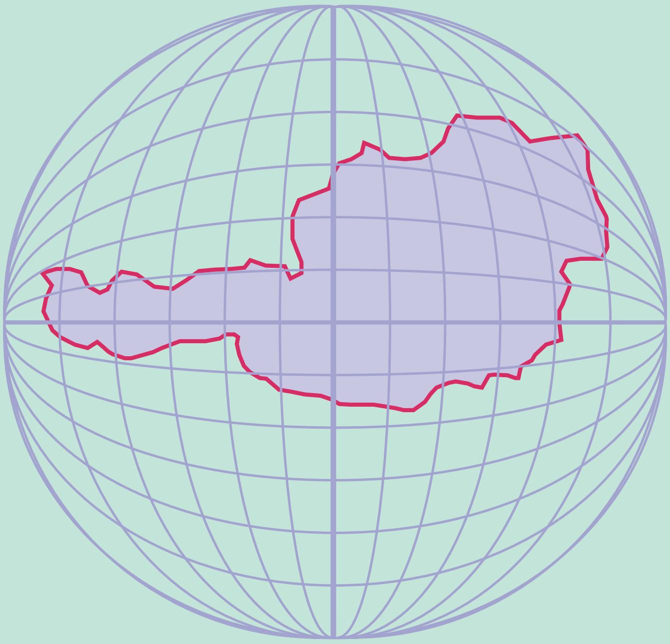
Oesterreichische Nationalbank
&
Financial Markets Austria Services Ltd.

The Austrian Financial Markets

A Survey of Austria's Capital Markets

Facts and Figures



Revised Edition 2004

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Acknowledgment

The publication of a brochure providing easy access to continuously updated information on the Austrian capital markets to the international investment community was one of the first suggestions developed within the framework of the reform initiative currently undertaken by participants in the Austrian financial market. This brochure, jointly edited by the *Oesterreichische Nationalbank* and Financial Markets Austria Ltd., a subsidiary of *Oesterreichische Kontrollbank AG (OeKB),* is the result of continuous efforts and the commitment of a number of contributors.

We would like to express our sincere appreciation for their contributions to the Federal Ministry of Finance, OMV Aktiengesellschaft, The Financial Market Authority, the Austrian Institute of Economic Research, ÖIAG Österreichische Industrieholding AG, KPMG Alpen-Treuhand Gesellschaft mbH and Dr. Pöch, legal counselor to *OeKB.*

A lot of input and expertise have been provided by the *Wiener Börse AG* (the Vienna securities and derivatives exchange) and numerous banking and financial institutions active in the Austrian and international capital markets, as well as the experts who contributed to the brochure and are named in the brochure as contacts for further details.

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Preface

Karl-Heinz Grasser
Austrian Federal Minister of Finance

The fact that the Austrian leading stock market index ATX broke the 2000 point barrier for the first time ever this year – against the odds of a lackluster EU economy – does not seem to be the accidental outcome of a "random walk". Rather, this milestone event can well be assumed to be the logical result of the prudent, carefully designed capital market policy that the Austrian government has conducted for the last few years and of the trust and credibility this policy has earned with investors. And if we may believe the majority of observers, these very favorable investment conditions in Austria are more than likely to persist. Hence one is tempted to ask: what were the driving factors that helped the domestic capital market to thrive and prosper and what are the perspectives?

Certainly, there is a multitude of causes. Let me try to outline the most important of them.

First and foremost, investor confidence was successfully restored. While for decades the domestic capital market had kept a rather low profile, several well-directed government measures turned it into a transparent, efficient and increasingly liquid meeting place for capital seekers and providers. The first general overhaul of the national capital market regulation during the 1990s was a by-product of Austria's preparation for entry into the European Union rather than the result of a concerted overall economic strategy. In 2001, shortly after the current government took office, a Special Government Representative for the Capital Market was appointed to merge a range of different initiatives into a single common strategy with the chief objective to stimulate the Austrian financial market.

The prime task of the Special Government Representative was to increase the volumes of securities traded and to raise the number of Austrian as well as foreign market participants while at the same time addressing the overdue needs for (i) privatizing state-owned enterprises and (ii) offering an additional, sustainable alternative retirement saving vehicle for the general public.

Against this background and in line with international standards, an independent, autonomous and integrated supervisory authority, the *Financial Market Authority* (FMA), was established in April 2002. It supervises credit institutions, insurance undertakings, pension funds, staff provision funds, investment funds, investment service providers, companies listed on the stock exchange and stock exchanges. In performing these tasks, the FMA cooperates closely with the *Oesterreichische Nationalbank* and the *Ministry of Finance.* At EU level, work is now under way to enhance cross-country coordination and cooperation among the financial market authorities in the Member States.

In its Financial Sector Assessment Program (FSAP) mission to Austria, the IMF acknowledged the reforms related to the new supervisory structure, in particular the good start of the new *Financial Market Authority* and the successful inter-institutional cooperation with the OeNB and the Ministry of Finance. During the recent Article IV consultation with Austria in July 2004, the IMF again emphasized the soundness of the financial sector, its resilience to external shocks and a "high level of observance of internationally accepted financial standards".

Furthermore, a major initiative has been the introduction of a voluntary Corporate Governance Code, which sets out principles of good governance to be applied specifically by enterprises that raise funds through capital markets. In this context, I would like to encourage investors to watch for companies' adherence to this Code. Further improvements to this Code are in progress.

Legislative work currently under way further comprises the transposition into national law of the Market Abuse Directive, part of which deals with stricter rules on insider trading, the Prospectus Directive and the Transparency Directive, which requires listed companies to publish quarterly financial reports. From the beginning of next year, the majority of enterprises regularly participating in the Austrian capital market will have to comply with the International Financing Reporting Standards (IFRS). Also, the European Commission has presented a proposal for the 8th Company Law Directive to the Council and the European Parliament, which is to enhance the standards for external auditors and improve corporate governance standards. Austria's timely implementation of high-standard capital market rules has certainly been key to the positive developments seen in the recent past.

A main feature of Austria's economy is the large share of small and medium-sized enterprises (SMEs), which are usually highly productive and very innovative and employ a vast part of Austria's labor force. These entities mainly fund themselves through banks; the banks, in turn, are currently preparing for a new capital adequacy framework, known as Basel II. From today's perspective, Basel II will not enter into force before the end of 2006, but the preparatory work carried out by the banks as well as by various national and international working groups is moving ahead at full speed. Apart from setting incentives for SMEs to increase their equity capital, the *Ministry of Finance* works together with other ministries and institutions on ancillary measures to dampen the effect of slightly higher capital requirements for non-rated legal entities. These measures are geared at, inter alia, making some legal adjustments to various forms of financial collateral and securities, exploring possibilities to provide support for pooled funding methods and facilitating venture capital funding. In fact, the compulsory implementation of Basel II provides us with the opportunity to improve the capital market structure of the entire economy. Thus, we are confident that we can turn what was considered a burden to the economy at the onset into an overall advantage at the end.

Against this backdrop, we are determined to use the momentum currently seen in the national stock market – which has certainly been propelled, inter alia, by expectations of a positive spillover from EU enlargement and the increasing activity of domestic pension funds – to set a new and sustained basis for a high-standard, efficient, custom-made Austrian capital market. We are on the right way.

Klaus Liebscher
Governor
Oesterreichische
Nationalbank

In the second half of 2003 Austria took part in a voluntary assessment of regulatory conditions and financial sector resilience in the framework of the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF). In its preliminary mission report, the IMF acknowledged the stability of the Austrian financial sector, pointing out, in particular, that the financial markets had been faring well despite the difficult economic environment and that the early expansion of Austrian banks into Central and Eastern Europe had contributed significantly to strengthening their profitability. Furthermore, the banking sector was judged to be stable and resilient to shocks. The IMF also confirmed that the establishment of a single supervisor and high compliance with international supervisory standards provided Austria with a well-functioning regulatory framework.

The OeNB's close and constructive cooperation with the Financial Market Authority (FMA), which took up operation on April 1, 2002, as well as its statutory responsibility to conduct on-site inspections help provide a firm basis for the OeNB to perform its task of maintaining financial stability. Owing to the increasing global integration of financial markets and the growing number of links between financial institutions, over the past few years maintaining financial stability has become one of prime duties of national central banks. In pursuing this objective, central banks are also responsible for ensuring the smooth operation of payment systems. Entrusted with payment systems oversight in Austria, the OeNB contributes considerably to safeguarding the reliability and efficiency of payment systems as well as the security of payment instruments.

The European Commission's Financial Services Action Plan, launched in 1999 to achieve a single market in financial services by 2005, is entering its final stages. 39 of the 42 envisaged ambitious legislative measures have already been finalized. The adoption of the remaining three provisions may require a substantial effort. One of these remaining open issues is the European Commission's proposal for a new capital adequacy directive to implement the New Basel Capital Accord (Basel II), which was submitted to the European Parliament and the Council under the codecision procedure in July 2004.

The intense process of discussion on Basel II, which aims to enhance the stability of the international financial system, had been initiated as early as in June 1999, when the Basel Committee on Banking Supervision launched the first consultative document.

Next to appropriate regulatory framework conditions, achieving a single European market in financial services also requires faster and more efficient legislative procedures to be able to keep abreast of dynamic financial and capital market developments. In the securities business, the so-called Lamfalussy regime successfully paved the way for the rapid creation of an integrated European market. In March 2004, the European Parliament agreed to extending the Lamfalussy recommendations to the entire financial services sector. The Committee of European Banking Supervisors (CEBS) has become the most important advisory body supporting the European Commission in supervisory matters. The CEBS consists of high-level representatives of national supervisory authorities and central banks. Its responsibilities include ensuring the consistent implementation of EU directives, harmonizing supervisory practices and fostering supervisory cooperation.

While brighter growth prospects, the economic upswing seen especially in the U.S.A., East Asia and the transition economies of Central and Eastern Europe, as well as rising corporate profits contribute to solid conditions internationally and in Europe, it remains to be seen – despite the generally more upbeat mood – whether the fledgling upturn will be sustained in Austria and in the euro area. The enlargement of the European Union by ten new Member States on May 1, 2004, is set to provide further impetus to the Austrian economy.

Leading the way in investment in Central and Eastern Europe, Austrian banks started to expand into the region years ago; today, their subsidiaries hold substantial market share in the new Member States. The revenues earned in these countries considerably improved Austrian banks' results also in the 2003 financial year. As the new Member States will be gradually moving towards and joining monetary union, this dynamic region, with all its opportunities and risks, will remain an "enlarged home market" for the Austrian banking industry.

Richard Schenz
Special Government
Representative
for the Capital Market

Capital market campaign significantly boosts the market

The government's capital market campaign helped to significantly boost the market in 2003. From the beginning of 2003 to March 2004, the ATX rose by 62% making it the best-performing index compared to major international indices. Market capitalisation increased from EUR 32.2 billion at the end of 2002 to EUR 52.1 billion by February 2004. The federal government's consistently pursued privatisation policy, the tax reform and the measures of the action plan implemented for the Austrian capital market provided effective support for this uptrend.

The three pillars of the action plan, which was drafted under the guidance of the Special Government Representative for the Capital Market, built confidence in the Austrian capital market and helped to increase trading volumes on *Wiener Börse* in 2003.

The Austrian Code of Corporate Governance

The adoption of the Austrian Code of Corporate Governance marks the achievement of an internationally acceptable and viable framework for good corporate governance and control, which has met with wide acceptance among listed companies and investors.

