61.5 – 65
Expected long-term return on fund asset	4.0 %	5.25 %
Similar obligations		
Discount rate	Margin 4.0 – 4.25 %	Standard 5.25 %
Fluctuations (depending on length of service)	0.0 – 4.0 %	none
Trend of contributions on basis of hospital cost indices:		
New contracts (with deductible)	4.0 %	4.0 %
Old contracts (without deductible)	6.0 %	6.0 %
Statutory severance payments		
Discount rate	4.0 %	5.25 %
Fluctuations (depending on length of service)	0.0 – 4.0 %	none

In fiscal 2005, the discount rates were, for the first time, differentiated with regard to the remaining maturities of the obligations and equivalent to the numbers of employees and pensioners included.

PROVISIONS

Other provisions are set up if the company has a legal or constructive obligation to a third party due to a past event and if it is likely that such obligation will result in an outflow of funds. Such provisions are recognized at such value as can be determined at the time the annual financial statements are compiled, on the basis of the best estimate. If such amount cannot be reasonably estimated, no provision will be created. If the present value of the provision, determined on the basis of a customary discount rate, differs greatly from the nominal value, the provision will be recognized at the present value of the obligation.

TRADE ACCOUNTS PAYABLE AND OTHER LIABILITIES

Trade accounts payable and other liabilities are measured at amortized cost.

CONTRIBUTIONS TO BUILDING COSTS AND GOVERNMENT GRANTS

Contributions to building costs and government grants received are recognized as deferred income under liabilities and are reversed over the useful lives of the assets. Notes to the recognition of grants in connection with emission rights can be found under "New accounting policies applied".

CROSS BORDER LEASING

VERBUND-Austrian Hydro Power AG concluded several cross border leasing transactions during the fiscal years 1999 to 2001. In the process, power plants were leased to US investors and, at the same time, leased back on the basis of a financial-leasing agreement. As a result, VERBUND-Austrian Hydro Power AG remains the beneficial owner under civil law. The terms of these agreements range from 48 to 56 years.

The funds received from the lease were, except for the net present value remaining with VERBUND-Austrian Hydro Power AG, invested either in high-grade securities (US Treasuries) or in financial institutions exclusively of a high-grade credit rating (A rating from Moody's) in the form of loans to cover future leasing installments. The net present value will be released to other operating income over the terms of the agreements.

For the cross border leasing transactions concluded by the end of the year 2000, both the equity portion and the loan portion were fully covered by the acquisition of securities or loans to financial institutions. These loans are collateral promise agreements with financial institutions of a high-grade credit rating. With respect to the portion of leasing liabilities not yet repaid, AHP or Verbundgesellschaft has a subsidiary liability. Apart from the rights of recourse vis-à-vis the main debtors, there are also counter-guarantees of financial institutions, provincial companies and regional authorities (Gewährträgerhaftung). In compliance with the transitional provisions of IAS 39 (revised 2000), these amounts are not recognized in the balance sheet. The maturities and nominal amounts of the investments and loans were reconciled in accordance with the conditions of each obligation. The valuation of foreign currency balances (exclusively USD) is carried out at the USD market price on the reporting date. Valuation expenses and valuation income are fully equal in terms of value and value dates.

A transaction concluded in 2001 did not result, at first, in the acquisition of securities or payments to credit institutions. The inflow was used in full as finance capital. In order to avoid foreign-exchange risk arising from this transaction, appropriate hedging transactions were carried out.

INCOME TAX

Income tax expenses recognized for the fiscal year comprise the income tax calculated for the individual companies based on their taxable income and the tax rate to be applied as well as changes to deferred tax assets and liabilities.

Verbundgesellschaft is the group parent under § 9 para. 8 KStG 1988 (Corporation Tax Act). The group parent debits or (in the case of a loss) credits the group members with the corporate tax amounts caused by them by means of tax apportionment. The offsetting of the apportioned taxes leads to a lowering of the tax expenses recognized in the income statement of the group parent. In the case of subsequent deviations, the tax settlements vis-à-vis the group members arel only adjusted if these amounts are material.

Deferred tax assets and liabilities are determined using the balance sheet liability method under IAS 12 for all temporary differences between the accounting and tax bases of assets and liabilities as recognized in the IFRS consolidated financial statements and in the individual company's tax balance sheet. In addition, the tax advantage from existing losses carried forward that is likely to be realized is included in the calculation as well. Exceptions to this rule are differences from goodwill that is not tax-deductible and temporary differences in connection with participating interests.

FINANCING RESULT

The financing result comprises interest accrued and similar expenses for financial liabilities. In addition, foreign exchange gains and losses in connection with financing, interest accrued for long-term provisions (except for personnel provisions) as well as interest income and expenses resulting from short-term interim investments or borrowings are included here.

Changes from the measurement of financial obligations for the pre-financing of the building-cost contributions of the Republic of Austria as well as the corresponding interest paid and received are not recognized in profit or loss, because this item is economically closed.

RESULT FROM PARTICIPATING INTERESTS

In addition to the result from associated companies that are accounted for using the equity method, the result from participating interests includes impairment losses, reversals of impairment losses, disposal losses/gains and dividends. The dividends are recognized as an inflow at the time of the distribution decision.

RESULT FROM LONG-TERM INVESTMENTS

The result from long-term investments contains, essentially, dividend income as well as value adjustments on investment funds held to cover social capital. In addition, it includes income from loans.

EXCHANGE RATE CONVERSIONS

Receivables and payables denominated in foreign currencies including deposits at financial institutions are measured at the foreign exchange benchmark rate of the European Central Bank on the balance sheet date. The exchange rates of the main currencies requiring conversion have developed as follows:

EXCHANGE RATE CONVERSIONS

Country	Currency	ECB foreign exchange benchmark rate	
		31.12.2005	31.12.2004
Japan	1 € = JPY	138.9000	139.6500
Switzerland	1 € = CHF	1.5551	1.5429
USA	1 € = USD	1.1797	1.3621
Czech Republic	1 € = CZK	29.0000	30.4640
Poland	1 € = PLN	3.8600	4.0845
Hungary	1 € = HUF	252.8700	245.9700
Slovenia	1 € = SIT	239.5000	239.7600
Turkey	1 € = TRY/TRL	1.5924*	1,836,200.0000

* After currency reform

DERIVATIVE FINANCIAL INSTRUMENTS

Currency forwards, interest and swaps in the financial area

In order to limit and control existing foreign currency and interest rate risk, certain derivative financial instruments are used, in particular currency forwards and interest rate swaps. These, in part, fulfill the requirements for hedge accounting. Derivative financial instruments are recognized at cost upon conclusion of the contract and are recognized at fair value in the following periods. The treatment of unrealized measurement gains or losses depends on the type of transaction.

The fair value of currency forwards is determined by the forward rates prevailing on the balance sheet date. In the case of transactions not traded through the stock exchange (OTC), the prices for similar transactions as well as unwind offers of the respective business partners are used.

The fair value of interest-rate swaps is equivalent to the value that Verbund would receive or pay upon the unwinding of the transaction on the balance sheet date. Current market trends, especially current interest-rate levels and yield curves, are taken into consideration.

Hedging transactions in the financial area

At Verbund derivative financial instruments to hedge against fair value losses affecting its recognized assets or liabilities are used. For this purpose, the following groups are differentiated:

In the case of certain cross border leasing transactions, investments result in variable return, which is offset by fixed obligations. To avoid risk, derivative transactions were concluded (interest-rate swaps) for the financial obligations, which were qualified as fair value hedges. Since the items that are allocated to the swaps have an exactly contrasting risk profile, the financial obligations are appropriately upvalued or depreciated in compensation for the fair value measurement of the derivative transactions.

In contrast to the transactions mentioned before, the assets and liabilities regarding the transaction concluded in 2001 do not match. To avoid the resulting foreign-exchange risk, appropriate currency forwards were concluded. These, too, are stated as fair-value hedges. Prerequisites for the utilization of hedge accounting include the regular documentation of the hedging relationship and the measurement of the hedge efficiency. Here, the hedge efficiency must lie between 80 % and 125 %.

Hedge accounting in accordance with IAS 39 was, however, not carried out for a derivative instrument which hedges against economic risk and complies with the risk-management rules of Verbund. The measurement result from the adjustment of the fair value of this derivative instrument is recognized in profit or loss.

Hedging transactions in the energy area

At Verbund, derivative financial instruments are used as hedging instruments against undesired price developments in electricity business. The effective hedging transactions are always regarded as closed items with the corresponding underlying transaction. These derivative hedging instruments of Verbundgesellschaft are, provided they meet the hedge accounting requirements, accounted for using fair value hedge accounting.

The derivative hedging transactions and underlying transactions are measured at fair value through profit or loss. Positive fair values are shown under Receivables and other assets and negative fair values are reported under Other liabilities.

Standardized forward contracts in the trading business

The utilization of price fluctuations in the energy markets represents one of the central tasks in trading.

The standardized forward contracts in trading (electricity futures, electricity forwards) are measured at fair value through profit or loss. Positive fair values are shown under Receivables and other assets and negative fair values are reported under Other liabilities.

In the Income Statement 2005, revenue and expenses from the realization/measurement are netted out for the first time (see “New accounting policies applied”).

REALIZATION OF SALES REVENUE

Revenue from electricity sales to large customers is realized at the time of performance, as is revenue from electricity trading and grid services. Revenue in the small-customer segment, which is settled annually and subsequently, was recorded on the basis of “account invoices”. Revenue from personnel secondments and consulting/planning services is recorded on the basis of the actual number of hours worked. Revenue from long-term construction is recognized in compliance with IAS 11 (Construction Contracts) in accordance with the percentage-of-completion method and using the cost-to-cost method.

JUDGEMENTS AND KEY ASSUMPTIONS CONCERNING THE FUTURE

When compiling the consolidated financial statements pursuant to IFRS, management is required to make judgements in the process of applying the accounting policies and must also determine key assumptions concerning future developments that may significantly influence the recognition and measurement of the assets and liabilities, the disclosure requirements for other obligations on the balance sheet date and the presentation of income and expense during the period under review.

Particularly, in the case of the following assumptions and estimates, there is a sizeable risk that a significant adjustment of assets and liabilities may have to be carried out in the future years:

- The assessment of the value of the hydraulic and thermal power plants (carrying amount less contributions to building costs: € 1,128 million; previous year: € 1,164 million) is based on forecasts for future cash flows as well as on a discount rate (6.5 %) that is adjusted in line with the industry and the corporate risk. In 1998 and 1999, impairment losses in the amounts of € 732.3 million and € 145.4 million resulting from the deregulation of the electricity market were recognized and provisions for impending losses from pending transactions were created in the amount of € 321.1 million. To date, non of the impairment losses recognized have had to be reversed following the periodic impairment tests, which are carried out on the basis of current assumptions, due to the lingering uncertainty relating to the future development of the electricity prices. Important influencing factors in the hydraulic area include underproduction and increased investment in environmental protection equipment in connection with the implementation of the Water Framework Directive, operational restrictions (flood restrictions) from the implementation of the Water Framework Directive for storage power plants and the restrictions imposed by the water authorities relating to operating permits as well as, in the thermal area, the implementation of emission right trading and the development of generation capacities in Europe.
- The assessment of the value of interests (including goodwill) in associated companies accounted for using the equity method (carrying amount: € 599.9 million; previous year: € 575.7 million) is based on forecasts for future cash flows as well as on a discount rate that is adjusted in line with the industry and the corporate risk.
- The measurement of the existing social capital obligations (carrying amount: € 458.3 million; previous year: € 405.1 million) is based on assumptions relating to the discount rate, the age of retirement, life expectancy and future salary and pension increases.
- The measurement of decommissioning costs (carrying amount: € 12.4 million; previous year: € 10.9 million) is based on assumptions and estimates.
- Estimates are regularly made as to whether or not the contingent liabilities from guarantees in the amount of € 166.1 million (previous year: € 120.8 million) must be recognized in the consolidated financial statements.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the period (excluding minority interests) by the weighted average number of shares in circulation in 2005 (30,820,000, previous year: 30,809,003). There were no rights issues.

SEGMENTAL REPORTING

SEGMENTAL REPORTING ACCORDING TO BUSINESS SEGMENTS

Under § 8 para. 3 ElWOG (Electricity Industry and Organization Act), electricity companies must prepare, and publish in the notes, separate balance sheets and income statements for each of these areas: generation, transmission and distribution - if they operate in at least two of these areas. Verbund's segmentation was based on the provisions of ElWOG. Since generation derives its sales predominantly from business with other segments, it is considered an internal segment and, under IAS 14.35, does not constitute a reportable segment. Generation, therefore, is stated together with electricity trade and distribution under the segment "Electricity", this being the business segment that is exposed to unrestrained competition.

APG, in its role as an eco-balance group responsible, is committed, under § 10 para. 1 Eco-Electricity Act, to purchasing, on the approved general terms and conditions and at the regulated tariffs, electrical energy from eco-electricity plants that is offered in its control area. Consequently, eco-electricity operations are reported under a separate segment.

The segment "Others/Holding" comprises, in accordance with IAS 14.20, the management and control functions of Verbundgesellschaft, the financing function of VERBUND-Finanzierungsservice GmbH and VERBUND-International Finance B.V. as well as the services of the Shared Services Center of VERBUND Management Service GmbH and the telecom activities of VERBUND-Telekom Service GmbH.

Internal sales are always settled at generally accepted market terms. In contrast to the previous year, only non-interest-bearing assets and liabilities are included in the segment assets and liabilities, as the segment result does not contain the financial result either.

