

**LETTER TO  
SHAREHOLDERS**  
1<sup>ST</sup>-3<sup>RD</sup> QUARTER 2005



## LETTER TO SHAREHOLDERS 1<sup>ST</sup>-3<sup>RD</sup> QUARTER 2005



*Ringturm – Headquarter of Wiener Städtische*

### **Dear Shareholders, Ladies and Gentlemen,**

The present letter to shareholders provides you with information on the business development of the Wiener Städtische Group in the 1<sup>st</sup>-3<sup>rd</sup> quarter 2005. The Group clearly remained on the road to success in the reporting period.

It can be seen – in the double-digit growth rates with premiums, both in Austria and outside Austria, and in the result, which has strongly increased with regard to the comparative period of the previous year – that the Group strategy geared towards profit-oriented growth is working.

#### **Capital increase envisaged**

Wiener Städtische Allgemeine Versicherung AG intends to implement a capital increase in an amount of approximately 20% of its current share capital. The subscription period, in which new shares may be subscribed, will commence on 2<sup>nd</sup> December 2005. Wiener Städtische's

free float should increase from around 11% to more than 25% through the proposed capital increase. More specific details will be published before commencement of the subscription period.

#### **The Wiener Städtische Group in the first three quarters 2005**

##### **Increase in earned premiums by 21.1%**

The Wiener Städtische Group recorded total consolidated, **gross earned premiums of EUR 3,639.4 million from January to September 2005**. As a result, a premium plus of 21.1% could be generated, compared with the corresponding period of the previous year.

##### **Life insurance as the engine of growth**

Life insurance proved to be the engine of growth of this performance. EUR 1,578.2 million in premiums was achieved in the Group in the first three quarters 2005 with a gain of 33.9% compared with the corresponding period last year. The premium income increased considerably both in Austria, with a plus of 24.7%, and outside Austria with 64.7%.

##### **Significant growth also in the property and casualty sector**

Property and casualty insurance was also able to grow in the first three quarters 2005 by 13.9% to EUR 1,844.3 million. Whereas premiums in Austria rose by 8.1% to EUR 1,012.3 million, the countries outside Austria in particular contributed to this positive overall development with a growth of 21.9%. The premium income generated outside Austria increased accordingly to EUR 832.0 million.

##### **Growth both inside and outside Austria**

The Austrian companies, with premiums amounting to EUR 2,364.1 million, produced a double-digit plus of 15.1% in the first nine months of the current year compared with the corresponding period last year. Outside Austria, premiums could even be increased by 34.0% to EUR 1,275.3 million. Thus, the foreign companies' percentage in the Group's premium income, which has been increasing for some years, already amounted to slightly more than 35% at the end of the third quarter 2005.

The accounted non-consolidated premiums of the **extended Group**, which includes additional insurance participations in addition to the Group companies, rose by 19.2% to just under **EUR 4 billion**.

## SEGMENT REPORTING BY BUSINESS LINES

IN EUR 1,000	Gross earned premium		Profit before tax	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
Property and casualty insurance	1,844,281	1,618,732	111,002	56,035
Health insurance	216,890	207,997	13,534	9,435
Life insurance	1,578,180	1,178,929	63,133	41,099
<b>Total</b>	<b>3,639,351</b>	<b>3,005,658</b>	<b>187,669</b>	<b>106,569</b>

## SEGMENT REPORTING BY REGIONS

IN EUR 1,000	Gross earned premium		Profit before tax	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
Austria	2,364,090	2,054,042	126,515	83,128
Czech Republic	636,033	526,477	31,155	27,496
Slovakia	233,283	203,921	21,447	13,198
Remaining CEE markets	205,790	126,219	-1,153	-10,979
Other markets	200,155	94,999	9,705	-6,274
<b>Total</b>	<b>3,639,351</b>	<b>3,005,658</b>	<b>187,669</b>	<b>106,569</b>

Success for us is the smile of  
11 million carefree customers.



GROUP  
**WIENER  
STÄDTISCHE**

### Positive performance of the Group result

The Group's profit before tax amounted to EUR 187.7 million. Thus, a considerable increase of 76.1% was achieved in comparison with the reporting period of the previous year. With this result, the Group is, after nine months, above the profit before tax for the whole previous year by more than 20%.