As early as in 2003, 50% of the companies listed on the prime market of *Wiener Börse* undertook to comply with the Code. In 2004, 70% of the companies listed on the prime market are expected to commit themselves to compliance with the Code. Investors regard the objectives of the Austrian Code of Corporate Governance, i.e., more transparency, stronger autonomy of the executive bodies, improved cooperation between the supervisory board, the management board and the shareholders, and the sustainable and long-term creation of wealth as the optimal basis for reinforcing confidence. By introducing the Austrian Code of Corporate Governance, the already high standard of corporate governance culture was improved further by giving it a regulatory framework, thus heightening the attractiveness of Austria' financial marketplace. Strengthening corporate governance is a permanent process. The Austrian Corporate Governance Working Group continued its activities and has published interpretations to promote the implementation of the Code and has drawn up a questionnaire for the external evaluation of compliance with the Code. The working group's activities currently focus on an examination of the Code against the backdrop of national and international developments, which will probably lead to an amendment of the Code at the end of 2004. Amendments to the Austrian Stock Corporation Act and the Stock Exchange Act as well as the EU Action Plan on "Modernising Company Law and Enhancing Corporate Governance in the EU" and the revised version of the OECD Principles of Corporate Governance shall be given special attention in this context.

Information campaign of the Committee for the Capital Market

Knowledge of the capital market is fundamental for building confidence in the capital market. An information campaign targeting the general public organised by the Committee for the Austrian Capital Market, which was initiated jointly by *Wiener Börse* and *Oesterreichische Nationalbank,* has the purpose of raising capital market know-how and awareness among the Austrian population and companies. An educational kit for teachers and pupils on investment and the capital market has already been prepared and has been very well received at schools. These activities will continue in 2004 and will be extended to cover universities and adult education. An advertising campaign is being planned to encourage investment in Austrian stocks. The Committee commissioned a study entitled "The Significance of (Equity) Capital Markets for the Dynamic Economies of Europe", which reached findings that provide a scientific basis for the sound arguments in support of the Austrian capital market.

State-subsidised retirement product

The new private retirement product that enjoys a state-funded premium was highly successful in two areas in 2003. First, with a total of 281,138 policies sold amounting to a premium volume of EUR 238.5 million, the state-subsidised retirement product became one of the most popular retirement products among the Austrian population during its first year. For the first time, a successful incentive was created for private retirement provision in Austria. The state-subsidised retirement products offer customers attractive tax advantages as well as a secure and flexible retirement scheme that features a capital guarantee and an opt-out option.

Second, the retirement products effectively bolstered the uptrend on *Wiener Börse* – directly and indirectly – by focusing investments in Austrian stocks but without causing a market distortion. A share of 40% of the capital of such funds must be invested in stocks listed on markets in the EEA with a market capitalisation that is lower than 30% of GDP. Apart from *Wiener Börse,* this requirement is also met by the exchanges of most of the new EU Member States.

An efficient and well-functioning national capital market remains a crucial factor for providing Austrian companies with the capital they need, in particular, in the light of the new capital adequacy regulations for banks (Basel II). Financing for research and development, which is of great importance for sustained economic growth, requires the availability of equity capital. In addition, the need to secure future pensions and the increasing significance of fully-funded retirement schemes calls for an efficient and well-functioning national capital market. Therefore, the capital market campaign will be continued in the interest of achieving a sustainable stimulation of the Austrian capital market, higher economic growth and employment. The focus will be on the following measures to raise the capital market volume on the supply side:

- Continuation of privatisations through the stock exchange, *Wiener Börse*
- Optimizing the overall conditions for asset-backed securities
- Improvement of the overall conditions for corporate bonds
- Strengthening the pre-IPO risk capital market (venture capital and private equity)
- Development of instruments to better exploit the capital market potential of SMEs (funds constructed specifically for SMEs)

2

Focus on Special Topics

Johannes Attems
Member of the Board
of Executive Directors,
Oesterreichische
Kontrollbank AG

2.1 Cross Border Settlement in the EU

OeKB to ensure highly efficient clearing and settlement in the Austrian securities market

Oesterreichische Kontrollbank AG (OeKB) is highly committed and undertakes great efforts to further develop the Austrian financial market – among other things, also as a member of the Committee for the Austrian Capital Market. In its role as provider of services to the Austrian Clearing House and as the Central Securities Depository with an excellent international network, it serves as the competence centre for the Austrian capital market and contributes enormously to optimising cross-border securities dealings.

The globalisation of capital markets has led to the steady rise of cross-border securities trading in Europe and between continents. With the introduction of the Euro in 1999 this development has accelerated even more.

The European Central Securities Depositories have responded to the challenges arising from this development and have worked closely together to define standards for the interoperability of the individual clearing and settlement organisations. To this end they founded the European Central Securities Depository Association (ECSDA) in 1997 with the main goal of implementing a secure and efficient process for the cross-border settlement of securities dealings in Europe. In its function as Central Securities Depository for Austria, *Oesterreichische Kontrollbank AG* is one of the founding members of ECSDA and contributes major and valuable inputs to the attainment of ECSDA's goals.

In the past three years, the European Union has intensified its efforts to complete the internal market for financial services and has defined as a focus of work the creation of an integrated European securities market and the elimination of barriers to cross-border securities settlement.

EU Commission

In this respect the commission drafted a Communication to the Council and to the European Parliament in May 2002 in which it formulated as policy goals the elimination of barriers to settlement in the form of national differences and the abolishment of distortions to competition due to the unequal treatment of clearing institutions and settlement agencies. All major market participants, associations and interest group representatives as well as the European Parliament made statements on the proposals of the Commission that varied widely and some of which were highly controversial. The views of the Austrian market were incorporated in a joint statement of all European Central Securities Depositories within the scope of ECSDA. Furthermore, ECSDA has addressed all elected officials of the European Parliament in a joint paper.

Also in its second Communication to the Council and the European Parliament "Clearing and Settlement in the EU - The way forward" dated April 2004 the Commission pursued the objective of ensuring that clearing and settlement systems in the EU are efficient and safe and enjoy a level playing field. This objective shall be achieved through

- liberalization and integration (access rights, removal of existing barriers),
- continued application of competition policy (addressing of restrictive market practices, monitoring of industry consolidation),
- the adoption of a common regulatory and supervisory framework and the

- implementation of appropriate governance arrangements.
  As practical initiatives the European Commission intends
- to set up an Advisory and Monitoring group (to tackle all Giovannini barriers),
- to propose a Directive on Clearing and Settlement (as a complementary measure to the market-led removal of the Giovannini barriers),
- to set up expert groups to consider legal and tax-barriers and
- to ensure the effective implementation of competition law.

In their joint statement, issued within the scope of ECSDA, the Central Securities Depositories in Europe highlighted the fact that according to a recent study of the Centre for European Policy Studies only around 5 % of the total costs of cross-border settlement can be attributed to Central Securities Depositories, whereas 65 % have to be attributed to back-office costs caused by the fragmented state of the legal, regulatory and fiscal practices in Europe. Therefore ECSDA urges the European Commission that its primary aim should be to remove the legal, regulatory and fiscal barriers.

Besides the European Commission's efforts further proposals have been presented for the improvement of the clearing and settlement of cross-border securities dealings within the scope of several important initiatives:

G 30 Recommendations

- In January 2003 the Group of Thirty (G 30), a consultative group on international economics and monetary affairs composed of senior representatives of the private and public sectors and the academic field released a report with 20 recommendations for significantly improving the safety and efficiency of international securities markets. The recommendations aim at creating a strengthened, interoperable global network, mitigating risk and improving governance. It is planned that their implementation should take place within a 5 to 7 year period and be monitored by the G30 Monitoring Committee.

ESCB-CESR Standards

- In a joint working group, observed by the European Commission the ECB and CESR (Committee of European Securities Regulators) adapted the 19 recommendations drafted by the CPSS (Committee of Payment and Settlement Systems) and the IOSCO (International Organisation of Securities Commissions) for the sophisticated European Union environment. Instead of recommendations the working group drafted standards which will be more binding in nature as their implementation will be monitored by the relevant authorities. The objective of the 19 ESCB-CESR standards is to enhance the safety, soundness and efficiency of the European securities market infrastructure.

Giovannini Group 15 Barriers

- Already in November 2001, a group of experts headed by Alberto Giovannini identified in the "Report on Cross Border Clearing and Settlement Arrangements in the EU" fifteen barriers that are still hindering cross-border securities settlement in Europe.
  Meanwhile the Giovannini Group has completed its second report containing concrete proposals stating who is to be responsible for eliminating each of the 15 barriers to settlement and by what time. ECSDA has been made responsible for eliminating three of these barriers (operating hours & settlement deadlines, corporate actions, intraday settlement). In its interim report to the Giovannini Group dated April 2004 the corresponding ECSDA working group, in which we are represented by experts, has

already identified ten steps for the quick elimination of two of these three barriers.

As the Austrian Central Securities Depository and provider of services to the Austrian Clearing House, *Oesterreichische Kontrollbank AG* has been offering high quality clearing and settlement services to market participants in the Austrian capital market for many years. Our efficiently organised team of specialists works with the most modern systems. The close collaboration with the European authorities and ECSDA ensures that business processes are constantly and flexibly adjusted to meet the future challenges of an integrated European securities market.

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2.2 The Financial Market Authority (FMA)

Andreas Grünbichler
Executive Director
of the Financial
Market Authority

The FMA was established as an integrated financial supervisory authority on 1 April 2002 under the Austrian Financial Market Authority Act. The FMA is the single statutory supervisory body directly responsible for banking, insurance, pension funds, securities and stock exchange supervision. The FMA is an institution under public law and forms a legal entity of its own. In performing its tasks it is not bound by any directives. This status of the FMA is secured by constitutional provision.

The FMA's independence is a strong asset for the credibility and the transparency, effectiveness and efficacy of the supervisory framework for the Austrian financial markets. The FMA aims to take advantage of the synergies of being an integrated financial supervisory authority, manifesting this commitment with the recent creation of a new department for all "integrated" supervisory tasks in 2004. This is also to ensure a level playing field for the whole financial sector and reap the strong synergies in the areas concerned, concentrating on the core functions performed within the FMA rather than on sector. This expresses our commitment to a functional approach to supervision, as does the separation of labour within the banking and insurance supervision departments. The new system is sector neutral and ensures a high degree of integration in supervision of all financial institutions doing business in Austria.

The main objectives of the Austrian Financial Market Authority are to strengthen the stability and competitiveness of the Austrian financial market, to ensure that financial legislation is observed and to guarantee fairness in the Austrian financial market.

Besides, the FMA is concerned with the implementation of relevant EU-directives and actively participates in the elaboration of financial legislation. International co-operation and the fostering of bilateral and multilateral contacts (Memoranda of Understanding) form another major task.

As of 31 March 2004 the FMA supervises 897 credit institutions, 113 insurance companies,

20 *Pensionskassen* (pension funds), 9 *"Mitarbeitervorsorgekassen"* (institutions authorised to conduct the business of investment-based statutory severance payments) and 328 investment services providers.

To enhance the enforceability of supervisory measures, the FMA is vested with administrative penal power and the power to enforce its supervisory administrative decisions. No appeal of any kind is possible against rulings issued by the FMA except in administrative penalty proceedings. Furthermore, the FMA has the power to issue ordinances in order to specify the general obligations stated by law. Regulations of the FMA are published in the Federal Law Gazette and can, of course, be found on FMAs website.

The FMA has two executive directors, Andreas Gruenbichler, who is Professor for Finance at the University of St. Gallen and Kurt Pribil, former Head of the Foreign Research Division of the *Oesterreichische Nationalbank*. The Executive Board is appointed by and reporting to a Supervisory Board.