The segment result is defined as the "operating result". Consequently, interest-bearing assets and financial liabilities are not taken into account in the allocation of segment assets and liabilities. The figures of the previous year were restated correspondingly.

SEGMENTAL REPORTING (ACCORDING TO BUSINESS SEGMENTS) **Million €**

2005	Electricity	Eco-electricity	Grid	Others/ Holding	Elimi-nation	Total Group
External sales	1,860.0	386	253.6	7.1	0	2,506.7
Internal sales	118.9	1.1	36	49	-205	0
Total sales	**1,978.90**	**387.1**	**289.6**	**56.1**	**-205**	**2,506.7**
Depreciation and amortization	-127.9	0	-45.5	-9.9	3.2	-180.2
Operating expenses/income (excl. depreciation and amortization)	-1,370.0	-387.6	-174	-70.3	201.9	-1,800.0
Operating result (EBIT)	**481**	**-0.5**	**70.1**	**-24.1**	**0**	**526.5**
Unscheduled depreciation and amortization	-5.1	0	0	-1.5	0	-6.6
Result of associates measured at equity	0	0	0	36.4	0	36.4
Carrying amount of associates measured at equity	0	0	0	599.9	0	599.9
Non-interest-bearing segment assets	3,817.6	29.5	818.9	742.3	-22	5,386.3
Non-interest-bearing segment liabilities	-1,728.8	-55.1	-174.3	-151.7	22	-2,087.9
Operating cash flow	599.6	-16.9	117.3	39.1	-58.5	680.5
Investment in non-current intangible assets and property. plant and equipment	63.1	0	47.2	9.5	0	119.8

2004	Electricity	Eco-electricity	Grid	Others/ Holding	Elimi-nation	Total Group
External sales	1,443.4	303.5	266.3	8.5	0	2,021.7
Internal sales	106.5	5.3	35.2	50	-197	0
Total sales	**1,549.9**	**308.8**	**301.5**	**58.5**	**-197**	**2,021.7**
Depreciation and amortization	-129.6	0	-46.1	-10.6	4.3	-181.9
Operating expenses/income (excl. depreciation and amortization)	-1,099.9	-309.2	-180.1	-57.8	192.7	-1,454.2
Operating result (EBIT)	**320.4**	**-0.4**	**75.3**	**-9.9**	**0**	**385.5**
Unscheduled depreciation and amortization	-3.3	0	0	-2	0	-5.3
Result of associates measured at equity	0	0	0	31.6	0	31.6
Carrying amount of associates measured at equity	0	0	0	575.7	0	575.7
Non-interest-bearing segment assets	3,613.8	21.8	831.9	799.2	-61	5,205.7
Non-interest-bearing segment liabilities	-1,421.8	-64.3	-156.7	-114.2	61	-1,696.0
Operating cash flow	332.7	12.5	87.7	35.5	-29.9	438.5
Investment in non-current intangible assets and property. plant and equipment	44.8	0	30.2	4.9	0	80

The segmentation according to regions comprises the breakdown of sales revenues according to domestic, the member states of the European Union and other countries.

SEGMENTAL REPORTING (ACCORDING TO REGIONS) Million €

	2005	2004
Electricity sales – domestic	**1,188.8**	**1,082.0**
Thereof to resellers	631.4	580.9
Thereof to end customers[1]	59.6	145.9
Thereof to traders	112.7	51.8
Thereof eco-electricity sales	385.1	303.4
Electricity sales – abroad	**1,017.0**	**630.7**
Thereof to EU member states	1,008.2	628.6
Thereof to other countries	8.8	2.1
Subtotal electricity sales	**2,205.8**	**1,712.7**
Revenue from grid sales (domestic)	248.9	261.4
Subtotal electricity and grid sales	**2,454.7**	**1,974.1**
Other sales revenue – trading in emission rights (Thereof € 4.9 abroad)	14.1	0.0
Other sales revenue – other (domestic)	37.8	47.6
Total sales revenue	**2,506.6**	**2,021.7**
Thereof domestic sales revenue	1,484.7	1,391.0
Thereof sales revenue abroad	1,021.9	630.7

[1] Thereof € 3.3 million (previous year: € 40.4 million) from grid fees for further account

The sales revenues in the amount of € 2,769.0 million shown in the previous year declined as a result of presenting net trading business with standardized forward contracts (see "New accounting policies applied") by € 1,056.3 million to € 1,712.7 million.

Assets that can be allocated to foreign business essentially include the interest in the Energia S.p.A. Group (EU) in the amount of € 202.7 million that is accounted for using the equity method. Investments allocated to foreign business amounted to € 7.8 million in fiscal 2005 and refer to the topping-up of this interest.

DISCLOSURES IN ACCORDANCE WITH § 45A PARA. 10 ELECTRICITY INDUSTRY AND ORGANIZATION ACT (ELWOG)

Total volume of electricity sold to end customers in Austria for their own consumption: 1,372,803,000 kWh.

SHARE OF VARIOUS PRIMARY ENERGY SOURCES (TRADER MIX) in %

Hydropower	100.0
Total	**100.0**

NOTES TO THE INCOME STATEMENT

(1) SALES REVENUES

For changes to sales revenues see “Segmental reporting according to regions”.

OTHER SALES REVENUES — Million €

	2005	2004
Revenue from emission rights (trading)	14.1	0.0
Revenue from district-heating sales	13.8	14.8
Staff secondments	11.0	10.3
Sales revenue from consulting/planning services and for other services	7.1	16.5
User and management fees	4.9	4.4
Revenue from sales of waste products/coal/fuel/oil	1.4	1.3
Other	-0.4	0.3
Other sales revenues	**51.9**	**47.6**

(2) OTHER OPERATING INCOME

OTHER OPERATING INCOME — Million €

	2005	2004
Income from plant allowances under ElWOG	31.6	0.0
Income from value adjustments of receivables	25.5	0.5
Pro-rata temporis reversal of building-cost contributions	16.7	17.2
Income from various goods and services	8.3	6.5
Income from the reversal of provisions	7.8	5.4
Changes in inventory and own work capitalized	5.4	11.9
Income from the disposal of property, plant and equipment and intangible assets	3.3	12.3
Tenancy and leasing income	1.5	2.1
Income from social amenities	0.7	0.9
Income from insurance indemnities	0.5	1.4
Income from material sales	0.4	0.4
Other	6.4	6.4
Other operating income	**108.1**	**65.0**

(3) EXPENSES FOR ELECTRICITY, GRID, ECO-ELECTRICITY, AND EMISSION RIGHTS PURCHASES (TRADE)

EXPENSES FOR ELECTRICITY, GRID, ECO-ELECTRICITY, AND EMISSION RIGHTS PURCHASES (TRADE) — Million €

	2005	2004
Expenses for electricity purchases	1,260.8	916.5
Expenses for system use	13.0	49.3
Emission rights purchases (trade)	14.0	0.0
Expenses for electricity, grid, eco-electricity, and emission rights purchases (trade)	**1,287.8**	**965.8**

The “Expenses for electricity purchases” in the amount of € 1,972.8 million shown in the previous year declined as a result of presenting net trading business with standardized forward contracts (see “New accounting policies applied”) by € 1,056.3 million to € 916.5 million.

The generation-related use of emission rights is shown under “Use of fuels” (see “New accounting policies applied”).

(4) PAYROLL EXPENSES

PAYROLL EXPENSES Millionen €

	2005	2004
Wages and salaries	159.3	157.1
Expenses for social security contributions as required by law as well as charges and compulsory contributions based on benefits	37.3	37.8
Other social expenses	3.3	3.4
Subtotal	**199.9**	**198.3**
Expenses for severance payments	28.6	12.9
Expenses for pensions and similar obligations	115.0	68.4
Payroll expenses	**343.5**	**279.6**

In the previous year, statutory social expenses included a tax payment for prior periods in the amount of € 1.2 million.

“Expenses for severance payments” were burdened, above all, by the reduction in the discount rate. The adjustment for higher life expectancy increased “Expenses for pensions and similar obligations” as did the provision for the early-retirement programs in the amounts of € 10.7 million (previous year: € 23.5 million). The “Expenses for severance payments” include € 0.05 million (previous year: € 0.03 million) for contributions to a corporate employee-benefits fund.

“Expenses for pensions and similar obligations” include an amount of € 4.7 million plus interest on arrears. It results from a finding of the Supreme Court under which the employer companies of the Verbund-group are obliged to finance a further pension year for the pension commitments that were transferred to the corporate pension fund in 2000.

“Expenses for pensions and other obligations” also include an amount of € 36.9 million for a one-off allocation, without prejudice, for the adjustment of the parameters of the business plan of the defined-contribution Investment and Risk Community at BAV Pensionskassen AG. It serves to prevent further legal actions on the part of the employee representatives and any other associated lawsuits.

Income from pension fund assets lowered pension expenses in the amount of € 5.7 million (previous year: € 7.3 million). The pension-fund contributions to the defined-contribution Investment and Risk Community amounted to € 5.6 million (previous year: € 5.7 million).

(5) OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES — Million €

	2005	2004
External services received	67.5	64.7
Advertising expenses	14.4	7.5
Material costs for motor-vehicle operation and maintenance	11.2	13.4
Legal, consulting and auditing fees	10.0	7.6
Travel expenses, staff training	9.6	9.0
Costs for allocated staff, temporary staff	9.2	7.4
Compensation payments	7.1	3.3
EDP expenses	5.4	4.3
Expenses for Energy-Control GmbH	4.9	5.8
Rent, leasing	4.2	2.9
Operating costs	3.1	3.5
Insurance	3.0	2.9
Communication	2.8	2.7
Fees	2.6	2.4
Membership fees	2.6	2.4
Expenses arising from value adjustments for receivables	1.7	13.5
Decommissioning costs	1.0	0.0
Other operating taxes	0.9	2.8
Provision for controversial grid settlements	0.0	5.6
Other	6.6	6.3
Other operating expenses	**167.8**	**168.0**

“External services received” contain expenses for the regular overhaul and maintenance of energy-generation and transmission facilities.

(6) FINANCING RESULT

FINANCING RESULT — Million €

	2005	2004
Interest and similar income	90.2	86.7
Exchange gains	2.2	3.7
Interest and similar expenses	-166.3	-173.7
Exchange losses	-0.6	-3.9
Measurement result from derivative financial instruments/financial area	1.3	-4.3
Financing result	**-73.2**	**-91.5**

(7) RESULT FROM PARTICIPATING INTERESTS

RESULT FROM PARTICIPATING INTERESTS Million €

	2005	2004
Income from associates measured at equity	36.4	31.6
Investment income from affiliated non-consolidated companies	7.7	6.0
Income from disposal of participating interests	2.0	5.0
Income from participating interests in other companies	0.9	0.5
Expenses from other long-term investments	0.0	-3.5
Expenses from affiliated non-consolidated companies	0.0	-2.6
Result from participating interests	**47.0**	**37.0**

The item “Expenses from affiliated non-consolidated companies” essentially includes the contractually agreed transfer of profits/losses from non-consolidated subsidiaries.

(8) RESULT FROM LONG-TERM INVESTMENTS

The result from long-term investments contains, essentially, dividend income as well as value adjustments on investment funds held to cover social capital. In addition, it includes income from external loans.

(9) INCOME TAX

INCOME TAX Million €

	2005	2004
Current tax expenses (Thereof tax income from prior periods € 0.7 million; previous year: income € 0.4 million).	48.2	59.3
Changes in deferred income taxes	57.2	9.2
Income tax	**105.4**	**68.5**

Tax expenses for 2005 of € 105.4 million undershot the calculated tax expenses of € 126.9 million by € 21.4 million; such calculated tax expenses would result from the application of a tax rate of 25 % to the pre-tax profit (€ 507.5 million). The causes of this difference between the calculated and the recognized tax expense within the group can be shown as follows:

TAX RECONCILIATION		Million €
	2005	2004
Calculated tax expenses	126.9	114.7
Less minority interest partnerships	-2.8	-1.9
Tax relief due to		
tax-exempt investment income	-11.3	-13.2
investment and other premiums	-0.5	-3.3
Increases in tax expenses due to		
other items	0.4	0.2
Income tax expense for the period	**112.7**	**96.5**
Adjustment of deferred taxes due to change in tax rate (34 % to 25 %)	0.0	-28.5
Tax income/expenses for prior periods (current and deferred)	-7.3	0.5
Income tax expense recognized	**105.4**	**68.5**
Effective tax rate	20.8 %	20.3 %

The differences between the values used in the tax balance sheet and the IFRS balance sheet as well as the tax-loss carryforwards as of the balance-sheet date result in the following deferred taxes:

DEFERRED TAXES		Million €
	2005	2004
Provisions for pensions and severance payments	69,2	52,0
Tax-loss carryforwards	0,0	77,9
Other	0,7	4,8
Deferred tax assets	**69,9**	**134,7**
Special tax depreciation	-87,4	-90,5
Property, plant and equipment (different useful lives)	-118,9	-122,0
Derivative financial instruments	-0,8	0,0
Deferred tax liabilities	**-207,1**	**-212,5**
Recognition of deferred taxes (netted; + asset/- liability)	**-137,2**	**-77,8**

In fiscal 2005, the deferred tax provision changed as follows:

DEFERRED TAX PROVISION	Million €
Opening balance 01.01.2005	-77.8
Changes recognized directly in equity	-2.2
Changes recognized in profit or loss	-57.2
Closing balance 31.12.2005	**-137.2**

The changes recognized directly in equity refer to the profits and losses from available-for-sale securities and a cash flow hedge.