The combined ratio of the Group after reinsurance (disregarding investment income) has decreased further and amounted to around 96% in the first three quarters of the current year. The investment profit of the Group recorded an increase of approximately 50.1%, to EUR 448.1 million, compared with the corresponding period of the previous year. The reasons for this considerable increase were the decline of the write-offs and losses from the sale of capital assets compared with the corresponding period last year and higher realised gains from the sale of financial assets in 2005. The total financial assets position of the Group rose by 12.1% to EUR 13,858.5 million.

### Group target for 2005 raised

In view of the very good performance of the Group from the first up to the third quarter 2005, Wiener Städtische can increase its profit before tax target for the financial year 2005 to approximately EUR 220 million.

# CONSOLIDATED BALANCE SHEET

as of 30<sup>th</sup> September 2005 in accordance with IFRS

## ASSETS

IN EUR 1,000	30.9.2005	31.12.2004
<b>A. Intangible assets</b>		
I. Goodwill	170,693	27,377
II. Insurance portfolios acquired against payment	42,733	31,872
III. Other intangible assets	57,772	56,293
	<b>271,198</b>	<b>115,542</b>
<b>B. Financial assets</b>		
I. Land and buildings	1,079,520	1,131,494
II. Shares in affiliated and associated companies	675,423	626,669
III. Financial instruments		
a) Loans and other capital assets	1,901,165	2,062,307
b) Other securities		
Financial instruments held until final maturity	202,682	173,799
Financial instruments available for sale	9,627,084	8,049,194
Trading portfolio	372,673	324,679
	<b>13,858,547</b>	<b>12,368,142</b>
<b>C. Financial assets of unit-linked and index-linked life insurance</b>	<b>1,578,474</b>	<b>1,119,628</b>
<b>D. Shares of reinsurers in the underwriting provisions</b>	<b>827,485</b>	<b>679,870</b>
<b>E. Receivables</b>	<b>939,273</b>	<b>716,246</b>
<b>F. Tax deferral on the assets side</b>	<b>15,818</b>	<b>7,411</b>
<b>G. Other assets</b>	<b>169,355</b>	<b>230,647</b>
<b>H. Cash and cash equivalents</b>	<b>130,422</b>	<b>193,421</b>
<b>Balance sheet total</b>	<b>17,790,572</b>	<b>15,430,907</b>

## LIABILITIES

IN EUR 1,000	30.9.2005	31.12.2004
<b>A. Shareholders' equity</b>		
I. Share capital	89,655	89,655
II. Capital reserves	150,000	150,000
III. Revenue reserves	415,549	323,614
IV. Other reserves	378,468	285,459
V. Minority interests	70,187	65,050
	<b>1,103,859</b>	<b>913,778</b>
<b>B. Subordinated liabilities</b>	<b>413,200</b>	<b>113,200</b>
<b>C. Underwriting provisions</b>		
I. Unearned premiums	664,947	442,929
II. Actuarial reserve	9,151,546	8,404,484
III. Provision for outstanding insurance claims	2,218,766	1,933,455
IV. Provision for the refund of premium not related to results	33,469	31,949
V. Provision for the refund of premium related to results	571,332	464,827
VI. Other underwriting provisions	13,822	12,727
	<b>12,653,882</b>	<b>11,290,371</b>
<b>D. Underwriting provisions of unit-linked and index-linked life insurance</b>	<b>1,555,143</b>	<b>1,119,220</b>
<b>E. Non-underwriting provisions</b>		
I. Provisions for pensions and similar commitments	633,120	624,471
II. Provisions for taxes	76,411	90,080
III. Other provisions	186,121	171,570
	<b>895,652</b>	<b>886,121</b>
<b>F. Liabilities</b>	<b>973,857</b>	<b>939,156</b>
<b>G. Deferred tax liabilities</b>	<b>125,493</b>	<b>109,511</b>
<b>H. Other liabilities</b>	<b>69,486</b>	<b>59,550</b>
<b>Balance sheet total</b>	<b>17,790,572</b>	<b>15,430,907</b>

## CONSOLIDATED INCOME STATEMENT

from 1<sup>st</sup> January to 30<sup>th</sup> September 2005 in accordance with IFRS