2003 was FMA's first full operational year after having been established as an integrated financial supervisory authority on 1 April 2002 under the Austrian Financial Market Authority Act.

Putting into practice the concept of an integrated supervisory authority which directly oversees the entire financial market required substantial organizational and developmental effort. Fulfilling its role in relation to banking, insurance, pension funds, securities and stock exchange supervision conforming to the highest international standards requires adequate analytical tools, processes and mechanisms, not least the dedicated work of professional staff.

It was therefore an honour as well as a burden for our very young institution to be scrutinized by highly qualified international financial experts of the International Monetary Fund (IMF) during a Financial Sector Assessment Programme (FSAP) in 2003/2004. The FSAP process was initiated jointly by the International Monetary Fund (IMF) and the World Bank in May 1999, with the aim of examining the stability of financial systems, assessing its Member States in an effort to cover all relevant financial markets. To this end, World Bank and IMF experts jointly prepare extensive analyses of the respective national financial systems. Numerous European countries, such as United Kingdom, Germany and Switzerland, have recently undergone such an assessment or are currently undergoing one, like France, Spain or Portugal. The assessment of Austria focused, among other things, on the banking and insurance sectors, their economic environment, the organisation of their supervision, the legal framework conditions as well as precautions in connection with the fight against money laundering and terrorist financing.

The Assessment was initiated in March 2003 and was completed with the formal discussion and adoption of the IMF staff report by the Executive Board of the IMF at the end of July 2004. This final report can be found on the IMF and FMA websites.

The overall view of the IMF is that the establishment of an integrated supervisory authority and the connected concentration of all supervisory competencies in the FMA do in fact meet the highest international standards. It further appreciates the cooperation between FMA and the *Oesterreichische Nationalbank* and finds that conformity with internationally developed supervisory standards in the fields of banking, insurance and securities is generally very high and that the banking sector is stable and resistant to shocks.

The FSAP concludes that the Austrian financial system is generally sound, well supervised, and resilient to shocks. The banking system is profitable and well-capitalized and, in recent years, has seen major restructuring, consolidation, and a successful expansion abroad, specifically in Central and Eastern Europe. The large banks have made major strides in implementing best practices in risk management. These features helped the system weather the recent slowdown relatively well.

As pertains to FMA; the IMF states that "Austria enjoys a high standard of financial supervision, based on strong institutions and a modern legal framework. The consolidation of supervision in the new *Financial Market Authority* (FMA) in 2002 was smooth; cooperation among the FMA, *Oesterreichische Nationalbank,* and *Ministry of Finance* is good; and the FMA's capacity to discharge its mandate is being built quickly and effectively. This is confirmed by Austria's high level of compliance with the internationally accepted standards in the areas of banking, insurance, securities, and anti-money laundering."[1]

FMA takes this result as a strong encouragement to continue its work and develop its organization based on international trends. Further the results can be seen as a mandate for striving for excellence in the future.

We would like to particularly underline one specific element, in further developing FMA's organization and responses to the international challenges and new necessities:

Starting in 2004, building on the experience gained during the first two years of operational activities and in view of national and international developments (for instance, the new capital adequacy regulations for banks known under the heading of Basel II as well as the EU Directive on the supervision of financial conglomerates), the FMA's organisational structure was further developed. As mentioned at the beginning, the aim of the organisational layout is to consolidate synergies and foster the exchange of information among the various areas of supervision on an institutional level as well as to utilise the know-how potential of an integrated supervision and to fully exploit its cost-efficiency.

The new organisational structure is centred by the newly created department "Integrated Supervision", for which 'horizontal' tasks were deliberately singled out. It ensures, at an institutional level, collaboration among the supervisory areas focused on the markets: It unites those functions, which are logically managed centrally to ensure adherence to the principles of thriftiness, economy and expediency, within three divisions: "Integrated Financial Markets", "International Affairs and European Integration" and "Legal and Enforcement Affairs".

Keep yourself informed about the developments of financial supervision policies in Austria on our website www.fma.gv.at, where you can also find an English version.

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1 *INTERNATIONAL MONETARY FUND, AUSTRIA 2004 Article IV Consultation, Preliminary Conclusions, May 2004 – http://www.fma.gv.at/de/pdf/concludi.pdf*

2.3 Wiener Börse AG

Stefan Zapotocky
Member of the
Management Board
Wiener Börse AG

Erich Obersteiner
Member of the
Management Board
Wiener Börse AG

In the year 2003, *Wiener Börse* witnessed an unprecedented phase of growth in the history of the exchange. The ATX benchmark index, market capitalization and trading volumes rose steadily throughout the year. This development is not only an excellent performance in itself, but also illustrates an outstanding dynamism in international comparison. The ATX gained some 35% in 2003, jumping over the 1,550-point mark and attaining a five-year high. By the first quarter of 2004, the ATX hit a level just shy of 2,000 points. Total trading volumes also rose in 2003, climbing by more than 50% to EUR 20.6 billion, while market capitalization was up 39%, hitting EUR 44.8 billion.

These achievements were made possible by the commitment of the domestic market players. Nine new issuers entered the market raising market capitalization by approximately EUR 6 billion. Among these issuers were several Austrian companies that delisted their stocks from foreign exchanges in favor of Vienna. However, the major event of the year was the IPO of BA-CA. The price gains and trading volumes of this offering surpassed all expectations. The further privatization of the stakes in voestalpine, VA Tech and Böhler-Uddeholm also contributed to boosting the market. Their successful placement created a favorable backdrop for the upcoming privatizations through the stock exchange.

The bond market was also characterized by above-average growth rates. The top issuers were banks, which posted an increase of 105%, and corporate bonds whose issuing volume more than doubled.

The intensification of marketing activities by all stakeholders of *Wiener Börse* met with a broadly positive reception. The Austrian capital market has become the focus of growing national and international attention and enjoys a generally positive assessment. The marketing campaign of the past three years is bearing fruit and *Wiener Börse* is now able to participate in the current upward trend. There is a genuine "home-grown" increase in stock market liquidity which may already be regarded as a turnaround.

An important role in public and professional discourse is played by the state-subsidized retirement product. The launch of this capital market-based product contributed to raising trading volumes on the stock exchange. It drew the attention of Austrian investors to the domestic market and signaled to international investors that sustained growth could be expected in Vienna.

The East European upside potential of a large number of listed companies has also attracted many investors. It is widely accepted that listed companies with commitments in the EU accession countries and in the CIS countries may expect to achieve above-average earnings growth. Capital increases and new issues in connection with East European expansion plans are already in the pipeline.

Wiener Börse will continue to make every effort to promote the Austrian capital market and to attract the interest of domestic and international investors. This goal is supported by the growing trend among international investors to add Austrian stocks to their portfolios.

2.4 Austria in Central Europe

Jan Stankovsky
Austrian Institute
of Economic Research
(WIFO)

Thanks to its geographical location and historical ties, Austria enjoys economic relations with Central and Eastern Europe while at the same time being firmly integrated into Western Europe's economy. In 2003, the EU-15 countries accounted for 59.5% of Austrian exports, while Central and Eastern Europe (CEEC-19[1]) (former planned economies) accounted for 18.5%. This is the largest share attained since 1989 and has doubled after the region's transition from a planned to a market economy.

On 1 May 2004, eight Central and Eastern European countries joined the European Union: four neighbouring countries (Hungary, Czech Republic, Slovakia, Slovenia), Poland and three Baltic countries[2]. These new EU Member States (CEEC-8) account for 12.6% of Austrian exports. Since May 2004, almost 75% of Austrian foreign trade has been within the EU area with the characteristic features of internal trade (e.g. no border controls).

The EU enlargement is fully supportive of Austria's economic and political interests. The enlargement will provide a major impetus to growth in the new and former EU Member States, and will increase Austria's attractiveness as a business location.

At the end of 2003, the share of the EU-15 in Austrian direct investments abroad amounted to 34.3%, the share of the CEEC-19 to 42.1%, and of these, the share of the CEEC-8 was 31.9%.

Revived of economic relations with the CEECs since the transformation in 1989

The political transformation in the Eastern European countries in the autumn of 1989 completely changed the political and economic relations between Austria and Central and Eastern Europe. The region's transition to democracy and a free market economy has created considerable economic advantages for Austria. Austria shifted from being at a peripheral location between the West and the East to the heart of a converging continent. Austria took advantage of the opportunities in Eastern Europe earlier than its competitors. Real economic growth has increased considerably since 1989 as a result of the opening up of Eastern Europe (liberalisation), and an estimated number of 60,000 new jobs have been created.

The closer economic relations with Central and Eastern Europe are based on the integration of the region into the European economy under the "Europe Agreements" and will also be boosted by substantial economic aid.

Austrian exports to the CEEC-19 had risen to 4.7 times the 1989 figure by 2003 and by 4.6 times in five of the successful transition countries of Central Europe (CEEC-5: Hungary, Czech Republic, Slovakia, Slovenia, Poland). Exports to South Eastern Europe also developed very well after the end of the Balkan crisis. Although exports to Russia and the other states that emerged from the former USSR lost significance during the nineties, they recovered perceptibly after the year 2000. As a result of this robust growth, the amount

1 *Excluding CIS in Asia.*

2 *At the same time, Malta and Cyprus were also accepted as members of the EU. These countries account for 0.1% of Austrian exports.*

of exports to the CEEC-19 increased from less than 10% in 1989 to 18.5% of total exports in 2003, while exports to the CEEC-5 rose from 5% to 12.5%. Austria's most important trade partners in the region in 2003 were Hungary with 4%, ahead of the Czech Republic and Slovenia. Eight of Austria's 20 most important trade partners were located in Central and Eastern Europe.

In 2003, Austrian exports to the CEEC-19 increased much more strongly than total exports (+1.4%) and the exports to the EU-15 (+0.5%) attained 6.7%. Major support for exports came from the markets of South Eastern Europe (+10.4%; Romania +24.8%) as well as those in CIS Europe (+21.6%). Exports to the CEEC-8 showed only moderate growth (+3.6%) in 2003. These countries felt the effects of the persistent economic stagnation in the EU (particularly in Germany) on account of their high degree of integration in the West. Exports to Hungary dropped by 4.9%. This is in part attributable to the substitution of goods exports by direct investments. Exports to Slovakia, Slovenia and the Czech Republic posted more robust growth.

In 2003, Austrian imports rose by only 3.5% as a consequence of the sluggish economy, while imports from the CEEC-19 increased by 12.3%. Thanks to lower prices and improved quality, Central and East European suppliers have been able to steadily enlarge their market share in Austria and the percentage of the region in total imports (14.3%) today is more than twice as high as in 1989. Austria's balance of trade for 2003 with the CEEC-19 yielded a surplus of EUR 3 billion.

A significant amount of foreign trade with the CEEC-5 takes place within the framework of international corporations. Intra-company exports of Austrian parent companies to their subsidiaries in these countries represented 10.0% of total exports. Cooperation within company groups was especially intense in the Czech Republic (share of intra-company exports almost 15%) as well as in Hungary and Slovakia (10% each). Intra-company imports accounted for 9% of total imports.

The significance of foreign trade with the CEE countries for Austria is two to three times greater than for most other Western countries. Austria accounted for 6.9% of the exports from industrialized countries (OECD) to the CEEC-19 and for 8.0% of exports to the CEEC-5, as well as for 10.0% of the export volume to South Eastern Europe. Austria is among the most important trade partners of the neighbouring countries of the region. In 2002 as well as in 2003 (according to the latest data available), Austria improved its market position in the CEEC-19 especially in the Balkan countries and in Russia. The strong position it holds in Central and Eastern Europe is remarkable, since Austria is a relatively small country with a population of 8 million that accounts for only 1.9% of the OECD's exports worldwide.