The Tax Reform 2005 passed in May 2004 led to a reduction in the corporate tax rate from 34 % to 25 % with effect from 2005.

Given the current tax regulations, it may be assumed that the differences - resulting, essentially, from retained earnings and uncovered losses - between the tax value of the interest and the proportional share of shareholders' equity of the subsidiaries included in the consolidated financial statements will largely remain tax-exempt. Thus no tax accrual and deferral items were posted for this.

Under IAS 12, deferred tax assets are capitalized for loss carryforwards when it can reasonably be expected that they will be set off against future taxable profits. Pursuant to Austrian tax law, there are no time limits on the realization of loss carryforwards at this point. Currently, there are no significant tax-loss carryforwards in the Verbund-group.

NOTES TO THE BALANCE SHEET

INTANGIBLE ASSETS AND GOODWILL

(10) INTANGIBLE ASSETS AND GOODWILL

Intangible assets are licenses, industrial property rights, electricity-purchase rights, water rights, software, user rights for plants owned by third parties and licenses derived therefrom.

INTANGIBLE ASSETS AND GOODWILL — Million €

2004	Intangible assets	Goodwill	Total
Acquisition costs as of 01.01.2004	111.9	1.6	113.4
Changes in companies consolidated	-0.1	0.0	-0.1
Additions	1.9	0.0	1.9
Disposals	-2.4	0.0	-2.4
Set off against accumulated amortization	0.0	-1.6	-1.6
Acquisition costs as of 31.12.2004	**111.2**	**0.0**	**111.2**
Accumulated amortization as of 01.01.2004	101.4	1.6	102.9
Amortization 2004	2.8	0.0	2.8
Thereof unscheduled	0.1	0.0	0.1
Set off against accumulated amortization	0.0	-1.6	-1.6
Disposals	-2.4	0.0	-2.4
Accumulated amortization as of 31.12.2004	**101.7**	**0.0**	**101.7**
Net carrying amount as of 31.12.2004	**9.5**	**0.0**	**9.5**
Net carrying amount as of 31.12.2003	10.5	0.0	10.5

2005	Intangible assets	Goodwill	Total
Acquisition costs as of 01.01.2005	111.2	0.0	111.2
Additions	2.0	0.0	2.0
Disposals	-70.2	0.0	-70.2
Acquisition costs as of 31.12.2005	**43.0**	**0.0**	**43.0**
Accumulated amortization as of 01.01.2005	101.7	0.0	101.7
Amortization 2005	2.9	0.0	2.9
Thereof unscheduled	0.2	0.0	0.2
Disposals	-70.2	0.0	-70.2
Accumulated amortization as of 31.12.2005	**34.4**	**0.0**	**34.4**
Net carrying amount as of 31.12.2005	**8.6**	**0.0**	**8.6**
Net carrying amount as of 31.12.2004	9.5	0.0	9.5

(11) PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT Million €

2004	Real property and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Payments made, assets under construction and projects	Total
Acquisition/production costs as of 01.01.2004	5,240.1	1,922.0	1,963.4	886.7	113.3	138.4	10,263.9
Changes in companies consolidated	0.0	0.0	0.0	0.0	-0.2	0.0	-0.2
Additions	7.8	2.1	16.5	1.2	6.4	43.9	77.9
Disposals	-15.7	-0.7	-9.2	0.0	-11.3	-0.5	-37.4
Repostings	26.5	0.3	7.8	0.5	0.2	-35.3	0.0
Acquisition/production costs as of 31.12.2004	**5,258.7**	**1,923.7**	**1,978.5**	**888.4**	**108.3**	**146.5**	**10,304.2**
Accumulated depreciation as of 01.01.2004	2,372.1	1,599.0	1,519.2	381.4	96.6	76.0	6,044.4
Changes in companies consolidated	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1
Depreciation 2004	69.2	32.1	54.6	17.1	5.8	0.3	179.2
Thereof unscheduled	2.3	2.1	0.3	0.0	0.1	0.3	5.2
Disposals	-6.9	-0.6	-9.0	0.0	-10.8	-0.5	-27.8
Repostings	1.9	0.0	-0.1	0.0	0.1	-1.9	0.0
Accumulated depreciation as of 31.12.2004	**2,436.2**	**1,630.6**	**1,564.6**	**398.5**	**91.7**	**74.0**	**6,195.6**
Net carrying amount as of 31.12.2004	**2,822.4**	**293.2**	**413.9**	**490.0**	**16.6**	**72.5**	**4,108.6**
Net carrying amount as of 31.12.2003	2,868.0	323.0	444.2	505.3	16.7	62.4	4,219.6
2005							
Acquisition/production costs as of 01.01.2005	5,258.7	1,923.7	1,978.5	888.4	108.3	146.5	10,304.2
Additions	9.3	8.5	23.9	10.6	9.1	56.4	117.7
Disposals	-5.4	-9.3	-36.7	-0.3	-8.1	0.0	-59.7
Repostings	11.3	1.6	10.9	5.6	0.0	-29.4	0.0
Acquisition/production costs as of 31.12.2005	**5,273.8**	**1,924.6**	**1,976.8**	**904.3**	**109.3**	**173.5**	**10,362.3**
Accumulated depreciation as of 01.01.2005	2,436.2	1,630.6	1,564.6	398.5	91.7	74.0	6,195.6
Depreciation 2005	66.3	31.3	52.2	17.8	5.8	3.9	177.3
Thereof unscheduled	0.0	2.2	0.1	0.0	0.1	3.9	6.3
Disposals	-4.2	-9.2	-33.7	-0.1	-7.9	0.0	-55.2
Repostings	0.9	0.0	0.0	0.0	0.0	-0.9	0.0
Accumulated depreciation as of 31.12.2005	**2,499.2**	**1,652.6**	**1,583.2**	**416.1**	**89.6**	**77.0**	**6,317.8**
Net carrying amount as of 31.12.2005	**2,774.6**	**272.0**	**393.6**	**488.2**	**19.7**	**96.5**	**4,044.5**
Net carrying amount as of 31.12.2004	2,822.4	293.2	413.9	490.0	16.6	72.5	4,108.6

The additions are listed in the following:

ADDITIONS		Million €
	2005	2004
Automation of hydropower plants of VERBUND-Austrian Hydro Power AG	13.0	12.6
Leoben power plant	11.9	7.1
Gerlos II power plant	10.4	2.4
Phase-shifting transformers	6.3	0.0
380 kV line Tauern-Pongau-Salzach-St.Peter	6.2	2.1
380 kV switching unit at substation Bisamberg	5.5	3.0
220 kV line Ernsthofen-Bisamberg (renovation)	5.4	4.1
380 kV line Kainachtal – Southern Burgenland	3.2	6.8
Power descent Kaprun	0.2	6.4
Others with individual amounts under € 3 million	55.6	33.4
Total	**117.7**	**77.9**

In fiscal 2002, Triebenbacht power plant was taken over on the basis of a financial-leasing arrangement. This is included, as of 31 December 2005, under Property, plant and equipment with a residual carrying amount of € 20.8 million (previous year: € 21.7 million).

The corresponding liability will be repaid, within a year, to the amount of € 0.8 million, in the following four years to the amount of € 3.7 million, and subsequently to the amount of € 16.8 million. The total of non-discounted leasing installments amounted to € 27.8 million (previous year: € 29.5 million), including the payment of the residual value. The leasing arrangement will end on 30 April 2015.

There is no investment property in accordance with IAS 40.

(12) AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT		Million €
	2005	2004
Scheduled depreciation and amortization	173.7	176.6
Unscheduled depreciation and amortization	6.5	5.3
Amortization of intangible assets and depreciation of property, plant and equipment	**180.2**	**181.9**

The unscheduled depreciation essentially refers to the costs for power plant projects.

(13) **INTERESTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER PARTICIPATING INTERESTS (INCLUDING INTERESTS IN AFFILIATED COMPANIES)**

INTERESTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER PARTICIPATING INTERESTS (INCLUDING INTERESTS IN AFFILIATED COMPANIES) Million €

2004	Interests measued at equity	Interests in non-consolidated affiliated companies	Other participating interests	Total
(Amortized) acquisition costs as of 01.01.2004	398.5	17.2	45.1	460.8
Changes in companies consolidated	0.0	-0.4	0.0	-0.4
Additions – interests acquired	160.0	0.8	4.1	164.9
Additions – profits/losses	31.6	0.0	0.0	31.6
Disposals	0.0	0.0	-2.0	-2.0
Disposals – dividends	-14.4	0.0	0.0	-14.4
(Amortized) acquisition costs as of 31.12.2004	**575.7**	**17.6**	**47.2**	**640.5**
Accumulated value adjustments as of 01.01.2004	0.0	5.6	22.0	27.6
Value losses	0.0	0.0	0.7	0.7
Accumulated value adjustments as of 31.12.2004	**0.0**	**5.6**	**22.7**	**28.3**
Net carrying amount as of 31.12.2004	**575.7**	**11.9**	**24.5**	**612.2**
Net carrying amount as of 31.12.2003	398.5	11.6	23.1	433.2
2005				
(Amortized) acquisition costs as of 01.01.2005	575.7	17.6	47.2	640.5
Changes in companies consolidated	2.0	0.0	-2.0	0.0
Additions – interests acquired	7.8	0.6	0.5	9.0
Additions – profits/losses	40.9	0.0	0.0	40.9
Disposals	-3.8	-0.1	-11.3	-15.2
Disposals – dividends	-22.8	0.0	0.0	-22.8
(Amortized) acquisition costs as of 31.12.2005	**599.9**	**18.1**	**34.4**	**652.4**
Accumulated value adjustments as of 01.01.2005	0.0	5.6	22.7	28.3
Value losses	0.0	0.0	0.0	0.0
Disposals	0.0	-0.1	-11.1	-11.2
Accumulated value adjustments as of 31.12.2005	**0.0**	**5.5**	**11.6**	**17.1**
Net carrying amount as of 31.12.2005	**599.9**	**12.5**	**22.8**	**635.3**
Net carrying amount as of 31.12.2004	575.7	11.9	24.5	612.2

Details on the changes in companies consolidated in terms of the interests accounted for using the equity method can be found under “Consolidated companies and consolidation methods”. The scope of companies included in the consolidated financial statements on the basis of the equity method are shown in the summary of “Financial information relating to associated companies” at the end of the notes.

The additions from interests acquired in terms of the interests accounted for using the equity method refer to the acquisition of additional minor interests in Energia S.p.A. Group.

Changes in the value of interests accounted for using the equity method are shown under additions/disposals.

The net carrying amount of the interests accounted for using the equity method includes the following goodwill and intangible assets with indefinite useful lives:

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES — Million €

	31.12.2005	31.12.2004
Net carrying amount	599.9	575.7
Thereof goodwill	143.5	144.4
Thereof intangible assets with indefinite useful lives	20.0	25.7

The goodwill and intangible assets with indefinite useful lives are not subject to scheduled amortization but rather to an annual impairment test (see “Accounting policies” (participating interests)).

The disposals of the other participating interests essentially refer to Gemeinschaftskraftwerk Tullnerfeld Gesellschaft m.b.H. (acquisition costs: € 11.1 million/accumulated value adjustments: € 11.1 million).

(14) LONG-TERM INVESTMENTS – CROSS BORDER LEASING

LONG-TERM INVESTMENTS – CROSS BORDER LEASING — Million €

	Securities (loan stock rights) cross border leasing	Other loans cross border leasing	Total
(Amortized) acquisition costs as of 31.12.2004	402.1	457.7	859.8
Foreign-currency measurement	59.2	65.6	124.8
Capitalized interest	32.8	48.2	81.0
Disposals	-3.3	-24.9	-28.2
(Amortized) acquisition costs as of 31.12.2005	**490.8**	**546.6**	**1,037.4**

Notes to cross border leasing transactions can be found under “Accounting policies”.

The securities consist of American zero bonds (US Treasuries) with an amount at maturity of USD 1,512.5 million (previous year: USD 1,512.5 million) as well as medium-term notes with a nominal value of USD 60.0 million (previous year: USD 58.0 million).

Of the securities, an amount of € 438.3 million is pledged (previous year: € 357.3 million) and of the loans, an amount of € 106.6 million (previous year: € 77.3 million).