IN EUR 1,000	Q1-Q3 2005	Q1-Q3 2004
<b>Earned premiums</b>		
Gross premiums written	3,778,052	3,118,639
Written premiums ceded to reinsurers	-593,257	-505,016
	<b>3,184,795</b>	<b>2,613,623</b>
Change premium accruals – gross	-138,701	-112,981
Change premium accruals – reinsurers' share	47,951	38,072
	<b>3,094,045</b>	<b>2,538,714</b>
Investment profit	448,053	298,589
Other income	25,211	17,295
Expenses for claims incurred	-2,625,756	-2,099,908
Operating expenses	-661,886	-569,021
Other expenses	-94,985	-82,202
Income from shares in associated and affiliated companies	2,987	3,102
<b>Profit before taxes</b>	<b>187,669</b>	<b>106,569</b>
Taxes	-46,393	-24,510
Profit for the period	141,276	82,059
Thereof attributable to owners of minority interests	7,919	431
<b>Consolidated result</b>	<b>133,357</b>	<b>81,628</b>
<b>Earnings per share*</b>	<b>1.54</b>	<b>0.95</b>

\*The diluted earnings per share are equal to the undiluted earnings per share

## CONSOLIDATED CASH FLOW STATEMENT

IN EUR 1,000	Q1-Q3 2005	Q1-Q3 2004
<b>Funds on 1<sup>st</sup> January</b>	<b>193,422</b>	<b>349,764</b>
Cash flow from operations	1,099,792	815,101
Cash flow from investment activities	-1,497,466	-1,055,327
Cash flow from financing activities	309,218	82,381
<b>Changes in funds</b>	<b>-88,456</b>	<b>-157,845</b>
Changes in scope of consolidation/translation differences	25,456	1,577
<b>Funds on 30<sup>th</sup> September</b>	<b>130,422</b>	<b>193,496</b>

## CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

IN EUR 1,000	Q1-Q3 2005	Q1-Q3 2004
<b>Shareholders' equity on 1<sup>st</sup> January</b>	<b>913,778</b>	<b>682,305</b>
Currency translations	5,659	4,002
Changes from capital consolidation	-4,672	35,040
Unrealised gains and losses from investment instruments available for sale	90,682	34,840
Profit for the period	141,276	82,059
Dividends paid	-42,864	-23,287
<b>Shareholders' equity on 30<sup>th</sup> September</b>	<b>1,103,859</b>	<b>814,959</b>



## Latest news

### Disclosure of the embedded value\* for the first time

The embedded value for the Wiener Städtische Group on the reference date 30<sup>th</sup> September 2005 amounts to EUR 2,678 million. Thus, Wiener Städtische is publishing this reference number for the first time and as the only Austrian insurance group to do so.

The embedded value is utilised in the company valuation. In the course of this, the value of the portfolio of insurance policies is calculated. This is made up of the two components of net assets ("net asset value") for life, health and property/casualty insurance and discounted earnings from the insurance business ("value of in-force business") just for life and health insurance.

The embedded value approach is used by the large international insurance groups, in addition to the financial statements, in order to be better able to do justice to the long-term nature of the insurance business when determining the economic value of the company.

\* The calculation of the embedded value requires the use of numerous assumptions with respect to future business, operating and economic conditions, and other factors some of which are beyond the control of the company. Although the assumptions used represent estimates which the company considers reasonable, actual future operating conditions and actual future experience may vary from that assumed in the calculation of the Embedded Value, and such variations may be material. Consequently the publication of the Embedded Value information does not constitute any guarantee that the future profits on which the Embedded Value is based may be realized.

### CEE – Participation in KFS

Wiener Städtische is planning to participate in the Dutch company Kardan Financial Service B.V. (KFS) with 40% for the time being, which holds the majority share in TBIH Financial Services Group NV (TBIH) as a holding company. TBIH primarily deals with insurance, pension funds, asset management and leasing business lines. TBIH's insurance companies in Bulgaria and Croatia in particular are of great strategic interest for the Wiener Städtische Group. In both countries, Wiener Städtische will significantly increase its market presence through the acquisition.

The transaction was concluded subject to due diligence and regulatory approvals.

### Russia – Entry into the market

Wiener Städtische is forming a life insurance company in Russia in collaboration with the Moscow insurance company MSK (Moskovskaja strachovaja kompanija).