Austria also has relations with the CEE countries based on the close cooperation of group companies through direct investments. Takeovers and investments have helped Austrian companies to secure market shares in the region. The outsourcing of wage-intensive production segments has improved the Austrian economy's international competitive position. The subsidiaries in the CEE countries are generally highly profitable and in some sectors make significant contributions to the excellent earnings of Austrian parent companies (e.g. banks). The good position in the CEE countries has made

Austrian companies more attractive for international mergers. Vienna has become one of the preferred locations for the East European headquarters of multinational companies.

Austrian direct investments in Central and Eastern Europe increased further in 2003 for the first time in four years. From 1999 to 2002, investments more than quadrupled, rising from EUR 1 billion to EUR 4.2 billion. In 2003, investments decreased to EUR 2.8 billion. The global economic slump put a damper on investments, and capital inflows to the whole region – above all to the CEEC-5 – decreased considerably[1]. Despite these adverse conditions, Austria has managed to maintain – and even partly consolidate – its position as an investor. The Austrian market share as regards new investments in the CEEC-19 rose from 12.8% in 2002 to 15.1% in 2003, and in the MOEL 8 from 11.0% to 22.8%. Hungary ranked first (EUR 1 billion) as regards new investments in 2003, ahead of Poland (EUR 0.9 billion), Croatia and Slovakia.

Austrian direct investments in Eastern European countries reached EUR 18.6 billion by the end of 2003 and the Austrian market share was 7.9% (in the CEEC-8 it amounted to 9.5%). Austrian investments in Hungary accounted for the highest volume (EUR 4.2 billion), followed by the Czech Republic, Poland and Slovakia.

According to the *Oesterreichische Nationalbank,* the statistics recorded a total of 935 multinational enterprises in Austria with equity capital investments abroad. A number of 305 of these foreign investors had subsidiaries in Hungary, 232 in the Czech Republic, and 104 in Slovakia. The number of Austrian subsidiaries in the CEE countries amounted to 1,177, of which 373 were in Hungary and 274 were in the Czech Republic. A further number of 460 enterprises in the CEEC were sub-subsidiaries of Austrian investors. These statistics do not include the some 10,000 "smaller" local branches and representative offices.

A major share of Austrian foreign investment companies is controlled by foreign companies. These foreign-owned Austrian companies often serve as "East European headquarters" for multinational groups, which are responsible for establishing and managing subsidiaries in Eastern Europe. The high number of Eastern European headquarters clearly indicates Austria's attractiveness as a business location with respect to Central and Eastern Europe. The tax reform of 2004/05 will further improve Austria's locational quality.

Austrian subsidiaries in the CEE countries employed 190,000 persons (weighted by the share in capital), with more than 50,000 persons working in the Czech Republic and Hungary, respectively. A further 31,000 persons were employed by the sub-subsidiaries.

Austrian companies earned a net profit of EUR 1.1 billion in the CEE countries. After a difficult transition phase in the mid-1990s, about two-thirds of Austrian subsidiary companies are now profitable. The profitability (net income as a percentage of shareholders' equity) of all Austrian subsidiaries in the CEECs reached 12.5%. The profitability of reorganised companies is likely to

1 *Cf. Hunya, G., Stankovsky, J., WIIW-WIFO Database, Foreign Direct Investment in CEE with Special Attention to Austrian Activities in this Region, WIIW-WIFO, February 2004.*

exceed the 20% mark, a fact that has been repeatedly confirmed in the financial statements of Austrian investors in Eastern Europe.

Economic cooperation with the CEEC in the enlarged EU

Austria became a member of the European Union in 1995. This step allowed Austria to secure its economic interests in this important market. EU membership has not affected Austria's economic relations with the CEECs, but has rather deepened relations.

Eastern European countries have close economic ties with the EU. The accession to the EU of the eight economically more advanced countries will further advance the currently very close economic ties and will raise the flow of foreign capital from West to East. EU membership will accelerate growth in the new EU Member States. They have accepted the acquis communautaire which clearly reduces export and investment risks. At the same time, existing trade barriers (e.g. border checks) between the old and the new EU members have been eliminated, which will reduce trade costs and facilitate foreign trade as well as cross-border cooperation among businesses. The new members will receive considerable financial aid from the EU.

EU membership will enhance Central and Eastern Europe's attractiveness as an export market and location for investments. Austria has good chances of gaining a strong position over its competitors in Central and Eastern Europe. The inflow of foreign capital will increase over the long term. The commitment of capital in the CEE countries has created many advantages for Austria and the benign effects will continue in the future.

The economic advantages resulting from the enlargement will probably not be as great as from the opening up of Eastern Europe in 1989, but they will be positive in any case. Economic growth will increase almost one percentage point by 2010, inflation will be curbed, the unemployment rate will drop slightly and the burden on the government budget will diminish. Austria stands to gain more from the EU's enlargement to the East than other EU countries[1].

In Austria, the more intense economic relations with Eastern Europe have already created pressure – often painful – to adjust to existing structures, and this pressure is likely to increase in some areas. The burden is unevenly distributed across the regions, sectors and social groups. In Austria, fears prevailed that a liberalisation of the current restrictions in the labour market – if implemented too fast – would lead to major social problems. The new accession treaties of the Member States from Central and Eastern Europe contain transitional provisions for the protection of the job market that will apply for a maximum of seven years. Additionally, border regions will receive substantial financial assistance under the EU aid programmes.

1 *Cf. Breuss, F. , "Teilprojekt 12: Makroökonomische Auswirkungen der EU-Erweiterung auf alte und neue Mitglieder", in: Mayerhofer, P. und Palme, G. (Koordination) (2000/01), Strukturpolitik und Raumplanung in den Regionen an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung (Preparity); Breuss, F. und Lehner, G. "Teilprojekt 12/2: Die Auswirkungen der EU-Erweiterung auf den österreichischen Staatshaushalt", in: Mayerhofer, P., Palme, G. (Koordination).*

Austria's economic relations with East European countries

	2002			2003		
	Amounts *in EUR billion*	Dynamic *Change in %*	*Significance[1]* *Share in %*	Amounts *in EUR billion*	Dynamic *Change in %*	*Significance[1]* *Share in %*
Central and Eastern Europe (CEEC-19)						
Foreign trade						
Exports	13.6	+7.2	*17.6*	14.5	+6.7	*18.5*
Imports	10.2	+1.0	*13.2*	11.4	+12.3	*14.3*
Trade balance	3.4			3.0		
Direct investments						
Investment volume	15.8	+36.7	*41.6*	18.6	+17.8	*42.1*
New investments	4.2	+38.0	*76.0*	2.8	−33.9	*44.7*
Thereof: 8 new EU Member States (CEEC-8)						
Foreign trade						
Exports	9.6	+5.3	*12.4*	9.9	+3.6	*12.6*
Imports	7.8	+1.0	*10.1*	8.6	+10.2	*10.7*
Trade balance	1.8			1.3		
Direct investments						
Investment volume	11.7	+28.8	*31.0*	14.1	+20.0	*31.9*
New investments	2.6	+ 5.5	*47.1*	2.4	−10.1	*37.6*

Source: Statistik Austria, OeNB, WIFO calculations.
[1] Share of CEEC in total foreign trade and total direct investments.

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3

The Economy

3.1 Economic Structure and Selected Indicators

Introduction

Robust economic growth and a strengthening labor market, stable prices, moderate unit labor costs and high price competitiveness, heightened attractiveness for foreign investment, a firm commitment to sound public finances, a track record of monetary stability, and social partners' responsible policymaking have proved big assets for Austria and have clearly reinforced its international competitiveness since its entry into the European Union (EU) in 1995 and by its participation in the first wave of EMU in 1999, as reflected by highly favorable economic conditions that prevail in Austria.

Austria attractive Business Location

In an international comparison of business locations, Austria claims a remarkably strong position. For one thing, Austria provides a sound business climate for industrial enterprises, which is underscored by the substantial amount of direct investment the country has attracted and by the better export performance it has achieved in recent years. The economic integration within the EU as well as the progressive integration of southeastern and eastern European countries – both of which guarantee access to large, more highly interlinked markets – are also seen as important competitive advantages. Moreover, a high standard of living and stable macroeconomic and legal framework conditions contribute to the favorable assessment of Austria as a business location. Last but not least, Austria boasts a workforce whose qualifications and motivation are well above the European average. Austria will maintain its appeal as a business location against international competition also in the long term. To this effect, the reforms that have been started to eliminate existing structural weaknesses will have to be advanced energetically. Enlargement opens up new chances and challenges for Austria as a business location. According to the most recent "World Competitiveness Yearbook 2003" and especially to the World Competitiveness Scoreboard (which presents the overall ranking for 49 countries) Austria moved to rank 10 (2002: 8). Economic giants like Germany, France and Japan lie either just ahead of or behind Austria. The following review of Austria's performance highlights the headway Austria has made in terms of economic growth, budget consolidation and competitiveness.

Agriculture and forestry

Almost half of Austria's land area is used for agriculture and animal farming. Domestic agricultural production satisfies about 80% of the country's food needs. In 2003, almost 26,200 people were employed in agriculture and forestry, or 0.8% of Austria's jobholders. This sector accounted for 2.0% of Austria's GDP.

Industry

Austria is a highly industrialized country with efficient and diversified industrial and services sectors. Austria's industries – which include manufacturing and mining, power generation and water supply – accounted for about 28.5% of GDP in 2003. In terms of output, the country's most important industrial sectors are metals (machinery and tools, iron and steel, motor vehicles, nonferrous metals), chemicals, electrical equipment and electronics, food and beverages, forestry products (production and processing of paper and wood), oil, textiles and clothing.

Construction sector

In 2003, the construction industry employed about 237,000 persons, or 7.5% of Austria's jobholders, and accounted for 7.0% of Austria's GDP.

Table 1

Gross Domestic Product

Sector	1997	1998	1999	2000	2001	2002	2003	2003
	EUR billion							*% of GDP*
Agriculture, hunting and forestry	4.2	4.3	4.4	4.6	4.7	4.7	4.7	2.1
Manufacturing								
Mining and quarrying	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.4
Manufacturing>	34.3	36.2	37.5	40.4	41.4	42.2	42.8	19.1
Electricity, gas and water supply	4.5	4.7	4.8	4.4	4.4	4.5	4.6	2.1
Construction	13.8	14.5	14.9	15.1	15.0	15.2	15.7	7.0
Total manufacturing	53.2	56.0	57.8	60.5	61.5	62.6	63.9	28.5
Trade and services								
Wholesale and retail trade[1]	22.0	22.8	23.3	24.9	25.1	25.1	25.7	11.5
Hotels and restaurants	6.6	7.0	7.3	7.9	8.4	9.0	9.4	4.2
Transport, storage and communication	12.5	12.8	13.0	13.4	14.2	14.8	15.1	6.7
Financial intermediation	12.2	12.2	11.8	13.1	13.3	13.3	13.4	6.0
Real estate, renting and business activities	25.7	27.6	28.9	31.4	33.9	35.3	36.9	16.5
Public administration and defence; compulsory social security	11.4	11.7	11.6	11.7	11.8	11.8	12.1	5.4
Other services	24.3	25.2	25.9	26.8	28.4	29.0	30.1	13.4
Total trade and services	114.7	119.3	121.8	129.2	135.1	138.3	142.7	63.6
Less financial intermediation services indirectly measured	9.1	9.1	8.4	9.6	10.3	9.9	9.8	4.4
Taxes less subsidies on products	19.5	20.0	21.6	21.9	21.7	22.6	23.0	10.3
GDP at current prices	182.5	190.6	197.1	206.7	212.5	218.3	224.3	100.0
GDP at 1995 prices	178.5	185.5	190.5	197.0	198.5	201.2	202.7	×
%-change in GDP vs. previous year								
at current prices	2.5	4.5	3.4	4.9	2.8	2.7	2.7	×
at 1995 prices	1.6	3.9	2.7	3.4	0.8	1.4	0.7	×

Source: Statistics Austria, OeNB.