(15) OTHER LONG-TERM INVESTMENTS AND OTHER LONG-TERM RECEIVABLES

OTHER LONG-TERM INVESTMENTS AND OTHER LONG-TERM RECEIVABLES — Million €

2004	Loans to non-consolidated affiliated companies	Loans to companies in which participating interests are held	Securities (loan stock rights) excl. cross border leasing	Other loans excl. cross border leasing	Total
Acquisition costs as of 01.01.2004	2.1	35.0	163.2	89.1	289.5
Additions	0.0	8.6	0.2	0.4	9.3
Disposals	0.0	0.0	-44.5	0.0	-44.5
Repostings	-2.1	-2.0	-1.8	-36.2	-42.1
Acquisition costs as of 31.12.2004	**0.0**	**41.7**	**117.1**	**53.3**	**212.1**
Accumulated value adjustments as of 01.01.2004	0.0	0.0	41.9	0.0	41.9
Value losses	0.0	0.0	0.2	0.0	0.2
Value increases	0.0	0.0	-0.5	0.0	-0.5
Disposals	0.0	0.0	-19.8	0.0	-19.8
Accumulated value adjustments as of 31.12.2004	**0.0**	**0.0**	**21.9**	**0.0**	**21.9**
Net carrying amount as of 31.12.2004	**0.0**	**41.7**	**95.2**	**53.3**	**190.2**
Net carrying amount as of 31.12.2003	2.1	35.0	121.3	89.1	247.6
Other long-term receivables					
Net carrying amount as of 31.12.2004					**72.3**
Net carrying amount as of 31.12.2003					93.5
Total					
Net carrying amount as of 31.12.2004					**262.5**
Net carrying amount as of 31.12.2003					341.1

(15) OTHER LONG-TERM INVESTMENTS AND OTHER LONG-TERM RECEIVABLES (continued) **Million €**

2005	Loans to non-consolidated affiliated companies	Loans to companies in which participating interests are held	Securities (loan stock rights) excl. cross border leasing	Other loans excl. cross border leasing	Total
Acquisition costs as of 01.01.2005	0.0	41.7	117.1	53.3	212.1
Additions	0.0	35.0	0.0	0.0	35.0
Disposals	0.0	0.0	-0.8	-0.2	-1.0
Repostings	0.0	-1.4	7.0	-27.7	-22.1
Acquisition costs as of 31.12.2005	**0.0**	**75.3**	**123.3**	**25.4**	**224.0**
Accumulated value adjustments as of 01.01.2005	0.0	0.0	21.9	0.0	21.9
Value losses	0.0	0.0	0.2	0.0	0.2
Value increases	0.0	0.0	-3.6	0.0	-3.6
Disposals	0.0	0.0	-0.2	0.0	-0.2
Repostings	0.0	0.0	-0.1	0.0	-0.1
Accumulated value adjustments as of 31.12.2005	**0.0**	**0.0**	**18.2**	**0.0**	**18.2**
Net carrying amount as of 31.12.2005	**0,0**	**75.3**	**105.1**	**25.4**	**205.8**
Net carrying amount as of 31.12.2004	0.0	41.7	95.2	53.3	190.2
Other long-term receivables					
Net carrying amount as of 31.12.2005					**76.4**
Net carrying amount as of 31.12.2004					72.3
Total					
Net carrying amount as of 31.12.2005					**282.2**
Net carrying amount as of 31.12.2004					262.5

The repostings of acquisition costs refer to the reclassification from current assets.

Loans to companies in which participating interests are held include an electricity prepayment to Österreichisch- Bayerische Kraftwerke Aktiengesellschaft (€ 31.6 million, previous year: € 33.1 million), which was reduced in 2005 by € 1.4 million (previous year: € 2.0 million). The additions (€ 35.0 million) exclusively refer to a loan to Ennskraftwerke Aktiengesellschaft.

Long-term securities (€ 105.1 million, previous year: € 95.2 million) primarily comprise shares in investment funds. These are used, essentially, as cover for the provisions for pensions in compliance with §§ 14 and 116 EstG (Income Tax Law).

Of the long-term securities, € 4.8 million (previous year: € 4.8 million) was pledged as security, above all in connection with the management of balance energy and trading at power exchanges.

Other loans in the amount of € 25.4 million (previous year: € 53.3 million) consist, essentially, of long-term receivables vis-à-vis the Republic of Austria from the pre-financing of building-cost contributions on account of the Republic of Austria. The building-cost contributions were used to finance facilities of the Danube power plants used by the shipping industry.

Other long-term receivables include, after set-off against prepayments received, € 10.5 million (previous year: € 18.2 million) as the present value of future leasing installments for plants leased out by Verbund to a large customer (financial leasing under IAS 17). The lease agreements will terminate on 31 March 2006 and 30 September 2010. The total of non-discounted leasing installments amounts to € 10.9 million (previous year: € 19.3 million). Redemptions due within a year amount to € 5.7 million and redemptions due between 2007 and 2010 to € 4.8 million.

Other long-term receivables include receivables from the Republic of Austria in the amount of € 1.2 million (previous year: € 1.0 million) as well as receivables from the fair value of the derivative financial instruments/financial area in connection with cross border leasing in the amount of € 64.0 million (previous year: € 53.1 million).

CURRENT ASSETS

Current assets include all assets that are expected to be realized or settled within a period of 12 months.

(16) INVENTORIES

INVENTORIES — **Million €**

	2005	2004	Change
Primary energy sources	56.1	78.2	-22.1
Less value adjustments	-32.6	-58.7	26.1
Subtotal	**23.5**	**19.5**	**4.0**
Materials and supplies	3.2	1.8	1.4
Work in progress	0.2	5.7	-5.5
Inventories	**26.9**	**27.0**	**-0.1**

The primary energy sources refer, essentially, to coal inventories which were written down to the net realizable value.

(17) RECEIVABLES AND OTHER ASSETS

RECEIVABLES AND OTHER ASSETS — Million €

	Short-term		Long-term	
	2005	2004	2005	2004
Loans to non-consolidated affiliated companies	0.0	2.1		
Loans to companies in which participating interests are held	1.8	4.7		
Loans – cross border leasing	0.0	0.1		
Other loans	37.1	31.8		
Trade accounts receivable	197.2	174.5		
Receivables from non-consolidated affiliated companies	3.6	0.2		
Receivables from companies in which participating interests are held	34.5	68.1		
Other receivables and assets	258.0	56.7	76.4	72.3
Receivables and other assets	**532.2**	**338.2**	**76.4**	**72.3**

Other receivables with a maturity of more than one year are recognized in the balance sheet under "Other long-term receivables" (see (15)).

OTHER RECEIVABLES AND ASSETS — Million €

	Short-term		Long-term	
	2005	2004	2005	2004
Fair value of the derivative financial instruments				
Financial area	1.4	0.0	64.0	53.1
Trading – energy area	92.7	10.1	0.0	0.0
Hedge – energy area	35.3	0.0	0.0	0.0
Securities at EEX / electricity trade	20.3	12.0	0.0	0.0
Securities in connection with electricity transports	3.8	0.1	0.0	0.0
Emission rights	84.1	0.0	0.0	0.0
Receivables – Republic of Austria	5.1	8.3	1.2	1.0
Prepayments made for expenses that will be recognized in following periods	3.3	11.4	0.0	0.0
Receivables from tax clearing	2.8	0.3	0.0	0.0
Other receivables from payroll	0.6	0.8	0.0	0.0
Receivables from financial leasing	0.0	0.0	10.5	18.2
Other	8.6	13.7	0.7	0.0
Other receivables and assets	**258.0**	**56.7**	**76.4**	**72.3**

Emission rights include emissions rights that were freely allocated with a carrying amount of € 70.7 million (fair value at time of allocation € 75.4 million).

The total amount of € 24.1 million (previous year: € 12.1 million) stated assecurities was pledged, above all in connection with the management of balance energy and trading at power exchanges.

(18) SHORT-TERM SECURITIES

SHORT-TERM SECURITIES	Million €
Amortized costs as of 31.12.2004	7.4
Disposal	-0.3
Repostings	-7.1
Amortized costs as of 31.12.2005	**0.0**

The repostings of short-term securities refer to the reclassification to long-term investments.

(19) CASH AND CASH ITEMS

CASH AND CASH ITEMS (Million €)	2005	2004
Cash in banks	25.4	5.1
Short-term deposits (industry clearing)	4.3	7.0
Cash balance	0.0	0.2
Cash and cash items	**29.7**	**12.3**

The lock-in period of all short-term financial investments was less than three months at the time of the investment.

SHAREHOLDERS' EQUITY

Details relating to the development of shareholders' equity can be seen under "Consolidated statement of changes in equity".

(20) SHARE CAPITAL

The share capital comprises:

15,101,800 individual share certificates (bearer shares category A) – 49 % of the share capital; 15,718,200 individual share certificates (registered shares category B) – 51 % of the share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. The share capital was paid in full.

On the balance sheet date, there were 30,820,000 shares (previous year: 30,820,000) in circulation.

(21) CAPITAL RESERVES

Capital reserves amount to € 10.9 million (previous year: € 10.9 million). This represents the portion of the reserves that was not created from the profits in previous years.

(22) RETAINED EARNINGS

The retained earnings comprise the profits and losses accumulated within the group. Of the retained earnings, the amount that can be distributed to the shareholders of the parent company is the item shown as "net profit for the year" in the individual accounts of the parent company as of 31 December 05, which are prepared in accordance with Austrian Accounting Standards (see (25) for details relating to proposed dividend).

(23) OTHER RESERVES

OTHER RESERVES — **Million €**

	Profits and losses from available-for-sale assets	Profits and losses from interests measured at equity	cash flow hedging	Total
As of 01.01.2005	0.0	0.0	-4.2	-4.2
New reserves	2.2	0.7	0.0	2.9
Reversal	0.0	0.0	4.2	4.2
As of 31.12.2005	**2.2**	**0.7**	**0.0**	**2.9**

The amounts recognized are net amounts less income taxes.

Details relating to the profits and losses from available-for-sale assets can be found under "Accounting policies" (financial assets). The profits and losses from interests accounted for using the quity method reflect the following changes in the investee´s equity that have not been recognized in the investee´s profit or loss: foreign exchange translation differences, revaluation of property, plant and equipment, measurement of available-for-sale assets and cash flow hedges.

The amendments to IAS 39 resulted in the reversal of the accumulated profits and losses from cash flow hedging in fiscal 2005. These hedges referred to hedging transactions within the energy area which now have to be accounted for as fair value hedges.

(24) MINORITY INTERESTS

Minority interests comprise the third-party shares in the shareholders' equity of the consolidated subsidiaries. Minority interests are held in VERBUND-Austrian Hydro Power AG (19.7 %), VERBUND-Austrian Thermal Power GmbH & Co KG (44.3 %), and VERBUND-Austrian Thermal Power GmbH (40.5 %).

Details relating to the development of minority interests can be seen under "Consolidated statement of changes in equity".

(25) DIVIDENDS

The dividend is determined on the basis of the net profit for the year shown in the individual accounts of the parent company which are compiled in accordance with the Austrian Commercial Code. In fiscal 2005, this amount comes to € 154.1 million (previous year: € 92.5 million). A distribution of the full amount will be proposed to the General Meeting. This would correspond to a distribution of € 5.00 per share (previous year: € 3.00).

LONG-TERM AND SHORT-TERM LIABILITIES

(26) LONG AND SHORT-TERM FINANCIAL OBLIGATIONS

LONG AND SHORT-TERM FINANCIAL OBLIGATIONS — **Million €**

	Long-term		Short-term	
	2005	2004	2005	2004
Bonds	585.9	873.7	213.3	340.3
Liabilities to banks	302.1	366.0	81.7	61.6
Financial obligations to others	56.7	57.4	5.1	60.1
Total financial obligations excl. cross border leasing	**944.7**	**1,297.1**	**300.1**	**462.0**
Financial obligations – cross border leasing	1,149.5	952.8	0.0	0.1
Long and short-term financial obligations	**2,094.2**	**2,249.9**	**300.1**	**462.1**

No new long-term financial obligations were incurred in fiscal 2005. Restructuring activities in the amount of € 247.5 million were carried out within the group as a result of the "structural subordination" brought up by the rating agencies. Restructuring was carried out to the newly founded and fully-consolidated subsidiary (VERBUND-International Finance B.V.) in the Netherlands where the borrowing activities of the group will be concentrated in the future. There were no changes to the underlying conditions, e.g. the interest rates and the maturities, of the restructured credits.

Long-term financial obligations, excluding cross border leasing transactions and excluding the restructuring activities, were reduced in the total amount of € 338.8 million through scheduled repayments. Unscheduled repayments comprised the premature cancellation and repayment of three private placements in the total amount of € 79.8 million due to interest rates which no longer conformed with the present market conditions. As for short-term financial obligations (cash advances), an amount of € 91.0 million was repaid and another € 3.9 million was raised on the money market.

As of 31 December 2005, Verbund did not have any contracted credit lines with banks for fee and cost-related reasons. A five-year syndicated loan facility with a renewal option in the amount of € 750 million within the framework of a European bank syndicate was secured by the financing company in the Netherlands at the beginning of the year to provide the group with adequate liquidity reserves. Use was not made of this facility.

As for financial obligations from cross border leasing transactions, write-ups in the amount of € 85.3 million (previous year: € 82.2 million) and repayments of € 30.1 million (previous year: € 33.4 million) were made.

Discounts and financing costs of € 1.2 million (previous year: € 2.2 million) have been included under financial obligations.

Mortgage-backed loans from creditors amount to € 0.1 million (previous year: € 0.1 million).

Further details relating to the financial obligations are provided in the following table.