MSK, a large Russian non-life insurer, is 51% owned by Moscow City and 49% owned by the Bank of Moscow. The Bank of Moscow is one of the five largest Russian banking institutions and is represented all over Russia.

The life insurance company, with a share capital of 60 million roubles (approximately EUR 1.8 million), will belong 25% to Wiener Städtische and 75% to MSK. Operationally, the company should start in the course of the 1<sup>st</sup> half-year 2006. The sale of the products of the new life insurance company will be carried out via the widely dispersed distribution network of MSK and via the 135 branches of the Bank of Moscow. In the process, Wiener Städtische will put into the new company its many years of experience in the life insurance sector, particularly in the design of insurance products and marketing over the bank counter.

Currently, the Russian insurance market only boasts roughly just as much premium as the Austrian one. However, with its 143 million inhabitants, Russia is the most populous country in CEE by a long way. In its positive economic environment, Wiener Städtische expects very good development opportunities in the life insurance market.

### Poland – Antitrust authorities approve the purchase of the Benefia insurance companies

Approval by the Polish antitrust authority has now been granted for the purchase in Poland of Benefia Non-Life and Benefia Life, carried out in the 1<sup>st</sup> half-year 2005. Approval for the takeover of Royal Polska, also purchased in 2005, is still outstanding.

### Slovakia – Kooperativa – Insurance company of the year 2005

For the fourth time already, the distinction "Insurer of the Year" has been bestowed on Kooperativa in Bratislava by the business publication Trend. Another member of the Wiener Städtische Group, namely Komunálna, was able to occupy third place in this competition. As a result, Wiener Städtische's two companies are once again placed among the top 3 of Slovak insurance companies. A total of 13 insurance companies that achieved a positive

operating result in the previous year were assessed. Profitability, cost ratios and the change in market share were referred to as the valuation criteria.

#### **Austria –**

##### **Reduction of shares in Kapital & Wert and Porr**

Wiener Städtische divested itself of 12.6% of the ordinary shares of Porr AG in the 3<sup>rd</sup> quarter. However, it continues to remain involved with 10.1% of the voting shares in the company. With the sale of approximately 47% of the shares in Kapital & Wert Vermögensverwaltung AG, Wiener Städtische took a further step, at the start of October, to concentrating on insurance business and to no longer holding major participations in stock exchange listed companies. Wiener Städtische now holds only a share of approximately 3% in Kapital & Wert Vermögensverwaltung AG.

#### **Austria –**

##### **Floods in August**

Torrential rainfall in broad areas of the country in August 2005 were the reason for flooded basements and garages, power failures and mud-covered roads. The insurance payments paid out by Wiener Städtische due to this storm amounted to roughly EUR 15 million. However, the overwhelming share of these losses is covered by the forward-looking reinsurance policy of the company.

#### **Austria –**

##### **New telephone numbers**

Since 24<sup>th</sup> October 2005, you have been able to reach Wiener Städtische from all over Austria at the local rate on telephone number 050 350 plus a 5-digit extension. The conversion to this new system of numbers facilitates communication with customers and business partners tremendously.

From all over Austria, Wiener Städtische's customers can now reach the service line on telephone number 050 350 350, the claims hotline on telephone number 050 350 355 and the "United Funds of Success" service line on telephone number 050 350 351. The new telephone numbers for the company head office and the provincial head offices:

##### **Head office in Vienna**

Tel: 050 350-20000

Fax: 050 350 99-20000

##### **Provincial head office for Vienna**

Tel.: 050 350-20000

Fax: 050 350 99-20000

##### **Provincial head office for Lower Austria**

Tel.: 050 350-41000

Fax: 050 350 99-41000

##### **Provincial head office for Upper Austria**

Tel.: 050 350-42000

Fax: 050 350 99-42000

##### **Provincial head office for Styria**

Tel.: 050 350-43000

Fax: 050 350 99-43000

##### **Provincial head office for Carinthia/Eastern Tyrol**

Tel.: 050 350-44000

Fax: 050 350 99-44000

##### **Provincial head office for Salzburg**

Tel.: 050 350-45000

Fax: 050 350 99-45000

##### **Provincial head office for Tyrol**

Tel.: 050 350-46000

Fax: 050 350 99-46000

##### **Provincial head office for Vorarlberg**

Tel.: 050 350-47000

Fax: 050 350 99-47000

##### **Provincial head office for Burgenland**

Tel.: 050 350-48000

Fax: 050 350 99-48000

## **The Wiener Städtische share**

### **Inclusion of the share in the ATX**

The Wiener Städtische share has been included in the ATX (Austrian Traded Index), the guiding index of the Vienna Stock Exchange, since 19<sup>th</sup> September 2005. Shares of the Vienna Stock Exchange with the highest turnover and capitalisation are included in the ATX. The liquidity of the Wiener Städtische share has increased considerably in the current year, which demonstrates the great interest of investors in the company. On average, the traded quantity in the first nine months of the year



2005 was more than 9 times as high as in the corresponding period of 2004.