[1] *Inclusive repair of motor vehicles, motorcycles and personal and household goods.*

Services, Tourism

The sector trade and services as a whole accounted for about 63.6% of GDP in 2003. Services have become the biggest single contributor to the Austrian economy. The country's services sector comprises high-performance transport and telecommunication industries, banking and insurance, commerce and a wide variety of production-related services. Tourism is an important service industry, making a major contribution to Austria's current account.

GDP

The GDP generated by all these sectors in 2003 totalled EUR 224.3 billion at current prices. This represents a nominal 2.7% increase on 2002. Allowing for inflation, Austria's GDP increased by 0.7%. Real GDP is expected to grow by 1.5% in 2004 and by 2.3% in 2005 (most recent WIFO-forecast of June 2004).

International comparison

An international comparison of key economic indicators shows that Austria performs very well across the board. Over the long term, the country's economy has grown in line with that of most European countries. Moreover, Austria has an extremely good employment and inflation record.

Per-Capita income

Average gross unadjusted per-capita income equaled EUR 2,440 a month in 2002 (there are no data available for 2003 yet). After deducting payroll tax, social insurance contributions, etc., jobholders had average monthly take-home pay of EUR 1,650, which represents a 1.9% increase on 2001.

Productivity

The productivity of Austrian employees has grown steadily during the past few years but weakening in 2003 by 0.5%.

Table 2

The Austrian Economy in an International Context

	Austria				EU-12				EU-15			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
	absolute or % vs. previous year											
GDP at constant prices	3.4	0.8	1.4	0.7	3.5	1.6	0.9	0.4	3.5	1.6	1.0	0.7
Consumer prices	2.3	2.7	1.8	1.3	×	×	×	×	×	×	×	×
Harmonized consumer prices	2.0	2.3	1.7	1.3	2.1	2.3	2.3	2.1	1.9	2.2	2.1	2.0
Unemployment rate (EUROSTAT-Definition)	3.6	3.6	4.3	4.4	8.5	8.0	8.4	8.8	7.8	7.4	7.7	8.0
Budget deficit (general government) as % of GDP	–1.5	0.3	–0.6	0.4	0.2	–1.6	–2.2	–2.7	1.0	–0.9	–1.9	–2.7
Gross fixed capital formation at constant prices	6.3	–2.3	–2.8	4.3	4.9	–0.3	–2.8	–1.2	4.8	0.2	–2.1	–0.7
Exports at constant prices	13.4	7.6	3.7	1.0	12.6	6.4	1.5	0.0	12.0	3.2	1.2	0.1
Imports at constant prices	11.6	5.9	1.2	3.0	11.0	1.7	–0.1	1.5	10.8	2.0	0.6	1.5
Current account deficit/ surplus as % of GDP	–2.6	–1.9	0.3	0.0	–0.2	0.4	1.2	1.0	–0.4	0.2	0.7	0.5

Sources: Statistics Austria, EUROSTAT, EU-Commission.

Table 3

The Austrian Productivity, Wage and Price Indices

Year	GDP per employee		Negotiated minimum wage rate		Wholesale prices		Harmonized consumer price index	
	Index (1995=100)	*±% vs. previous year*	*Index (1986=100)*	*±% vs. previous year*	*Index (1996=100)*	*±% vs. previous year*	*Index (1996=100)*	*±% vs. previous year*
1997	103.7	1.1	153.3	1.8	100.4	0.4	101.2	1.2
1998	106.7	2.9	156.7	2.2	99.9	–0.5	102.0	0.8
1999	108.0	1.2	160.6	2.5	99.0	–0.8	102.5	0.5
2000	110.9	2.6	163.9	2.1	103.0	4.0	104.5	2.0
2001	111.0	0.1	168.3	2.7	104.5	1.5	106.9	2.3
2002	112.8	1.6	172.3	2.4	104.2	–0.4	108.8	1.7
2003	113.3	0.5	176.1	2.2	105.9	1.6	110.2	1.3

Source: Statistics Austria.

Prices

Over the longer term, Austria has a good inflation record. Stability-oriented and competitiveness-oriented wage moderation has contributed significantly to the favorable price environment. Due to stagnant unit labor constant increasing competition especially in the service sector (deregulation, liberalization), the HICP-inflation dropped to a low of 0.5% in 1999. As measured by the HICP, inflation rose by 1.3% in 2003, reflecting subdued price developments (after higher values in 2000 of +2.0%, in 2001 of +2.3 und 2002 of +1.7%, year-on-year respectively). The national CPI measure for 2003 was 1.2%. Regarding developments over the year 2003, the HICP started to decline in the spring; from April onward inflation rates hovered between 1% and 1.4%. The relatively high inflation rates in 2000 (HICP: 2.0%) and 2001 (HICP: 2.3%) were driven significantly by oil prices and taxes and charges. Without these components, inflation would have been as low as 1.1% in 2000 and 2.0% in 2001. In 2002 the overall inflation rate (HICP: 1.7%) would have come to just 1.4% without oil prices and taxes/charges. The comparable figures for 2003 (overall rate: 1.3%; reduced rate: 1.1%) show that the contribution of taxes and charges dropped sharply last year.

In 2003, the Austrian price increase was below the average in the Euro area (2.1%) and in the European Union (2.0%).

Table 4

Harmonized Index of Consumer Prices – International Comparison

Selected Countries	1998	1999	2000	2001	2002	2003
	Change in % vs. previous year					
Belgium	0.9	1.1	2.7	2.4	1.6	1.5
Germany	0.6	0.6	1.4	1.9	1.3	1.0
Greece	4.5	2.1	2.9	3.7	3.9	3.4
Spain	1.8	2.2	3.5	2.8	3.6	3.1
France	0.7	0.6	1.8	1.8	1.9	2.2
Ireland	2.1	2.5	5.3	4.0	4.7	4.0
Italy	2.0	1.7	2.6	2.3	2.6	2.8
Luxembourg	1.0	1.0	3.8	2.4	2.1	2.5
Netherlands	1.8	2.0	2.3	5.1	3.9	2.2
Austria	0.8	0.5	2.0	2.3	1.7	1.3
Portugal	2.2	2.2	2.8	4.4	3.7	3.3
Finland	1.4	1.3	3.0	2.7	2.0	1.3
Euro Area	1.2	1.1	2.3	2.3	2.3	2.1
Denmark	1.3	2.1	2.7	2.3	2.4	2.0
Sweden	1.0	0.6	1.3	2.7	2.0	2.3
United Kingdom	1.6	1.3	0.8	1.2	1.3	1.4
EU–15	1.3	1.2	1.9	2.2	2.1	2.0
Switzerland[1]	0.0	0.8	1.6	1.0	0.6	0.6
Norway[1]	2.3	2.3	3.1	3.0	1.3	2.5
USA[1]	1.5	2.2	3.4	2.8	1.6	2.3
Japan[1]	0.7	–0.3	–0.7	–0.6	–0.9	–0.3
Canada[1]	1.0	1.7	2.7	2.5	2.3	2.8
Total OECD[1]	4.0	3.4	4.0	3.4	2.5	2.4

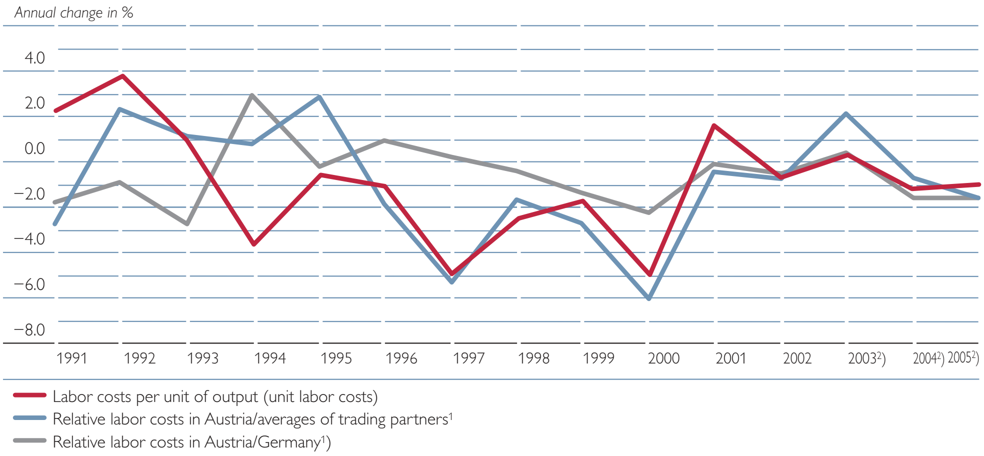
Sources: EUROSTAT, OECD.
[1] *National CPI.*

Unit labor costs are an important criterion of international competitiveness. Austria has been performing well in this respect for many years. Austria's relative industrial labor costs have been improved Austria's competitiveness vis-à-vis both Germany and (on average) its trading partners (weighted on the basis of their share in foreign trade).

Unit labor costs

Chart 1

Real Labor Costs in Manufacturing in Austria



Source: Austrian Institute of Economic Research.
[1] *Negative values indicate an increase in competitiveness.*
[2] *Forecast (WIFO – March 2004).*

Table 5

Relative Labor Costs in Manufacturing in Austria

	Labor costs per unit of output	Relative labor costs[1]	
		Austria versus trading partners	Austria versus Germany
	Annual change in %		
1990	−0.9	−2.2	−3.4
1991	+2.2	−2.7	−1.8
1992	+3.8	+2.3	−0.9
1993	+0.9	+1.1	−2.7
1994	−3.6	+0.8	+2.9
1995	−0.6	+2.9	−0.2
1996	−1.1	−1.9	+0.9
1997	−5.0	−5.3	+0.2
1998	−2.5	−1.7	−0.4
1999	−1.8	−2.7	−1.4
2000	−5.0	−6.0	−2.3
2001	+1.6	−0.4	−0.1
2002	−0.7	−0.7	−0.5
2003	+0.3	+2.1	+0.4
2004[2]	−1.2	−0.7	−1.6
2005[2]	−1.0	−1.6	−1.6

Sources: Statistics Austria, WIFO (Austrian Institute of Economic Research).
[1] Negative values indicate an increase in competitiveness.
[2] Forecast (WIFO – March 2004).

Domestic expenditure

During 2003 Austrians spent 56.9% of income earned within Austria on private consumption and 18.7% on public consumption. However, the level of investment expenditure on industrial modernization and the infrastructure was also high. Austria's gross fixed capital formation reached 22.6%, which was ahead of the OECD average.

Table 6

Domestic Expenditure in Austria

	1997	1998	1999	2000	2001	2002	2003	2003
	EUR billion							*% of GDP*
Private consumption	105.0	108.5	112.0	117.4	121.6	123.9	127.7	56.9
Public consumption	35.9	37.3	39.0	39.7	40.1	40.7	42.0	18.7
Total consumption	141.0	145.7	151.0	157.1	161.7	164.6	169.7	75.7
Gross fixed capital formation	43.0	45.0	46.3	49.7	49.3	48.3	50.8	22.6
Changes in inventories and acquisitions less disposals of valuables	1.2	1.2	2.2	1.0	1.0	0.7	0.8	0.4
Gross capital formation	44.1	46.2	48.5	50.7	50.3	49.0	51.6	23.0
Errors and omissions	0.2	−0.2	−0.8	0.1	−0.1	0.0	−0.5	−0.2
Total domestic expenditure	185.3	191.8	198.9	207.9	211.9	213.6	220.9	98.5

Source: Statistics Austria.