LONG AND SHORT-TERM FINANCIAL OBLIGATIONS

Million €

	Maturity to	Issue volume	Liability 31.12.2005	Remaining maturity < = 1 year	Remaining maturity >1 to 2 years	Remaining maturity >2 to 3 years	Remaining maturity >3 to 4 years	Remaining maturity >4 to 5 years	Remaining maturity > 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair Value 31.12.2005
Bonds												
Euro-currencies	2017	455.0	446.5	4.4	71.4	297.2	0.8	0.0	72.7	4.47%	5.19%	464.4
Foreign currencies (CHF, JPY)	2015	378.7	352.7	208.9	0.0	36.0	0.0	0.0	107.9	4.59%	3.29%	378.1
Total bonds		**833.7**	**799.2**	**213.3**	**71.4**	**333.1**	**0.8**	**0.0**	**180.5**	**4.52%**	**4.25%**	**842.5**
Thereof at a fixed interest rate	2017	833.7	799.2	213.3	71.4	333.1	0.8	0.0	180.5	4.52%	4.25%	842.5
Thereof at a variable interest rate		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	--	--	0.0
Payables to credit institutions												
Euro-currencies	2020	393.3	383.8	81.7	37.5	11.9	134.8	11.9	106.0	2.66%	3.11%	376.8
Foreign currencies (CHF, JPY)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	--	--	0.0
Total payables to credit institutions		**393.3**	**383.8**	**81.7**	**37.5**	**11.9**	**134.8**	**11.9**	**106.0**	**2.66%**	**3.11%**	**376.8**
Thereof at a fixed interest rate	2016	141.6	141.9	2.0	1.7	1.7	124.6	1.7	10.2	2.73%	3.06%	139.3
Thereof at a variable interest rate	2020	251.7	241.9	79.7	35.8	10.2	10.2	10.2	95.7	2.62%	3.13%	237.5
Financial obligations to others												
Euro-currencies	2032	28.5	25.5	4.8	0.9	0.9	1.0	1.0	17.0	3.78%	2.27%	25.5
Foreign currencies (CHF, JPY)	2009	34.8	36.3	0.3	0.0	0.0	36.0	0.0	0.0	1.90%	4.37%	37.5
Total financial obligations to others excluding cross border leasing		**63.3**	**61.8**	**5.1**	**0.9**	**0.9**	**37.0**	**1.0**	**17.0**	**2.68%**	**4.03%**	**63.0**
Thereof at a fixed interest rate	2032	35.4	36.5	0.3	0.0	0.0	36.0	0.0	0.2	1.90%	4.34%	37.6
Thereof at a variable interest rate	2015	27.9	25.3	4.8	0.9	0.9	1.0	1.0	16.8	3.80%	2.31%	25.3
Cross border leasing*			**1,149.5**	**0.0**	**0.0**	**32.2**	**0.0**	**15.2**	**1,102.2**			
Total financial obligations to others			**1,211.3**	**5.1**	**0.9**	**33.1**	**37.0**	**16.2**	**1,119.2**			
Total financial obligations excluding cross border leasing		**1,290.3**	**1,244.8**	**300.1**	**109.8**	**346.0**	**172.5**	**12.9**	**303.5**	**3.85%**	**4.02%**	**1,282.3**
Total financial obligations including cross border leasing			**2,394.3**	**300.1**	**109.8**	**378.2**	**172.5**	**28.1**	**1,405.6**			

* These figures correspond to asset items in the same amount

(27) LONG-TERM AND SHORT-TERM PROVISIONS

LONG-TERM AND SHORT-TERM PROVISIONS — **Million €**

	2005	2004
Provisions for pensions	233.8	227.9
Provisions for other post-employment benefits	89.0	66.4
Provisions for severance payments	135.5	110.8
Other provisions	454.1	431.2
Provisions for taxes	0.3	49.3
Long-term and short-term provisions	**912.7**	**885.6**

The provisions for pensions, other post employment benefits and severance payments are all considered long-term. For maturities of other provisions and provisions for taxes, please see below.

CHANGES TO PROVISIONS FOR SEVERANCE PAYMENTS — **Million €**

	Severance obligations	
	2005	2004
Derivation of provision recorded in the balance sheet		
Present value (DBO) of obligations	135.5	110.8
Recorded provision 31.12.	135.5	110.8
Payroll expenses include		
Service cost	3.0	2.7
Interest cost	5.8	5.5
Realized actuarial gain (-)/loss (+)	18.3	1.4
Severance payment costs recorded under payroll expenses	27.1	9.6
Changes to provisions		
Recorded provision 01.01.	110.8	103.9
Net expenditure recorded in the income statement	27.1	9.6
Severance payments	-2.4	-2.7
Recorded provision 31.12.	135.5	110.8

CHANGES TO PROVISIONS FOR PENSIONS AND OTHER POST EMPLOYMENT BENEFITS Million €

	Pension obligations		Other post employment benefits	
	2005	2004	2005	2004
Derivation of provision recorded in the balance sheet				
Present value (DBO) of obligations covered by fund assets	163.2	137.6	-	-
Market value of plan assets	-156.5	-145.1	-	-
Net value of obligations covered by fund assets	6.7	-7.5	-	-
Present value (DBO) of obligations not covered by fund assets	263.1	240.3	103.1	75.8
Accumulated actuarial gain (+)/loss (-) not realized	-36.0	-4.9	-14.1	-9.5
Recorded provision 31.12.	233.8	227.9	89.0	66.3
Payroll expenses include				
Service cost (acquired claims)	0.4	0.3	1.7	0.9
Interest cost	19.1	19.7	4.0	2.9
Expected investment gain (-)/-loss (+)	-5.7	-7.3	-	-
Amortized corridor gain (-)/loss (+)	16.3	0.2	18.6	19.5
Pension expenses recorded under payroll expenses	30.1	12.9	24.3	23.3
Actual investment gain (-)/loss (+)	-17.1	-8.7	-	-
Changes to provisions				
Recorded provision 01.01.	227.9	240.1	66.4	44.6
Net expenditure recorded in the income statement	30.1	12.9	24.3	23.3
Pension payments/supplementary health insurance premiums	-30.0	-28.8	-1.7	-1.5
Transfer to defined-benefit pension fund	0.0	-1.2	-	-
Fund contributions	-0.5	-0.2	-	-
Fund payouts	6.3	5.1	-	-
Recorded provision 31.12.	233.8	227.9	89.0	66.4
Changes to non-realized actuarial gain/loss (accumulated)				
Accumulated actuarial gain (+)/loss (-) 01.01.	-4.9	-8.1	-9.5	-11.0
Actuarial gain (+)/loss (-) of the year	-58.8	1.7	-23.2	-17.9
Investment gains (+)/ -losses (-) of the year	11.4	1.3	-	-
Amortized gain (+)/loss (-) of the year	16.3	0.2	18.6	19.4
Accumulated actuarial gain (+)/loss (-) 31.12.	-36.0	-4.9	-14.1	-9.5

OTHER PROVISIONS **Million €**

	Provisions for impending losses	Provisions for early retirement	Other personnel-related provisions	Other	Total
Carrying amount 01.01.2005					
Thereof > 1 year	106.6	72.3	3.1	13.0	195.1
Thereof < 1 year	18.5	29.9	37.4	150.4	236.1
Total 01.01.2005	**125.1**	**102.2**	**40.5**	**163.4**	**431.2**
New provisions	38.3	0.0	85.3	118.4	242.0
Interest accrued	7.8	3.3	0.2	0.2	11.5
Appropriation	-49.1	-18.6	-43.3	-102.9	-213.9
Reversal	0.0	-1.0	-0.5	-15.4	-16.8
Reclassification	-2.5	2.5	0.0	0.0	0.0
Carrying amount 31.12 2005	**119.6**	**88.4**	**82.2**	**163.8**	**454.1**
Thereof > 1 year	101.3	62.2	3.4	12.5	179.3
Thereof < 1 year	18.3	26.2	78.8	151.3	274.8

The provisions for impending losses were formed in 1998 as a result of the expected impact of deregulation on the electricity market and on an ongoing basis for onerous contracts. The appropriate value was calculated using the discounted cash flow method. Under this method, measurement is based on an estimate of future inflows and outflows of funds. The discount rate was 6.5 % (previous year: 6.5 %).

The provisions for early retirement provide for bridging payments within the framework of the early-retirement models in the amount of € 88.4 million (previous year: € 102.2 million). These models allow employees to leave the company prior to the date of retirement under the General Social Security Act (ASVG).

Other staff-related provisions contain accruals for vacation entitlements, flextime balances and overtime as well as the provisions for the adjustments of the parameters of the business plan of the defined-contribution Investment and Risk Community and provisions for additional vacation pay, incentive pay and anniversary bonuses.

OHTER LONG-TERM AND SHORT-TERM PROVISIONS Million €

	Compensation payments	Decommissioning costs	Outstanding receipts for investments	Maintenance expenses	Legal, auditing and consulting expenses	Electricity/ grid supplies	Other	Total
Carrying amount 01.01								
Thereof > 1 year	0.6	10.9	0.0	1.5	0.0	0.0	0.0	13.0
Thereof < 1 year	2.8	0.0	19.0	19.5	1.4	99.1	8.6	150.4
Total 01.01.	**3.4**	**10.9**	**19.0**	**21.0**	**1.4**	**99.1**	**8.6**	**163.4**
New provisions	4.0	1.7	18.2	26.8	3.0	62.8	1.9	118.4
Interest accrued	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Appropriation	-1.2	0.0	-12.6	-16.9	-1.2	-67.8	-3.2	-102.9
Reversal	-0.1	-0.2	-0.1	-0.8	-0.2	-13.9	-0.1	-15.4
Carrying amount 31.12	**6.1**	**12.4**	**24.5**	**30.1**	**3.0**	**80.4**	**7.2**	**163.8**
Thereof > 1 year	0.6	11.4	0.0	0.5	0.0	0.0	0.0	12.5
Thereof < 1 year	5.5	1.0	24.5	29.6	3.0	80.4	7.2	151.3

PROVISIONS FOR TAXES (CURRENT TAXES) Million €

	2005	2004
Corporate tax	0.0	49.0
Other taxes	0.3	0.3
Provisions for taxes (current taxes)	**0.3**	**49.3**

The provisions for taxes are all considered short-term.

(28) CONTRIBUTIONS TO BUILDING COSTS

Under this item, building-cost contributions made especially by provincial companies to Verbund, which are non-repayable, are carried as liabilities in the amount of € 431.2 million (previous year: € 440.1 million). These allow for electricity-purchase rights and user rights with respect to power plants and other facilities of Verbund for the duration of their useful lives. The building-cost contributions are reversed parallel to the depreciation of the facilities concerned.

(29) DEFERRED INCOME – CROSS BORDER LEASING

Deferred income includes cash inflows from cross border leasing transactions in the total amount of € 262.6 million (previous year: € 268.5 million). The portion that was reversed in the fiscal year as other operating income amounted to € 5.9 million.

(30) OTHER LONG-TERM LIABILITIES

OTHER LONG-TERM LIABILITIES		Million €
	2005	2004
Fair value of derivative financial instruments/financial area	15.3	20.8
Liabilities from water rights	2.5	2.4
Trade accounts payable	0.9	1.0
Government grants for emission rights	3.3	0.0
Other long-term liabilities	**22.0**	**24.2**

The government grants for emission rights refer to the amount of rights freely allocated that have not yet been consumed.

(31) OTHER SHORT-TERM LIABILITIES

OTHER SHORT-TERM LIABILITIES		Million €
	2005	2004
Fair value of derivative financial instruments		
Financial area	0.0	4.6
Trading – energy area	108.0	8.9
Hedge – energy area	35.3	5.6
Prepayments received for income that will be recognized in following periods	86.1	7.2
Liabilities to ECRA	80.8	0.0
Trade accounts payable	57.7	63.6
Liabilities to revenue authorities	40.8	41.1
Payables to companies in which participating interests are held	38.5	6.1
Payables to non-consolidated affiliated companies	9.5	16.4
Social security (e.g. liabilities to social-insurance institutions)	4.0	3.8
Prepayments received	0.8	18.8
Other	9.6	4.0
Other short-term liabilities	**471.1**	**180.2**

The liabilities to ECRA refer to the obligation to return the emission rights.

RISK/RISK MANAGEMENT

FINANCIAL INSTRUMENTS

The existing group's primary financial instruments primarily consist of long-term investments such as securities, loans and participating interests, trade receivables, cash in banks, public and non-public financial liabilities and trade payables.

FINANCIAL AREA

The derivative financial instruments regarding financial activities can be broken down as follows and are recorded in the following balance-sheet items:

FINANCIAL INSTRUMENTS — Million €

	Notional amount (Foreign currency)	31.12.2005 Positive Fair value	31.12.2005 Negative Fair value	31.12.2004 Positive Fair value	31.12.2004 Negative Fair value
Other receivables:					
Interest-rate swap cross border leasing (fixed-rate receiver)*	223.7 USD	64.0		53.1	
Cross-currency swaps	320.0 CHF	1.4		0.0	
Other liabilities:					
Cross-currency swaps	250.0 CHF		cleared		4.6
Currency forward transaction cross border leasing*	56.8 USD		15.3		20.8

* Hedge accounting in accordance with IAS 39

All of the derivative transactions listed are used exclusively for hedging against existing foreign-currency and interest-rate risks. Hedge accounting in accordance with IAS 39 was used for a number of the transactions listed.

The value fluctuations of these hedging transactions are offset by the value fluctuations of hedged transactions. The value fluctuations of the transactions for which hedge accounting was not carried out are recognized in profit or loss.

The notional amount comprises the reference basis of those derivative instruments that are open at the balance sheet date. The actual cash flows are merely a fraction of these values.

CREDIT RISK

The amounts recognized on the asset side also represent the maximum credit risk and risk of default. As part of the group-wide risk management system, the counterparty credit risk in electricity and grid business as well as in the financial area is assessed and monitored in a uniform manner across the group. Transactions, apart from minor amounts, are only entered into with customers with a sufficient credit rating either on the basis of an external investment grade rating of an international rating agency (Moody's, Standard & Poor's) or following an internal credit check which determines a rating equivalent.

For this purpose, each counterparty is assigned an individual limit which will be monitored across the group. Money market investments are also only concluded with financial partners that have an appropriate credit rating. All counterparty risks and the customer structure portfolio are monitored on the basis of default likelihoods which are calculated by international rating agencies. If the credit assessment or rating does not meet the requirements, i.e. an investment grade rating is not reached, transactions will be entered into only on the precondition of sufficient security (e.g. prepayments, bank guarantees, letters of comfort). These counterparty requirements serve to reduce default risks. Netting agreements are concluded to further minimize the risk level. Counterparty risks are not insured.