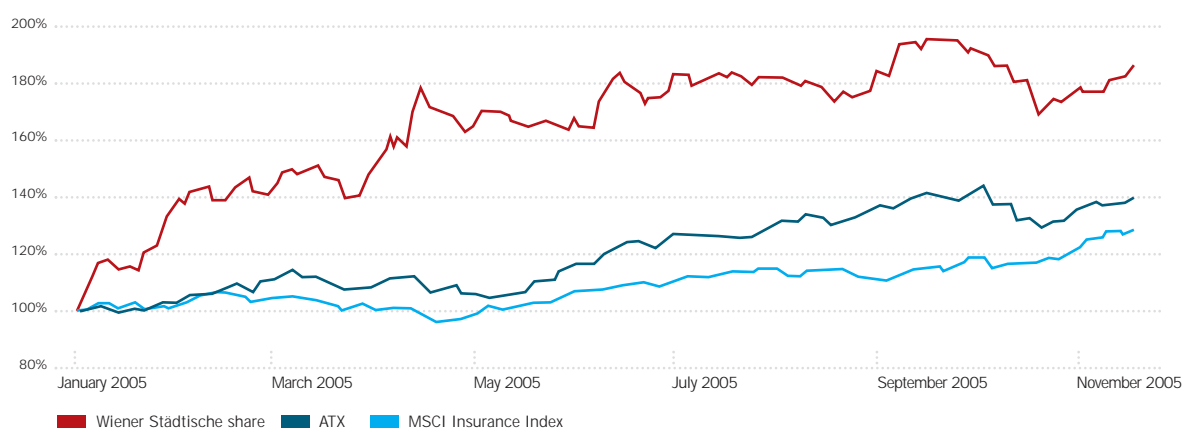
#### Satisfactory performance of the Wiener Städtische share

The year 2005 has proceeded extremely favourably for Wiener Städtische shareholders so far. The Wiener Städtische share achieved a new all-time high with a

closing price of EUR 47.50 on 16<sup>th</sup> September and on 22<sup>nd</sup> September 2005. On the editorial deadline for the letter to shareholders on 18<sup>th</sup> November 2005, the security was quoted at EUR 45.25. As a result, it has achieved an appreciation in value amounting to 86.1% since the beginning of the year 2005. In comparison with that, the ATX has risen by 39.9% since the start of 2005.

#### WIENER STÄDTISCHE PERFORMANCE compared with the ATX and with the MSCI INSURANCE INDEX

Beginning of the year 2005 - 18.11.2005; indexed



#### INFORMATION ON THE SHARE

First quotation	17 <sup>th</sup> October 1994	Security abbreviation	WST
Share capital	EUR 89,655,022	Bloomberg	WST AV
Number of shares	86,357,600 units	Reuters	WISV.VI
ISIN	AT0000908504	Listing:	Vienna

Günter Geyer  
General Manager

Karl Fink  
Deputy General Manager

Christian Brandstetter  
Director on the Managing Board

Rudolf Ertl  
Director on the Managing Board

Peter Hagen  
Director on the Managing Board

Robert Lasshofer  
Director on the Managing Board

Martin Simhandl  
Director on the Managing Board

Vienna, 18<sup>th</sup> November 2005

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The letter to shareholders may be downloaded from our Internet site (Investor Relations/Downloads) in the German and English language as a PDF file. The letter to shareholders was drawn up in the German language; the English version is a translation. The German version alone is the authentic wording.

Editorial deadline: 18<sup>th</sup> November 2005

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Wiener Städtische Allgemeine Versicherung AG assumes no obligation to update any forward-looking statement for the 3<sup>rd</sup> quarter 2005.



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