3.2 Foreign Trade and the Balance of Payments

Table 7

Foreign Trade in Austria

Year	Exports	Imports	Balance of trade	Exports as a percentage of imports
	EUR million			
1991	34,812	43,015	−8,203	80.93
1992	35,432	43,162	−7,730	82.09
1993	33,951	41,054	−7,103	82.70
1994	37,246	45,702	−8,456	81.50
1995	42,151	48,548	−6,396	86.82
1996	44,490	51,798	−7,309	85.89
1997	51,962	57,430	−5,468	90.48
1998	56,302	61,200	−4,897	92.00
1999	60,266	65,316	−5,050	92.27
2000	69,692	74,935	−5,243	93.00
2001	74,251	78,692	−4,440	94.36
2002	77,400	77,104	296	100.38
2003	78,471	79,830	−1,359	98.30

Source: Statistics Austria.

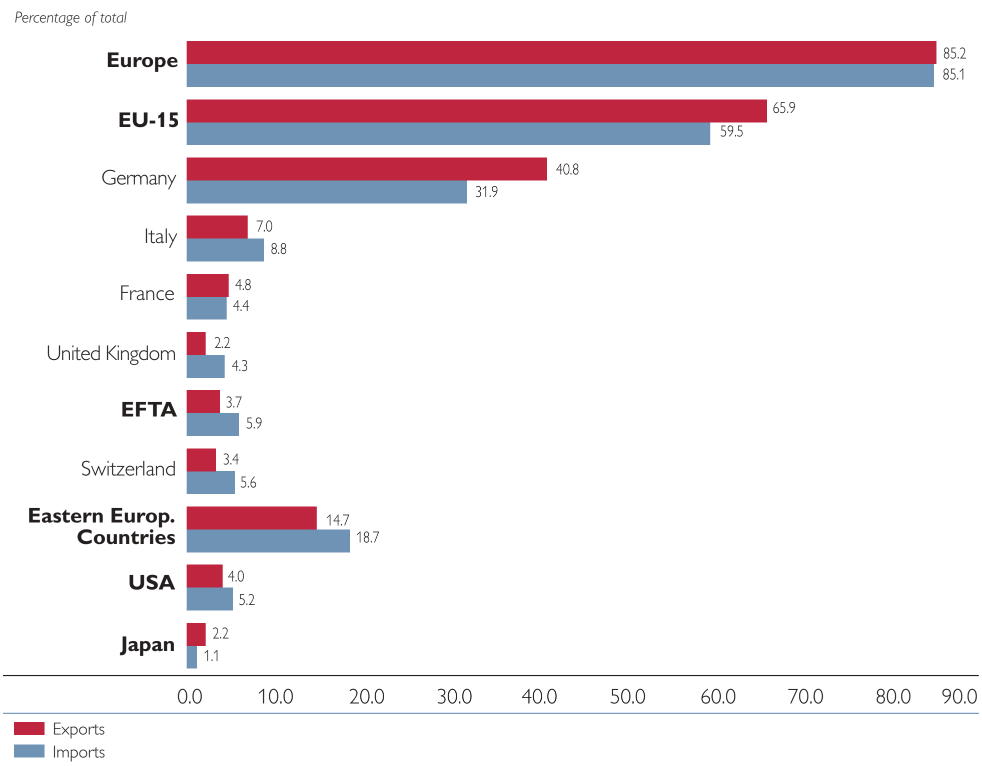
Because of its extensive foreign trade, Austria's economy is strongly intertwined with those of other countries. According to provisional Statistics Austria calculations, total imports for the period from January to December 2003 came to EUR 79.8 billion - up by 3.5% against the comparable period of last year - whereas exports only grew by 1.4% to EUR 78.5 billion. This slower growth in merchandise exports was attributable to both the unfavorable economic conditions in the euro area and to the appreciation of the euro, with the ensuing deterioration of Austrian exporters' price competitiveness. As a result, the merchandise trade balance closed with an import surplus of EUR 1.4 billion.

Austria's exports to non-EU countries expanded at a markedly faster pace than to intra-EU trade, which nevertheless continues to account for the lion's share (roughly two thirds) of Austria's merchandise trade. Imports from EU countries increased by 3.7%, exports rose just by 0.5% year on year. The deficit increased to EUR 5.8 billion (2002: EUR 4.2 billion). In 2003, Austria's trade with non-EU countries showed both increasing imports (+3.1%) and increasing exports (+2.8%) year on year, respectively. Merchandise trade depicted an exports surplus which increased to EUR 4.5 billion (unchanged to previous year).

The geographical breakdown displays a marked concentration on Western Europe, but Austria benefits from its position as a gateway between east and west in Europe and the countries of Central and Eastern Europe have recently been gaining in importance.

Chart 2

Austria's Foreign Trade in 2003 According to Geographical Area



Source: Statistics Austria.

The commodity breakdown of Austria's foreign trade has become considerably more balanced over the past few years. There is a clear trend towards manufactured products and capital goods on both the export and import sides.

The Austrian current account on a cash basis recorded a deficit of about EUR 0.97 billion for the period from January to December 2003 (after posting a surplus of EUR 0.81 billion in 2002). At a level of 0.4%, the deficit is within the margin of 1% of GDP, so it may be judged to be in balance. The decline of the surpluses of the merchandise trade and services balances is attributable to the increase of imports since summer while exports stagnated. This declining surplus of the merchandise trade balance was also the reason for the turnaround of the current account balance in comparison to the year 2002.

Table 8

Exports and Imports in Austria – According to Product Group[1]

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003
	EUR million										*% of total*
Exports (f.o.b):											
Food and live animals	1,088	1,395	1,666	1,968	2,108	2,309	2,478	2,803	3,074	3,289	4.19
Beverages and tobacco	258	288	283	358	431	641	780	974	975	1,255	1.60
Raw materials, inedible, other than fuels	1,597	1,749	1,616	1,869	1,903	2,142	2,396	2,388	2,511	2,567	3.27
Fossil fuels, lubricants and related substances	484	423	547	623	561	656	911	1,452	1,840	1,972	2.51
Animal and vegetable oils, fats	25	35	28	39	45	52	54	53	66	68	0.09
Chemical products	3,407	3,877	4,156	5,038	5,242	5,655	6,427	7,077	7,929	7,967	10.15
Processed goods[2]	10,752	12,274	12,085	13,468	14,868	14,439	16,363	17,187	17,309	17,848	22.75
Machinery and vehicles	14,511	16,447	18,083	21,301	23,344	25,982	30,612	32,137	33,069	32,883	41.91
Miscellaneous manufactured goods	5,102	5,626	5,897	7,222	7,722	8,338	9,089	9,910	10,092	10,221	13.03
Goods not classed by kind	23	36	127	76	78	51	581	270	535	400	0.51
Total exports[3]	37,246	42,151	44,490	51,962	56,302	60,266	69,692	74,251	77,400	78,471	100.00
Imports (c.i.f):											
Food and live animals	2,207	2,562	2,806	3,218	3,311	3,427	3,553	3,937	4,029	4,153	5.20
Beverages and tobacco	179	195	201	270	319	336	376	437	497	542	0.68
Raw materials, inedible, other than fuels	1,931	2,256	1,947	2,356	2,378	2,487	3,014	2,930	2,960	2,940	3.68
Fossil fuels, lubricants and related substances	2,014	2,151	2,767	3,030	2,565	2,881	4,899	5,500	5,731	6,407	8.03
Animal and vegetable oils, fats	83	88	101	127	133	116	111	110	126	124	0.16
Chemical products	4,742	5,189	5,359	6,089	6,546	6,749	7,572	8,229	8,683	8,929	11.18
Processed goods[2]	8,744	9,385	9,412	10,507	11,056	11,135	12,501	13,264	12,507	12,783	16.01
Machinery and vehicles	17,365	17,896	19,613	21,916	24,320	26,947	30,818	31,612	30,020	31,313	39.22
Miscellaneous manufactured goods	8,415	8,515	9,214	9,725	10,229	11,044	11,814	12,431	12,184	12,198	15.28
Goods not classed by kind	23	310	377	191	343	193	278	241	368	444	0.56
Total imports[3]	45,702	48,548	51,798	57,430	61,200	65,316	74,935	78,692	77,104	79,831	100.00

Source: Statistics Austria.
[1] Based on movements of goods.
[2] Semi-finished and finished products.
[3] Amounts may not add up due to rounding.

Table 9

Balance of Payments[1]

	1994	1995	1996	1997	1998	1999	2000	2001	2002[2]	2003[3]
	EUR million									
Current account	−2,717	−4,490	−4,180	−5,758	−4,685	−6,330	−5,357	−4,114	949	−2,045
Goods	−6,557	−4,874	−5,598	−3,777	−3,289	−3,377	−2,990	−1,403	3,749	1,654
Exports - f.o.b.	37,340	42,253	44,615	52,038	56,413	60,504	70,187	74,722	78,031	78,798
Imports - c.i.f	43,897	47,127	50,213	55,816	59,702	63,881	73,177	76,125	74,282	77,144
Services	6,108	3,379	3,501	874	2,122	1,648	1,743	2,045	1,069	824
of which travel	2,873	1,925	1,354	788	1,502	1,730	1,536	1,423	1,952	2,038
Income	−1,373	−1,741	−715	−1,349	−1,779	−2,698	−2,661	−3,404	−2,134	−2,458
Current transfers	−896	−1,254	−1,367	−1,506	−1,738	−1,902	−1,449	−1,352	−1,735	−2,065
Financial account	3,147	5,047	3,812	5,448	5,531	6,614	4,679	4,599	−4,623	3,106
Capital account	−232	−203	−75	−111	−308	−248	−475	−592	−580	−100
Foreign direct investment abroad	−1,043	−828	−1,488	−1,762	−2,469	−3,098	−6,230	−3,506	−6,001	−6,276
Foreign direct investment in Austria	1,745	1,395	3,405	2,354	4,078	2,792	9,595	6,574	1,612	6,074
Portfolio investment assets	−3,744	−2,073	−6,396	−8,800	−10,116	−27,207	−29,167	−11,882	−25,151	−15,927
Portfolio investment liabilities	4,036	9,418	4,764	10,174	16,018	24,654	32,395	18,603	19,992	20,926
Other investment assets	−2,311	−7,414	651	−4,526	−825	−10,571	−17,187	−9,520	11,320	−13,665
Other investment liabilities	5,260	5,336	3,369	4,572	1,566	18,496	14,698	2,334	−7,795	10,869
Change in official reserves	−768	−1,001	−809	2,608	−2,914	1,963	838	2,067	1,810	1,795
Errors and omissions	−197	−354	443	421	−539	−36	1,152	108	4,254	−961

Source: Oesterreichische Nationalbank.
[1] Amounts may not add up due to rounding.
[2] Revised data.
[3] Provisional data.

3.3 Labor, Education and Social Services

The work force and employment

During 2003, Austria's total work force (jobholders, the self-employed and the unemployed) averaged 3.967 million. The number of jobholders (dependent employment) averaged 3.07 million, 28% of whom worked in industry and construction, 71% in commerce and other service sectors and 1% in agriculture and forestry.