The most important credit risk items and the allocated credit rating groups are shown in the following table.

CREDIT RATING GROUP

	Equivalent to Moody's rating	Securities and loans in cross border leasing transactions	Other securities/ investment funds	Other long-term receivables and loans	Financial derivatives	Trade accounts receivable	Money market transactions
A	up to Aa3	1,037.4		36.4	64.0	38.3	
B	up to A3				1.4	110.6	24.0
C	up to Baa3					25.3	
D	below Baa3						
not rated			105.1	0.7		23.1	
Total		**1,037.4**	**105.1**	**37.1**	**65.4**	**197.3**	**24.0**

INTEREST RATE RISK

Verbund considers fluctuations in interest rates a substantial cash flow risk. Under the rules of risk management, only a maximum of 40% of the financial obligations (incl. money market transactions) may be subject to a floating rate. As of 31 December 2005, the share of financial obligations where Verbund has a corresponding interest-rate risk was approx. 23 % (previous year: 21 %).

An increase in the interest rate by 1 % would entail a reduction of the result by € 2.7 million p.a. (previous year: € 3.1 million p.a.), based on the credit portfolio without money-market borrowings that existed on the balance sheet date. The utilization of hedging instruments serves to reduce the effects short-term fluctuations in the market price have on earnings. Sustained negative changes in the market price, however, may have a negative effect on earnings.

As of 31 December 2005, interest-rate swaps only exist in connection with cross border leasing transactions. These interest-rate swaps are classified as fair value hedges. The fair value of these derivative transactions forms, together with related securities, loans and receivables, a micro-valuation unit in each case, which corresponds exactly to the recognized fair value of the financial obligation.

For a detailed description of the financial obligations including fair values, please refer to the table under (26). The average remaining maturity of the overall portfolio excluding money-market items amounts to 4.1 years (previous year: 4.1 years).

EXCHANGE RISK

There is no exchange risk on the asset side, because supplies are almost exclusively invoiced in Euro. The same is essentially true of the other primary financial instruments.

Since the assets (long-term investments, loans) and liabilities in connection with cross border leasing transactions are exclusively quoted in USD and since corresponding hedging transactions have been concluded, there is no exchange risk.

The situation on the liabilities side is different. Financing in a foreign currency was of considerable importance to Verbund in the past due to the positive interest differential compared to financing in Euro. In this context, the option to hedge against exchange risk was not exercised, or only rarely. In the past few years and in the period under review, this strategy, despite taking into consideration unfavorable rate developments, resulted in considerable interest advantages and significantly improved actual costs compared to conventional € financing.

Under the rules of risk management within Verbund, the foreign-currency share of financial obligations (excl. cross border leasing transactions) must not exceed the maximum values defined for each foreign-currency portion (max. 14.5 % CHF; max. 8 % JPY). These values were not exceeded.

As of 31 December 2005, the exchange risk related to all financial obligations, excluding the financial obligations regarding the Republic of Austria in connection with the pre-financing of building-cost contributions and excluding interest accruals, can be represented as follows:

LIABILITY — **Million**

	31.12.2005		31.12.2004	
	Foreign currency	€	Foreign currency	€
Swiss Francs	CHF 0.0	0.0	CHF 320.0	207.4
Japanese Yen	JPY 15,000.0	108.0	JPY 15,000.0	107.4
Total		**108.0**		**314.8**

In fiscal 2005, a cross-currency swap was concluded for a financial obligation that had still existed in the previous year in the amount of CHF 320 million through which the existing CHF payment flow was converted to a EUR payment flow. Although hedge accounting rules were not applied for this swap, the CHF exchange risk no longer exists from an economic viewpoint. A foreign currency exchange rate risk now only exists for the financial obligation in the amount of JPY 15 million. If JPY was to change by 1 % vis-à-vis €, the result would decrease by approx. € 1.1 million (previous year: € 3.2 million).

FAIR VALUES

The fair values of financial obligations can be seen in the table under (26). The fair values of derivative financial instruments/financial area can be seen in the table under "Financial Instruments/Financial Area" The fair value of other primary financial instruments is, given the daily or short-term maturities, essentially equivalent to the carrying amount.

ENERGY AREA

The derivative financial instruments (electricity futures, electricity forwards and swaps) used in the energy area can be broken down as follows:

DERIVATIVE FINANCIAL INSTRUMENTS — Million €

2004	Positive Fair values	Negative Fair values	Net Fair values	Notional values Purchases	Notional values Sales
Trading					
Futures	5.0	-3.5	1.5	125.9	74.7
Forwards	41.4	-41.7	-0.3	1,120.2	1,189.5
Total before netting	46.4	-45.2	1.2	1,246.1	1,264.1
Including the netting agreements	-36.3	36.3	0.0	-1,075.9	-1,075.9
Total after netting	10.1	-8.9	1.2	170.2	188.2
Hedge					
Futures	3.1	-8.7	-5.6	247.8	30.0
Forwards	9.3	-3.7	5.6	39.2	257.0
Total before netting	12.4	-12.4	0.0	287.0	287.0
Including the netting agreements	-6.4	6.4	0.0	-30.0	-30.0
Total after netting	6.0	-6.0	0.0	257.0	257.0
Sales					
Options	0.3	0.0	0.3	13.8	0.0

DERIVATIVE FINANCIAL INSTRUMENTS (continued) **Million €**

2005	Positive Fair values	Negative Fair values	Net Fair values	Notional values Purchases	Sales
Trading					
Futures	1.7	-4.7	-3.1	37.6	-11.9
Forwards	644.5	-656.4	-11.8	1,814.9	-1,823.6
Swaps	0.1	-0.5	-0.4	7.0	-4.3
Total before netting	646.3	-661.6	-15.3	1,859.6	-1,839.8
Including the netting agreements	-553.6	553.6	0.0	-1,563.0	1,563.0
Total after netting	92.7	-108.0	-15.3	296.5	-276.7
Hedge					
Futures	42.3	-7.0	35.3	365.4	-8.2
Forwards	7.0	-42.3	-35.3	8.2	-365.4
Total before netting	49.3	-49.3	0.0	373.5	-373.5
Including the netting agreements	-13.9	13.9	0.0	-16.3	16.3
Total after netting	35.3	-35.3	0.0	357.2	-357.2

Positive fair values are shown under “Receivables and other assets” and negative fair values under “Other liabilities”. If a framework contract with a netting clause has been concluded for a counterparty, the positive and negative fair values of the transactions are netted for this counterparty for reporting purposes.

The negative measurement results of the futures, forwards and swaps in the amount of € 15.3 million are offset by profits from the realization of futures and forwards in the net amount of € 11.6 million.

In Trading, the effects of potential market price fluctuations (-10 % to +10 %) on the entire portfolio or separately for forwards and futures are measured on the basis of a sensitivity analysis. Currently, an increase in the market price of 10 % would lead to a deterioration in the overall portfolio in the amount of minus € 35 thousand (forwards: minus € 2.30 million, futures: € 2.26 million).

RISK MANAGEMENT

In addition to corporate risk management, risk management focuses on the following aspects: financial area, electricity business, informatics and grid operations.

A risk management committee has been set up for each of these areas and a report is drawn up for the Managing Board on a quarterly basis.

This committee is responsible for the overall coordination of all risk-relevant issues in the individual segments. Central duties include checking the completeness of the risk portfolio, the evaluation and pursuit of control measures and the promotion of risk awareness among the respective employees.

FINANCIAL AREA

In its operating and financing activities, Verbund is exposed to financial risks. These financial risks essentially comprise liquidity risks, counterparty risks, price risks from securities as well as risks resulting from changes in currencies, interest rates and the credit ratings of Verbundgesellschaft.

The operative implementation of the cross border leasing transactions concluded by VERBUND-Austrian Hydro Power AG (see "Accounting policies") is monitored by a separate Risk Management Committee.

In keeping with Verbund's risk management system, which is, of course, applied throughout the entire group, risks are identified, analyzed and evaluated and limits are defined through the utilization of hedging measures.

Group guidelines have been set out on how to deal with financial risk in the financial area. In addition, there are position limits regarding the locking in of the interest rate, the spreading of foreign currencies and the maturities of financial obligations. Liquidity planning, which not only embraces the current year but also the following fiscal year, guarantees an adequate cash flow at all times.

ELECTRICITY BUSINESS

Within the framework of its operating activities, Verbund is becoming more and more exposed to risks associated with its electricity business (above all, market risks, counterparty risks and operational risks). One of the business strategies focuses on the creation of strict risk guidelines. These business policies relating to market risks were implemented through the creation of a rule book which defines various limits. The policies relating to counterparty risks were realized through the drawing up of a group guideline for counterparties and the procedures for dealing with operational risks are detailed in a process manual.

The utilization of the various limits in market risks (VaR, stress test, stop loss- and position limits) is reported and monitored on a daily basis in an automated process.

The operational risk in electricity business is controlled through the implementation of documented organizational and operational structures and the creation of emergency procedures for system failures. These documents are reviewed on an annual basis.

INFORMATICS

Irrespective of the area in which it is employed – be this in the area of informatics, process control, telecommunications or in other specialist areas - information technology (IT) is a crucial production and success factor within Verbund.

The employees play an essential role in the security management process and, for this reason, a number of information events and seminars were held in 2005 and modern media were employed to enhance IT security awareness within the group.

GRID OPERATIONS

As a result of the intensification of activities to maintain security of supply in Austria, the planned expansion of the 380 kV grid, the intensive activities of the regulator in this sector and the increasing internationalization of business, the risk management activities and the related grid measures are bundled and pursued every three months by a separate risk management committee.

OTHER DISCLOSURES

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The indirect method was used for the cash flow statement and the cash flows are listed in a separate breakdown. The composition of the liquid funds is explained under (19) in the notes.

Dividend inflows and interest inflows/outflows are classified as operating activities. Of these, € 12.3 million (previous year: € 8.5 million) relate to interest inflows, € 74.9 million (previous year: € 81.4 million) to interest outflows. The dividend inflows came to € 31.4 million (previous year: € 20.9 million).

Dividend distribution is presented under financing activities.

Income tax payments amount to € 97.6 million (previous year: € 49.4 million) and essentially refer to the cash flows of operating activities.

OTHER OBLIGATIONS AND RISKS

GUARANTEES (CONTINGENT LIABILITIES)

With respect to joint and several guarantees for bonds and credit of non-consolidated affiliated companies and companies in which participating interests are held as well as with respect to guarantees, there are liabilities (as of 31 December 2005) in the amount of € 166.1 million (previous year: € 120.8 million).

AGREEMENTS AND PURCHASE COMMITMENTS

On the balance-sheet date, there were obligations from rent, lease and insurance agreements in the amount of € 30.9 million (previous year: € 29.7 million), of which € 7.4 million (previous year: € 7.3 million) will come due within one year and € 30.9 million (previous year: € 29.7 million) within the next five years. The total amount of obligations is subject to indefinite contractual periods; therefore, an exact amount cannot be calculated. As of 31 December 2005, there was a purchase commitment of € 0.5 million (previous year: € 3.4 million) for the construction of property, plant and equipment and intangible assets, of which € 0.5 million (previous year: € 2.8 million) will come due within one year and € 0.5 million (previous year: € 3.4 million) within the next five years.

PLANT ALLOWANCES

In 2001, the European Commission handed down a positive finding for the power plant Voitsberg 3 with respect to a plant allowance to cover stranded costs. Accordingly, payments were received from Energie-Control Österreichische Gesellschaft für die Regulierung in der Elektrizitäts- und Erdgaswirtschaft mit beschränkter Haftung (E-CONTROL) from 2001 to 2005. In 2004, the constitutional court ruled that § 10 para. 1 of the decree passed by the Federal Ministry of Economics and Labour (BMWA), relating to the raising and granting of plant allowances to cover revenue reductions due to market deregulation and in connection with the construction and operation of the power plant Voitsberg III, was unlawful. On 07 September 2005, the amended version of § 10 para. 1 of the Stranded Costs Decree II was unanimously approved by the Central Committee of the National Council. Hence, the most important hurdle to achieving legal security relating to the payment of all plant allowances has now been taken. A finding of the Supreme Court on 28 November 2005 stipulates that an approved customer is not obliged to pay the allowances in accordance with the Stranded Costs Decree I.

According to a legal opinion at ATP KG, this will not affect accounting at this time. In 2005, E-CONTROL made payments in the amount of € 13.6 million. The amount still outstanding as on 31 December 2005, subject to the consequences of the above finding, is € 7.9 million.

PURCHASE AGREEMENTS

An electricity-supply agreement has been concluded with Ennskraftwerke Aktiengesellschaft under which the energy that is generated in its power plants less the electricity procurement rights of other participating partners must be supplied to Verbundgesellschaft against reimbursement of the expenses recognized plus an appropriate return on equity.

Electricity-supply agreements have been drawn up with Österreichisch-Bayerische Kraftwerke Aktiengesellschaft and Donaukraftwerk Jochenstein Aktiengesellschaft under which 50 % of the energy that is generated in their power plants must be supplied to Verbundgesellschaft against reimbursement of the expenses recognized plus an appropriate return on equity.

An electricity-supply agreement has been concluded with E.ON Wasserkraft GmbH under which E.ON Wasserkraft GmbH is obliged to supply half of the energy that is generated at the power plants Ering and Obernberg to Verbundgesellschaft at cost price plus an agreed profit mark-up.

Under an agreement concluded in 1993, up to 1,600 GWh must be imported annually from "Elektrim" Towarzystwo Handlowe – Spolka Akcyjna and Polskie Sieci Elektroenergetyczne S.A. (PSE), Warsaw.

Another agreement with Weglokoks, Katowice, provides for the annual purchase of up to 300,000 tons of hard coal until 2006. The supplies are made on customary terms and conditions. In addition, there are other purchase agreements customary for usual business activities, which comprise, in particular, supplies of primary energy sources and electricity.

OTHER OBLIGATIONS

Open payment obligations exist in the investment area in the amount of € 3.0 million (previous year: € 1.1 million).

With respect to the construction of power plants and lines - typical of the energy sector - continuous compensation payments are made to property owners for any economic disadvantages. The present value of these commitments, however, is, on the whole, not material to Verbund.

> Part-time workers have been considered on a prorated basis in terms of working hours.

NUMBER OF EMPLOYEES (AVERAGE)

	2005	2004	Veränderung
Salaried employees	2,302	2,361	-59
Waged workers	46	61	-15
Apprentices	88	78	10
Number of employees (Average)	**2,436**	**2,500**	**-64**

At the balance-sheet date, 740 employees (previous year: 754) were given a "letter of loyalty", which grants them a higher degree of dismissal protection. To qualify, an employee must have worked for Verbund for twenty years and must be at least 45 years old.

RELATED PARTY DISCLOSURES

Related parties of Verbund include all affiliated and associated companies. The members of the Managing Board and the Supervisory Board of Verbundgesellschaft are also related parties, as is the Republic of Austria as the majority shareholder.

A list of the group companies can be seen in the appendix of tables.

All relations with related parties take place on an arms-length basis.

RELATED PARTY TRANSACTIONS WITH ASSOCIATED AND NON-CONSOLIDATED AFFILIATED COMPANIES

The most significant business transactions with the associated companies accounted for using the equity method are as follows:

BUSINESS TRANSACTIONS WITH ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD — **Million €**

	2005	2004
Sales revenues	405.3	398.5
Other income	3.1	2.0
Electricity and grid purchases	100.3	115.8
Other expenses	3.7	3.0
Receivables	34.3	67.9
Liabilities	34.1	3.0

The business transactions with non-consolidated affiliated companies are not material and are therefore not listed.

PROVISION OF PERSONNEL

On average, 94 employees (previous year: 98) were allocated to Verbundplan GmbH, in which Verbund holds a share of 25.1 %, for the purposes of different engineering and consulting tasks. These temporary transfers are made at standardized rates, depending on the qualifications of the employees and on market-conforming hourly rates.

In addition, an average total of 46 (previous year: 46) transfers were made to other Verbund companies in 2005.

DISCLOSURES ON BOARD MEMBERS

Details on the Board Members of the Verbund-group (Managing Board and Supervisory Board) can be found on page 5.

REMUNERATIONS OF THE MANAGING BOARD €

	Dipl.-Ing. Hans Haider	Dr. Michael Pistauer	Dr. Johann Sereinig
Short-term benefits:			
Fixed emoluments	477,157	444,920	424,465
Variable emoluments	100,934	98,050	98,050

The remunerations of the three members of the Managing Board totaled € 1,643,576 (previous year: € 1,516,918). The Board Members did not receive any loans or advances.

The expenses for severance payments, pensions and other post-employment benefits amounted to € 2,292,907 (previous year: € 2,515,849) for the Managing Board as well as for formers members of the Managing Board and their surviving dependants.

Former members of the Managing Board and their surviving dependants received € 895,957 (previous year: € 884,880).

The remunerations for the members of the Supervisory Board amounted to € 150,252 (previous year: € 158,919).

RELATED PARTY TRANSACTIONS WITH THE REPUBLIC OF AUSTRIA

These disclosures refer exclusively to transactions that were conducted directly with the Republic of Austria. Transactions with companies that are controlled by the Republic of Austria are not detailed here.

The most significant transactions with the Republic of Austria include the pre-financing of building-cost contributions (see (15) in the notes). There were no direct electricity supplies to the Republic of Austria in fiscal 2005.

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

In December 2005, the Verbund-group and the public utility Stadtwerke Klagenfurt concluded an agreement to establish the energy utility Energie Klagenfurt GmbH which will be under the joint control of both parties. The Verbund-group will hold a 49 % share in the new company. The required permits had already been obtained from the appropriate bodies on the balance sheet date. After the closing, which is expected in February, the company will be included in the annual financial statements of the Verbund-group using the equity method.

Furthermore, the contracts relating to the acquisition of an 18.4 % stake in the French electricity and gas distribution company Poweo SA and convertible bonds, which will increase the stake by a further 6.6 % to 25 % in total, were signed in January 2006. The closing is expected in April.

Vienna, 30 January 2006

The Managing Board

Dipl.-Ing. Hans Haider Chairman of the Managing Board	Dr. Michael Pistauer Deputy Chairman of the Managing Board	Dr. Johann Sereinig Member of the Managing Board

GROUP COMPANIES

> FC = Full consolidation
> EQ = Consolidation at equity
> NC = Non-consolidated

1) IFRS figures
2) Condolidated financial statements according to HGB (Austrian Commercial Code)
3) Established 2005, the shareholders' equity corresponds to the nominal capital
4) Joint venture

All values, other than IFRS data, are indicated pursuant to national commercial law.

GROUP COMPANIES — Thousand €

Company	Domicile	Type of consolidation	Interest by multiplication	Fiscal year	Shareholders' equity	Net profit/loss	Note
Companies consolidated							
Österreichische Elektrizitäts-wirtschafts-Aktiengesellschaft	Vienna	FC		2005	1,100,280	151,970	1
VERBUND-Austrian Power Grid AG	Vienna	FC	100.00 %	2005	263,211	49,637	1
VERBUND Italia S.p.A.	Milan	FC	100.00 %	2004	220,700	1,316	
VERBUND-Telekom Service GmbH	Vienna	FC	100.00 %	2005	2,691	4,059	1
VERBUND-International Finance B.V.	Amsterdam	FC	100.00 %	2005	2,216	216	1
VERBUND-Austrian Power Trading AG	Vienna	FC	100.00 %	2005	1,349	325	1
VERBUND-Finanzierungsservice GmbH	Vienna	FC	100.00 %	2005	227	823	1
VERBUND Management Service GmbH	Vienna	FC	100.00 %	2005	174	1,331	1
VERBUND-Austrian Power Sales GmbH (formerly VERBUND-110 kV Grid GmbH)	Vienna	FC	100.00 %	2005	144	44	1
VERBUND-Austrian Hydro Power AG	Vienna	FC	80.33 %	2005	999,046	213,672	1
VERBUND-Austrian Thermal Power GmbH.	Graz	FC	59.49 %	2005	1,268	1,063	1
VERBUND-Austrian Thermal Power GmbH & Co KG	Graz	FC	55.65 %	2005	137,340	25,242	1
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	EQ	50.00 %	2004	50,134	2,045	4
Ennskraftwerke Aktiengesellschaft	Steyr	EQ	50.00 %	2004	41,276	4,861	1,4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	EQ	50.00 %	2004	11,801	258	4
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	EQ	40.17 %	2004	127	77	4
Energia S.p.A. (Group)	Milan	EQ	37.98 %	2004	418,464	59,078	1
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft	Klagenfurt	EQ	35.12 %	2004	233,409	42,183	2
STEWEAG-STEG GmbH	Graz	EQ	34.57 %	2004	427,035	38,268	1
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EQ	26.77 %	2004	38	2	
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EQ	26.77 %	2004	36	-183	
Electricity							
VERBUND-Austrian Power Trading Czech Republic s.r.o.	Prague	NC	100.00 %	2005	207	-	3
VERBUND-Austrian Power Trading Slovakia, s.r.o.	Bratislava	NC	100.00 %	2005	206	-	3

GROUP COMPANIES Thousand €

Company	Domicile	Type of consolidation	Interest by multiplication	Fiscal year	Shareholders' equity	Net profit/loss	Note
APT – Austrian Power Trading Deutschland GmbH	Munich	NC	100.00 %	2004	195	87	
APT Hungária Energia-kereskedelmi Korlátolt Felelösségü Társaság	Budapest	NC	100.00 %	2004	176	26	
APT Power Trading SL, trgovanje z elektricno energijo d.o.o.	Ljubljana	NC	100.00 %	2004	160	90	
APT Austrian Power Trading Polska Sp.z o.o.	Warsaw	NC	100.00 %	2004	122	5	
Szélerömü Park Kisfalud Korlátolt Felelösségü Társaság	Kisfalud	NC	75.00 %	2004	148	-	3
Energie Austria GmbH	Vienna	NC	52.80 %	2004	59	-2	
PLINSKO PARNA ELEKTRARNA, d.o.o.	Kidricevo	NC	40.00 %	2005	9	-	3
SAVA Izrabljanje naravnega vira d.o.o.	Medvode	NC	35.00 %	2004	24	0	
APCS Power Clearing and Settlement AG	Vienna	NC	14.42 %	2004	2,965	359	
Environment							
VERBUND-Umwelttechnik GmbH	Klagenfurt	NC	90.51 %	2004	850	369	
Kärntner Restmüllverwertungs GmbH	Arnoldstein	NC	36.86 %	2004	11,693	-1,189	
Engineering							
AHP Messtechnik GmbH	Vienna	NC	80.33 %	2005	39	160	
Verbundplan Birecik Baraji Isletme Ltd.Sti.	Birecik	NC	56.23 %	2004	6,218	4,911	
Verbundplan GmbH	Vienna	NC	22.72 %	2004	5,017	847	
Tourism							
Tauern Touristik GmbH	Kaprun	NC	82.17 %	2005	3,705	-1,209	
Gletscherbahnen Kaprun Aktiengesellschaft	Kaprun	NC	45.00 %	2003/2004	35,856	105	
Others							
VERBUND-BeteiligungsgmbH	Vienna	NC	90.51 %	2005	8,722	339	
Lestin & Co. Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H.	Vienna	NC	70.01 %	2004	704	75	
Lestin & Co. Tauch- und Bergungsunternehmen Gesellschaft m.b.H.	Passau	NC	70.01 %	2004	85	-1	

> FC = Full consolidation
EQ = Consolidation at equity
NC = Non-consolidated

1) IFRS figures
2) Condolidated financial statements according to HGB (Austrian Commercial Code)
3) Established 2005, the shareholders' equity corresponds to the nominal capital
4) Joint venture

All values, other than IFRS data, are indicated pursuant to national commercial law.

FINANCIAL INFORMATION RELATING TO ASSOCIATED COMPANIES

FINANCIAL INFORMATION RELATING TO ASSOCIATED COMPANIES

Company	Domicile	Type of consolidation	Interest by multiplication	Fiscal year
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	EQ	50.00 %	2004
Ennskraftwerke Aktiengesellschaft	Steyr	EQ	50.00 %	2004
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	EQ	50.00 %	2004
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	EQ	40.17 %	2004
Energia S.p.A. (Group)	Milan	EQ	37.98 %	2004
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft	Klagenfurt	EQ	35.12 %	2004
STEWEAG-STEG GmbH	Graz	EQ	34.57 %	2004
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EQ	26.77 %	2004
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EQ	26.77 %	2004
Gletscherbahnen Kaprun Aktiengesellschaft	Kaprun	NC	45.00 %	2003/2004
PLINSKO PARNA ELEKTRARNA, d.o.o.	Kidricevo	NC	40.00 %	2005
Kärntner Restmüllverwertungs GmbH	Klagenfurt	NC	36.86 %	2004
SAVA Izrabljanje naravnega vira d.o.o.	Medvode	NC	35.00 %	2004
Verbundplan GmbH	Vienna	NC	22.72 %	2004
APCS Power Clearing and Settlement AG	Vienna	NC	14.42 %	2004
Summe				

Thousand €

	total				proportinate			
	Assets	Liabilities	Sales revenues	Net profit/loss	Assets	Liabilities	Sales revenues	Net profit/loss
	190,482	72,898	51,697	2,045	95,241	36,449	25,849	1,023
	131,722	90,446	32,379	4,861	65,861	45,223	16,189	2,431
	46,894	35,093	23,115	258	23,447	17,547	11,558	129
	45,691	45,564	30,262	77	18,352	18,301	12,155	31
	1,015,256	596,793	943,186	59,078	385,594	226,662	358,222	22,438
	914,872	548,707	507,102	42,183	321,303	192,706	178,094	14,815
	1,030,718	603,683	578,435	38,268	356,319	208,693	199,965	13,229
	14,131	7,363	0	-183	3,783	1,971	0	-49
	40	2	8	2	11	1	2	1
	63,712	25,911	22,862	105	28,670	11,660	10,288	47
					0	0	0	0
	79,959	62,054	4,711	-1,189	29,473	22,873	1,736	-438
	25	1	0	0	9	0	0	0
	48,918	43,901	35,017	847	11,113	9,973	7,955	192
	10,988	8,023	4,892	359	1,584	1,157	705	52
	3,593,408	**2,140,438**	**2,233,665**	**146,711**	**1,340,761**	**793,216**	**822,718**	**53,899**

AUDITOR'S REPORT

We have audited the consolidated financial statements of Österreichische Elektrizitätswirtschafts-Aktiengesellschaft, Vienna, Austria 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 (IFRSs) 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 (ISAs). 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 Österreichische Elektrizitätswirtschafts-Aktiengesellschaft 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 (IFRSs) as adopted by the EU. The management report for the group is in accordance with the consolidated financial statements.