Unemployment

Unemployment has been increasing in recent years. In 2003 it averaged 240,100, compared with 232,400 in 2002. Job vacancies averaged 21,700 during 2003. The unemployment rate (Eurostat definition) was 5.3%, which was well blow the euro area average (8.0%). This rate is putting Austria in third place within the Euro area, namely behind Luxemburg (3.7%). The national unemployment rate (not seasonally adjusted) came to 7.0% in 2003.

Table 10

Employment and Unemployment in Austria

	Dependent employment		Registered unemployment	Unemployment rate		Vacancies
	in 1,000	*annual change in %*	*in 1,000*	*National Definition*[1]	*EU Definition*[2]	*in 1,000*
1991	2,997.4	+2.3	185.0	5.8	3.4	49.4
1992	3,055.8	+2.0	193.1	6.0	3.3	44.1
1993	3,054.9	-0.0	222.3	6.8	3.9	32.9
1994	3,070.7	+0.5	214.9	6.5	3.8	30.2
1995	3,068.2	−0.1	215.7	6.6	3.9	25.0
1996	3,047.3	−0.7	230.5	7.0	4.4	19.4
1997	3,055.6	+0.3	233.3	7.1	4.4	19.0
1998	3,076.7	+0.7	237.8	7.2	4.5	23.1
1999	3,107.9	+1.0	221.7	6.7	3.9	31.2
2000	3,133.7	+0.8	194.3	5.8	3.7	35.5
2001	3,148.2	+0.5	203.9	6.1	3.6	29.7
2002	3,155.2	+0.2	232.4	6.9	4.3	23.2
2003	3,184.8	+0.9	240.1	7.0	5.3	21.7

Sources: Austrian Public Employment Service, EUROSTAT, Austrian Institute of Economic Research, Main Association of Austrian Social Security Institutions.
[1] Registered unemployed in % of dependent employment and registered unemployed.
[2] Sample survey according to EUROSTAT criteria.

Foreign workers

The past few years have also seen the employment of a substantial number of foreigners. Their number peaked in 2003 with an average of 349,600, or 11% of all jobholders. At that time, 46% of the foreign workers were citizens of former Yugoslavia, 15.9% of Turkey and 12.8% of EU countries.

Education

Thanks to its well-developed and comprehensive educational system, Austria has a highly-qualified work force. Children have to attend school from the age of six, and compulsory schooling lasts for nine years. After four years at elementary school, ten-year-old pupils can choose between two systems of schooling: extended elementary school or secondary school. Pupils who complete their studies at a secondary or higher vocational school are awarded a graduation certificate that entitles them to attend university.

The educational budget

In 2003, the federal government's expenditure on education amounted to EUR 5.75 billion (2002: EUR 5.66 billion). The system provides pupils with excellent facilities. The government is continuing to improve the country's school system by making classes smaller and introducing new subjects such as computer science and electronic data processing. In the 2002/2003 school year, 1209,608 pupils attended Austria's 6,014 schools.

Research and development

Expenditure on R&D encompasses much of those resources which are used more or less like an investment into the future and spent with a view to obtaining and securing competitive advantages. During the 1990s, Austria made a serious effort to catch up: From 1.39 percent of GDP in 1990, public spending on research successively grew to 1.96 percent in 2003, which has brought Austria to a medium level within Europe; but there is still a wide gap to leading countries such as Finland or Sweden.

A well-developed social security network

Austria's social security system offers health, maternity, disability and old-age benefits, family allowances, supplementary retirement and welfare schemes, unemployment benefits and a number of other social welfare schemes and benefits. 99% of Austria's population is covered by the social security net. Social security benefits are financed by regular contributions from employees and employers (about three quarters of total security benefits) or by allocations from the federal budget. Austria's good position for business location can also be seen when looking at the number of strike days which is very low in comparison to other main industrial countries.

Table 11

Strikes: Working Time Lost

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	Per jobholder (minutes/year)									
Austria	2.0	0.0	0.0	0.0	2.9	0.0	0.0	0.4	0.0	1.4
Germany	8.8	3.4	3.7	1.5	0.8	0.2	1.2	0.2	0.4	4.7
Denmark	12.4	7.8	40.8	15.5	20.3	631.0	18.1	24.4	11.7	38.0
USA	17.6	21.5	23.9	19.7	17.8	19.9	7.8	77.3	4.4	2.5
United Kingdom	14.1	6.0	8.9	27.8	4.9	5.8	4.9	9.9	10.3	25.5
Sweden	25.8	7.2	85.0	8.3	3.2	0.2	10.4	0.0	1.4	0.1

Source: Austrian Federal Chamber of Labor.

3.4 Federal Budget

Public Deficit and Public Debt

The federal budget

The public fiscal year is the calendar year. Before the start of every new fiscal year, the federal government submits an annual budget containing the planned revenues and expenditures to the Austrian Parliament *(Nationalrat)* for "adoption. Any changes in expenditures and revenues exceeding the Minister of Finance's competence require the *Nationalrat's* approval in the form of a "special budget law. If the federal budget act cannot be passed before the beginning of the new fiscal year, an automatic provisional budgetary arrangement enters into force. In order to achieve greater continuity in budget policy, it has been the practice since 1996 to negotiate federal budgets in groups of two (1996/97, 1998/99, 2001/02, 2003/04 with the exception of 2000).

Table 12 shows the structure and development of Austria's federal budget over the last few years.

Table 12

Summary of Revenues and Expenditures of Federal Budget[1]

	1997	1998	1999	2000	2001	2002	2003	2004[5]
	EUR million							
I. General Account								
Revenue:								
Total taxes and levies, gross	45,343	48,709	48,675	50,387	56,210	54,951	53,498	57,618
Less transfers to EU,								
provinces, municipalities and others	15,315	15,263	15,997	17,345	18,278	18,285	18,030	19,002
Total taxes and levies, net	30,028	33,446	32,678	33,041	37,933	36,666	35,468	38,616
Federal enterprises and other sources	19,587[4]	18,267	19,615	22,352	21,055	22,746	22,424	20,621
Total revenues	49,615[4]	51,712	52,293	55,393	58,988	59,413	57,892	59,237
Expenditure:								
Government expenditure	54,282	56,286	57,093	58,247	60,403	61,803	61,390	62,667
Federal enterprises	218[4]	224	156	0	0	0	0	0
Total expenditure	54,500[4]	56,510	57,249	58,247	60,403	61,803	61,390	62,667
Budget deficit, net of public debt redemptions	4,885	4,798	4,956	2,854	1,415	2,390	3,498	3,430
Budget deficit, net as a percentage of GDP	2.67%	2.53%	2.51%	1.39%	0.67%	1.10%	1.56%	1.49%
II. Financing Account:								
Expenditure[2]	12,161	24,887	30,655	63,418	37,114	34,697	51,623	50,993
Revenue[3]	17,046	29,685	35,611	66,272	38,529	37,087	55,121	54,423
Surplus	4,885	4,798	4,956	2,854	1,415	2,390	3,498	3,430

Source: Bundesministerium für Finanzen (Federal Ministry of Finance). WIFO (Austrian Institute of Economic Research).

[1] *Pursuant to § 16, para 1, of the Federal Budget Act (Bundeshaushaltsgesetz – BHG) the federal budget is to be divided into a general account and a financing account. Receipts from and expenditure on swaps (interest and capital) are given in gross figures. Amounts may not add up due to rounding.*

[2] *Redemptions of federal debt, Austrian Industrial Holding Company's debt and short-term cash-raising operations.*

[3] *Receipts from borrowing and short-term cash-raising operations.*

[4] *Adjusted in the course of the separation of the Motorway and Road-Financing Agency (ASFINAG).*

[5] *Budget estimate (Bundesvoranschlag – BVA).*

Privatization of state-owned shares anual real estates

The government has been pursuing a policy of privatization since 1986. It sold state-owned shares worth more than EUR 1.7 billion during the first round of privatization (1986–1994). Following the sale of *Verbundgesellschaft* share capital in 1987 and the takeover of the national Mint by the *Oesterreichische Nationalbank* in 1989, active privatization slowed down, with little action being taken between 1991 and 1994. Between 1995 and 2000, shares worth another EUR 2.3 billion were sold (mainly of *Bank Austria* and the *Creditanstalt-Bankverein).*

Table 13

Austria's Direct Debt[1]

	1996	1997	1998[3]	1999[3]	2000	2001	2002	2003
	EUR million							
ATS/EUR debt	80,001	85,100	97,939	101,196	103,984	105,220	108,248	112,979
Foreign currency debt[2]	21,512	22,160	13,664	16,778	16,722	16,193	15,705	13,899
Total debt	101,514	107,260	111,603	117,974	120,705	121,413	123,953	126,878

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).
[1] *Including swap-transactions, excluding own holdings of federal securities.*
[2] *Converted into EUR at the exchange rate on 31 December of the particular year.*
[3] *Break in the time series: Since 1999 the euro debt of the federal government comprises re-denominated ATS debt and foreign currency debt held in euro currencies. Only debt held in non-euro currencies is recorded as federal foreign currency debt. Figures for 1998 are recalculated.*

The Federal Minister of Finance collected privatization revenues for the federal budget to the amount of EUR 429 million in 1995, EUR 342 million in 1996, EUR 1.3 billion in 1997, EUR 203 million in 1998, EUR 51 million in 2000, EUR 2.8 million in 2002 and EUR 4.1 million in 2003. No revenues were realized from privatization in 1999 and 2001. For 2004 privatization revenues in amount of EUR 1.4 million are expected (see section 5.5 for details on privatization in Austria).

Table 14

Federal Debt Servicing Costs for the ATS/EUR Debt

	2000	2001	2002	2003
	EUR million			
Interest payments	6,025	5,911	6,044	5,782
Redemptions	11,312	9,706	12,459	14,697
Other[1]	211	−88	−32	−54
Total servicing costs	17,548	15,529	18,471	20,425

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).
[1] *Actual expenditure for other costs (commission, issuing costs) and the zero coupon fund.*

Table 15

Federal Debt Servicing Costs for the Foreign Currency Debt[1]

	2000	2001	2002	2003
	EUR million			
Interest payments	736	649	533	520
Redemptions	2,008	1,650	1,975	1,572
Other[2]	20	−9	24	8
Total servicing costs	2,764	2,291	2,532	2,099

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).
[1] *Converted into EUR at the exchange rate on 31 December of the particular year.*
[2] *Actual expenditure for other costs (commission, issuing costs) and the zero coupon fund.*

Federal government real estate sales to Bundesimmobiliengesellschaft amounted to EUR 0.54 billion in 2000, EUR 0.78 billion in 2001, EUR 0.74 billion in 2002 and EUR 0.34 billion in 2003 (last instalment of the transaction).

Budgetary development 1996–2005

In 1994 and 1995, when Austria joined the EU, the budget deficit (general government) amounted to 5.0% and 5.2% of GDP, respectively.

In April 1996, a fiscal consolidation program for 1996 and 1997 was launched to bring the public budget deficit in line with the Maastricht criteria and to meet requirements for Monetary Union. The decrease of the general

Table 16

Development of the Public Sector in Austria[1]

	1998	1999	2000	2001	2002	2003	2004[2])
	in % of GDP						
Public Deficit/Surplus							
General Government	−2.4	−2.3	−1.5	0.2	−0.2	−1.1	−1.1
Central Government	−3.0	−2.5	−1.6	−0.6	−0.9	−1.7	−1.6
State Government	0.4	0.3	0.2	0.5	0.4	0.3	0.3
Local Government	0.1	0.0	0.0	0.3	0.3	0.2	0.2
Social Security Funds	0.1	0.0	−0.1	−0.0	0.0	0.0	0.0
Public Debt	64.9	67.5	67.0	67.1	66.6	65.0	64.5

Source: Statistics Austria, Federal Ministry of Finance, Austrian Institute of Economic Research.
[1] *According to the budgetary notification (February 2004).*
[2] *Provisional Data.*

public deficit by 1.4 percentage points to 3.8% of GDP in 1996 and by 1.9 percentage points to 1.9% in 1997 can be traced to the impact of the consolidation package.