Vienna, 30 January 2006

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Hans Zöchling Mag. Walter Reiffenstuhl
(Austrian Chartered Accountants)

DOCUMENTATION IN ACCORDANCE WITH § 45A PARA. 6 ELECTRICITY INDUSTRY AND ORGANISATION ACT (ELWOG)

RESULT OF THE DOCUMENTATION OF ELECTRICITY ORIGIN		2005
	Anteil	kWh
Hydropower	100.0 %	1,372,803,000
Total volume of electricity sold to end customers in Austria for their own consumption	**100.0 %**	**1,372,803,000**

AUDITOR'S NOTE

We audited the documentation created in accordance with § 45a para. 6 ElWOG by Österreichische Elektrizitätswirtschafts-Aktiengesellschaft, Vienna, for fiscal 2005.

The statutory evidence used for the documentation of electricity origin was furnished by Österreichische Elektrizitätswirtschafts-Aktiengesellschaft. Within the framework of the audit procedures, we did not come across any facts that would lead us to assume that the documentation that was submitted under the statutory requirements does not reflect the actual conditions.

Vienna, 30 January 2006

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Hans Zöchling Mag. Walter Reiffenstuhl
(Austrian Chartered Accountants)

REPORT OF THE SUPERVISORY BOARD

Österreichische Elektrizitätswirtschafts-Aktiengesellschaft (Verbundgesellschaft) – a leading listed company within the electricity sector – with its public commitment to the Austrian Corporate Governance Code fulfilled all the requirements of the capital market in a consistent manner. As in fiscal 2004, adherence to the rules stipulated in the code was again independently monitored by an external institution and details relating to the findings were published in the Annual Report as well as on the Verbund homepage (www.verbund.at).

The Supervisory Board performed its duties and exercised its powers under the law and the articles of incorporation in six plenary sessions. The Working (Strategy) Committee convened at six meetings and the Audit Committee at one meeting. In addition, meetings of the board, as staff committee, were held as required.

The Supervisory Board was informed regularly, in a timely fashion and comprehensively, both in writing and verbally, on relevant issues of business development as well as on the state and strategy of the company, including risk conditions and risk management. On the basis of these reports, the Supervisory Board continuously examined and supported the management activities of the Managing Board. These examinations, conducted in an open debate of the topics and issues between the Managing Board and the Supervisory Board, provided no cause for complaint.

The accounts, annual financial statements and consolidated annual financial statements were audited by KPMG Alpen-Treuhand GbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, in accordance with internationally recognized auditing principles and standards.

The auditor prepared a written report on the results and found, in accordance with § 274 (1) HGB (Commercial Code), that the Managing Board has supplied all such information and documentary evidence as had been required. The accounts, annual financial statements and consolidated financial statements comply with the statutory provisions and, in accordance with the principles of proper accounting, faithfully reflect the income and financial situation of the company and the group. The Management Report and the Group Management Report are consistent with the annual financial statements and the consolidated financial statements.

At the same time, it was confirmed that the statutory requirements for an exemption from the obligation to prepare a consolidated financial statement and a group management report have been met under Austrian commercial law.

The Supervisory Board examined the annual financial statements and the consolidated financial statements, to which the auditor affixed his unqualified audit certificate, as well as the Management Report and the Group Management Report of the Managing Board. The Management Report of the Managing Board was approved, and the consolidated annual financial statements acknowledged. The annual financial statements were approved by the Supervisory Board and are therefore deemed adopted under § 125 (2) Aktiengesetz ("Stock Corporation Law").

On behalf of the Supervisory Board

DDr. Erhard Schaschl

Vienna, February 2006

Asset allocation	The willful and meaningful distribution of assets across different investment vehicles.
Bear market	Negative price development on the stock exchange over a longer period of time.
Base load[fn]	Constant electrical output over all hours of one day.
Benchmark	Term used to describe a reference value to which a fund or portfolio is compared for orientation purposes.
Bottleneck capacity	The maximum long-term output of a power plant under normal conditions.
Capital-to-assets ratio (adjusted)	Shareholder's equity in relation to total capital adjusted for closed items on the assets and liabilities side (e.g. in the case of cross border leasing transactions).
Cash flow	Balance of cash inflows and outflows; usually broken down into cash flows from operating activities, investing activities and financing activities.
Corporate Governance Code	Code for corporations which sets down standards of good corporate management. The provisions do not take the form of a statute law. The code contains a set of rules to which companies may commit themselves at their own discretion.
Cross border leasing	Lessor and lessee are based in different countries.
Discounted Cash Flow Method	Determination of goodwill through capitalization of cash flows which can be defined differently depending on the accounting method used. At Verbund, the gross accounting method is used (entity approach)
E-Control (Energie-Control GmbH)	Set up by the legislator on the basis of the Energy Liberalization Act. The main task involves monitoring and, if necessary, regulating the deregulation of the Austrian electricity and gas market.
Earnings Before Interest and Taxes (EBIT)	Operating Result before Interest and Taxes.
Earnings before Interest, Taxes, equipDepreciation and Amortization (EBITDA)	Operating Result before Interest, Taxes, depreciation of property, plant and ment and amortization of intangible assets.
Economic Value Added (EVA®)	Difference between the return generated by the company on the entire net interest-bearing capital and the total capital costs; EVA® = Invested Capital Employed x (ROiC – WACC).
ElWOG	Electricity Industry and Organisation Act.
Equity method	Method applied to consolidate associated companies that are not included in the group financial statements as fully consolidated companies with all assets and liabilities. Here, the carrying amount is adjusted on the basis of the changes in the pro-rated shareholders' equity of the interest. This change is recognized in the income statement or directly in the equity of the parent company.
EV	Enterprise Value is the market capitalization plus interest-bearing net debt. Reflects the overall corporate value at market prices.
Free cash flow	Operating cash flow plus cash flow from investing activities; the free cash flow is available for payments relating to financing activities (e.g. dividend distribution and loan repayments).
Funds from Operations (FFO)	Operating result adjusted for depreciation and amortization, interest income and current taxes.
Gross debt coverage	The ratio of funds from operations (FFO) to interest-bearing gross debt.
Gross interest cover	The ratio of funds from operations (FFO) to interest expenses.
Hydro coefficient	The hydro coefficient is the ratio between the actual volume of electricity generated in one (or a series of) hydropower plant(s) within a defined period and the average (calculated on the basis of historical water supply volumes) generation capacity of this/these hydropower plant(s) over the same period. This long-term average comes to 1. Consequently, 1.1 represents a 10 % increase in production.

IAS/IFRS	International Accounting Standard/International Financial Reporting Standard; the designation IAS was changed to IFRS in 2001. Standards published up to that date are still referred to as IAS.
Invested capital	Employed interest-burdened capital adjusted for closed items on the assets and liabilities side (e.g. in the case of cross border leasing transactions).
Kyoto protocol	International climate protection agreement of the UN organization UNFCCC. Defines goals for reducing greenhouse gas emissions and thus the risk of global warming. Signed in 1997, the Kyoto protocol came into force on 16 February 2005.
M&A	Abbreviation for Mergers & Acquisitions; describes all mergers through acquisitions, divestments and fusions, etc.
Monte Carlo Simulation	Suitable for displaying a large number of realized risks within a model with a freely selectable number of simulations. This produces a distribution trend.
(n-1) criteria	Rule which states that the safety of grid operation cannot be endangered by a single event, e.g. the failure of a line.
Net gearing	Net interest-bearing debt in relation to shareholders' equity. Measure of company's indebtedness.
Peak load[fn]	Refers to the load type for electricity supply or electricity purchases of constant output over a period of 12 hours from 08:00 to 20:00 on each weekday (Monday to Friday) of a supply period.
Performance	Describes the value development of a security or portfolio over a given period, e.g. 12 months, on the basis of a defined risk level.
Phase shifting transformers	Regulating transformers used to influence or control the load flow. The load between two parallel lines can be distributed and the existing line capacity can be used more efficiently.
Over the Counter (OTC)	Trading outside of the stock exchanges
Pay-out ratio	Proposed dividend per share in relation to earnings per share.
Portfolio	Entirety of the investment in securities held by a customer or investment fund; primarily used for the distribution of risk.
Risk management	Systematic approach for identifying and assessing potential risks as well as for selecting and implementing appropriate measures to manage such risks.
ROE	Return on Equity; profit after income taxes in relation to average shareholders' equity.
ROIC	Return on Invested Capital; profits after taxes increased by tax-adjusted interest expenses in relation to the average invested capital.
Scoring procedure	Procedure employed to evaluate and compare various alternatives on the basis of computed utility values.
Standard capacity	The volume of electricity that can be supplied by a power plant in a specific period (usually a year).
Value at Risk (VaR)	Procedure for calculating the loss potential resulting from price changes in the trading position. The loss potential is calculated on the basis of market-oriented price changes and is quoted subject to the specific level of probability (e.g. 98%).
Volatility	Range of fluctuation of share or foreign currency prices or the price changes of bulk commodities compared to the market development.
Weighted Average Cost of Capital (WACC)	Weighted average capital cost that the company has to pay for its borrowings and shareholders' equity on the capital market.


HAEFELY
BUY

IMPRINT/CONTACT

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VERBUND

Österreichische Elektrizitätswirtschafts-Aktiengesellschaft
(Verbundgesellschaft)

Generation

AHP
VERBUND-Austrian Hydro Power AG

ATP
VERBUND-Austrian Thermal Power GmbH & Co KG

Environmentally friendly and cost-effective generation form the basis for the success of Verbund all over Europe. Approx. 90 % of the electricity produced by Verbund is generated from hydropower. The thermal subsidiaries supply important complementary energy.

Trading/Sales

APT
VERBUND-Austrian Power Trading AG

APS
VERBUND-Austrian Power Sales GmbH

With seven subsidiaries in the member states of the EU, Verbund is one of the most expansive and most successful electricity traders in Europe. Since June 2005, Verbund has also been very actively involved in direct distribution to end customers in Austria.

Transmission

APG
VERBUND-Austrian Power Grid AG

Verbund operates the supra-regional high-voltage grid which transports approx. 50 % of the total volume of electricity consumed in Austria. Moreover, with its connections to the international grid, Verbund is an important switching location within the framework of European electricity transmission.

Participating interests

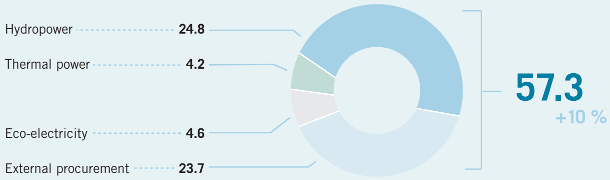
VBG
VERBUND-BeteiligungsgmbH

Verbund holds numerous shareholdings in Austria and abroad. Energy is a core business area for most of the companies in the Verbund portfolio. These successful companies make growing contributions to earnings within the group.

FACTS/FIGURES

GENERATION

GROUP GENERATION



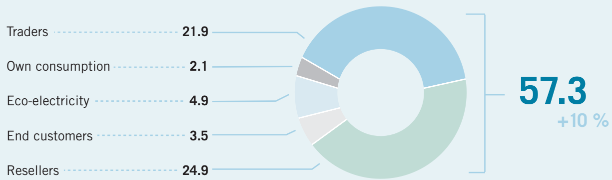
RATIOS – POWER PLANTS

	Share	EPL* MW	RAV** TWh
Hydropower plants	87	5.9	21.8
Thermal power plants	9	1.8	-
Procurement rights for run-of-river plants	20	0.6	3.0
Summe	**116**	**8.3**	**24.8**

* Bottleneck capacity ** Standard capacity

TRADING/SALES

GROUP SALES TWh

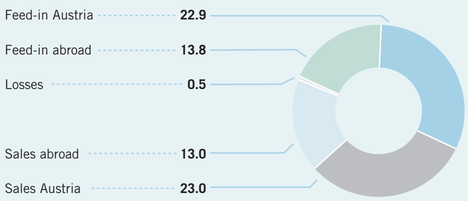


DISTRIBUTION ACCORDING TO COUNTRIES

	TWh	Share
Austria	29.2	51.0 %
Germany	20.8	36.4 %
France	3.8	6.6 %
Italy	0.9	1.6 %
Slovenia	1.9	3.3 %
Others	0.7	1.1 %
Total	**57.3**	**100.0 %**

TRANSPORT

ELECTRICITY TRANSPORT IN 220/380 KV GRID TWh



GRID km

Voltage level	Route length	System length
380 kV	1,002.0	1,973.4
220 kV	1,658.6	3,309.1
110 kV	721.3	1,237.0
Total	**3,381.9**	**6,519.5**

CAPITAL MARKET CALENDAR

Event		Date
Annual Results 2005		21.02.2006
Annual General Meeting		20.03.2006
Dividend Ex-Day		27.03.2006
Dividend Payout Day		06.04.2006
Interim Report Quarter 1/2006		25.04.2006
Interim Report Quarter 1-2/2006		25.07.2006
Interim Report Quarter 1-3/2006		24.10.2006

SHARE PRICE DEVELOPMENT

€

BASIC INFORMATION

Stock Market Listings	
Vienna	74640
Frankfurt, regional exchanges in Germany	877738
London	4661607
American Depositary Receipt	OEZVY

Share Capital (€)	223,978,000
Shares (Units)	30,820,000

Information Systems (Stock Market Vienna)	
Bloomberg	OEEW AV
Datastream	O:VERB
Reuters	VERB.V
ISIN	AT0000746409

Rating Agencies	
Standard & Poor's	A
Moody's	A1