The federal budget plans for 1998 and 1999 were aimed at stabilizing budgetary consolidation without taking any sweeping measures. In 1998 an increase to 2.4% was observed, while the public deficit ratio stood at 2.3% of GDP in 1999.

The deficit ratio came to 1.5% of GDP (without UMTS licenses: 1.9% of GDP) in 2000 owing to a number of tax-related measures (specific indirect taxes, fees and charges were raised), the sale of UMTS licenses and favorable economic conditions. The fiscal activities for 2001 and 2002 were characterized by comprehensive and ambitious austerity measures (mainly comprising a pension reform, a reduction of the number of public employees and direct tax measures) and a new agreement between the federal government, the Länder and the local authorities in which the representatives of the Länder and local authorities have committed to increasing their contributions to budgetary consolidation.

Despite the considerable slowdown in growth, the general government improved to a slight surplus of 0.3% of GDP in 2001. In 2002 by contrast general government finances deteriorated by almost one percentage point to 0.6% of GDP reflecting the working of automatic stabilizers and the consequences of the flood disaster of August 2002.

In 2003, a further increase of the general government's deficit to 1.3% of GDP occurred. Budgetary developments in this year reflect weak economic growth (which drove up social spending and depressed tax revenues), the consolidation measures adopted in 2000/2001 (the growth of the big expenditure aggregates was dampened by the pension reform of 2000, personnel cuts in the civil service and the administrative reform; higher tax prepayments made in 2001 translated into revenue losses even in 2003). The floods of August 2002 and the two economic growth packages of 2001 and 2002 also worsened the budget balance in 2003. Expenditure was, moreover, increased by residual effects of the introduction of a new child-care benefit regime (Kindergeld) on January 1, 2002, and by the family allowance increase that became effective at the beginning of 2003. The ensuing deterioration in the primary balance was, however, partly offset by lower than expected interest payments.

Apart from economic developments (especially extremely weak employment growth dampening tax revenue; further increase in the jobless rate, driving up social expenditure) , budgetary developments in 2004 reflect the impact of the first stage of the tax reform, cuts in nonwage labor costs, that part of the second tax reform stage that took effect already in 2004, as well as the effects of the recent pension and health care system reforms. In addition, the budget outturn is affected, if to a marginal extent, by the extension of temporary economic growth measures under the growth and location package of end-2003.

Since 1993, the public debt quota has been above the 60% level laid down in the Maastricht Treaty. In 1996, the debt ratio reached 69.1%, but fell to 64.7% in 1997 (for the most part owing to the reclassification of a number of public enterprises to be included in the private sector). Figures for gross government debt were significantly revised upwards, in 2001 by 1.2% of GDP following a EUROSTAT decision on securitisation operations, and in 2002 by 5.4% of GDP, due to a rectification of the Austrian debt reporting relating to the inclusion of bonds issued in order to finance state-owned enterprises. As a result, general government debt ratcheted up to 66.6% of GDP in 2002. According to this second EUROSTAT decision also the debt ratios from 1998 onwards had to be revised upwards (1998: 64.9%; 1999: 67.5%; 2000: 67.0%; 2001: 67.1%). However, since interest and principal payments on these bonds are being made by the beneficiary enterprises, this revision had no impact on the deficit figures. In 2003 the debt ratio reached 65.4%. From 2002 onwards again the debt ratio shows a downward trend which is expected by the government to continue. According to the stability program a debt ratio of slightely less than 60% of GDP will be achieved in 2007.

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4

Monetary Policy

4.1 The Oesterreichische Nationalbank

Central Bank of Austria

Principal responsibilities

With Austria's entry into Stage Three of the Economic and Monetary Union (EMU) on 1 January 1999 the *Oesterreichische Nationalbank* has become an integral part of the European System of Central Banks (ESCB). The ESCB consists of the ECB and the national central banks (NCBs) of the EU Member States and is directed by the ECB's decision-making bodies.

The legal status of Austria's central bank is regulated by the *Nationalbankgesetz 1984* as amended as well as the Treaty establishing the European Community (EC Treaty) and the Protocol on the Statute of the European System of Central Banks and the European Central Bank (ESCB/ECB Statute).

With the transfer of monetary policy competence to the ECB at the start of Stage Three of EMU, the responsibility and the tasks of the *Oesterreichische Nationalbank* have changed.

The *Oesterreichische Nationalbank* is, in accordance with the provisions of the EC Treaty, the ESCB/ECB Statute, the directly applicable Community legislation adopted thereunder, and the *Nationalbankgesetz 1984,* obliged to work towards the achievement of the objectives and the fulfilment of the tasks of the ESCB. Within the framework of Community law, in particular Articles 2 and 105 of the EC Treaty, the *Oesterreichische Nationalbank* shall use all the means at its disposal to secure the objective of price stability. To the extent that this does not interfere with the objective of price stability, the needs of the national economy with regard to economic growth and employment trends shall be taken into account and the general economic policies of the Community shall be supported.

The basic tasks to be carried out through the ESCB are

- to define and implement the monetary policy of the Community;
- to conduct foreign exchange operations consistent with the provisions of Article 111 of the EC Treaty;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems.

Since 1 January 2002 and subject to the approval of the ECB, the *Oesterreichische Nationalbank* is empowered to issue banknotes denominated in euros. The banknotes denominated in euros, which are issued by the *Oesterreichische Nationalbank,* the ECB and the national central banks of the other Member States participating in the third stage of EMU have the status of legal tender. The *Oesterreichische Nationalbank* is the only institution in Austria entitled to print or to let print banknotes that have the status of legal tender in Austria; the legal position of the ECB is not affected thereby. Furthermore, the *Oesterreichische Nationalbank* is empowered to produce securities, other stores of value and administrative forms that must meet special security requirements.

Protecting the central bank's independence

The *Nationalbankgesetz 1984* contains a number of provisions that are designed to protect the central bank's independence as laid down for NCBs and the members of their decision-making bodies in Article 108 of the EC Treaty.

In pursuing the objectives and performing the tasks within the ESCB the *Oesterreichische Nationalbank* shall act in accordance with the guidelines and instructions laid down by the ECB. Neither the *Oesterreichische Nationalbank* nor any member of its decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State, or from any other body.

The Governor, who is a member of the ECB Governing Council and the General Council of the ECB or his deputy is in no way bound, in performing these functions, either by the decisions of the *Oesterreichische Nationalbank's* Governing Board or its General Council, nor shall they be subject to any other instructions.

The State Commissioner and a Deputy State Commissioner, who are appointed by the Federal Minister of Finance, are entitled to participate in the General Meeting and the meetings of the General Council of the *Oesterreichische Nationalbank* in an advisory capacity. In order to guarantee full independence of the *Oesterreichische Nationalbank* the former right of the State Commissioner to raise objections to decisions of the General Council was abolished.

4.2 Monetary Policy

The mandate that the primary objective should be to maintain price stability forms the basis for the monetary policy strategy of the ECB. When monetary union started in 1999 price stability was defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area as a whole of below 2%.

In May 2003 the Governing Council clarified that it aims to maintain HICP inflation below but close to 2% over the medium term for different reasons: the probability that nominal interest rates will approach their lower bound at zero is reduced, available inflation statistics may be subject to a positive measurement error and sustained inflation differentials within the monetary union.

A further element of the strategy relates to the analysis of the risks to price stability which is founded on a two-pillar-framework.

One pillar comprises the economic analysis to identify short- to medium-term risks to price stability. This assessment is made using a wide range of economic and financial variables, such as various measures of real activity, price and cost indices, wages, bond prices, the yield curve, fiscal policy indicators as well as business and consumer surveys. In this way, the Eurosystem takes account of the fact that in the short-to medium-term the price level is determined by the interplay between supply and demand and the effects on cost and pricing behaviour in the goods, services and factor markets.

The monetary pillar assesses medium- to long-term trends in inflation in view of the close relationship between money and prices over extended periods. It takes into account developments in a wide range of monetary indicators including M3, its components and counterparts, notably credit, and various measures of excess liquidity.

The two pillars should illustrate that these two perspectives offer complementary analytical frameworks, which are used to cross-check information to support the Governing Council's overall assessment of the risks to price stability.

Instruments

In order to achieve its objectives the Eurosystem has at its disposal a set of monetary policy instruments; the Eurosystem conducts open market operations, offers standing facilities and requires credit institutions to hold minimum reserves on accounts with the Eurosystem.

Open market operations

Open market operations play an important role in the monetary policy of the Eurosystem for the purposes of steering interest rates, managing the liquidity situation and signalling the stance of monetary policy.

The most important instruments are the main refinancing operations, (MROs) which are regular liquidity-providing reverse transactions with a weekly frequency and normally a maturity of one week. These operations provide the bulk of refinancing to the financial sector.

In combination with a change of the timing of the minimum reserve maintenance period this shall further improve the efficiency of the operational framework for monetary policy.

Besides there exist the longer-term refinancing operations, which are regular liquidity-providing reverse transactions with a monthly frequency and a maturity of three months.

Moreover the Eurosystem may use quick tenders, outright transactions, the issuance of debt certificates, foreign-exchange swaps and the collection of fixed-term deposits.

Standing facilities

Standing facilities aim to provide and absorb overnight liquidity, signal the general stance of monetary policy and bound overnight market rates.

Counterparties can use the marginal lending facility to obtain overnight liquidity from the national central banks against eligible assets. The interest rate on the marginal lending facility normally provides a ceiling for the overnight market interest rate.

Counterparties can use the deposit facility to make overnight deposits with the national central banks. The interest rate normally provides a floor for the overnight market interest rate.

In general, credit institutions subject to minimum reserves according to Art. 19.1 of the Eurosystem-statute may participate in monetary policy operations of the Eurosystem.

Collateral

All Eurosystem credit operations have to be based on adequate collateral.

A distinction is made between “Tier one”- and “Tier two”-Collateral. Tier one consists of marketable debt instruments fulfilling uniform euro-wide eligibility criteria specified by the ECB. Tier two consists of additional assets, marketable and non-marketable, which are of particular importance for national financial markets and banking systems and for which eligibility criteria are established by the national central banks, subject to ECB approval. No distinction is made between the two tiers with regard to the quality of the assets and their eligibility for the various types of Eurosystem monetary policy operations (except that tier two assets are normally not used by the Eurosystem in outright transactions).

Minimum reserve requirements

Concerning the minimum reserve system the ECB decided to apply a reserve ratio of two per cent on deposits and debt security issues with a maturity up to two years.

Liabilities vis-à-vis other institutions subject to Eurosystem’s minimum reserve system and liabilities vis-à-vis the ECB and the national central banks are excluded from the minimum reserve base.

A lump-sum of EUR 100.000 is allowed to be deducted from an institution’s reserve requirement. The minimum reserves are remunerated at the average, over the maintenance period of one month (weighted according to the number of calendar days), of the Eurosystem’s rates of the main refinancing operations.

The system of monetary policy instruments of the Eurosystem is described in detail in “The Implementation of Monetary Policy in the Euro area – General documentation on Eurosystem monetary policy instruments and procedures”, ECB, February 2004.

4.3 The Banking System

Introduction

The Austrian banking system is a universal banking system. As in Germany, there is no statutory requirement to separate commercial banking from investment banking. However, the universal banking system does not exclude the possibility that individual credit institutions may have restricted banking licenses or specialize in particular lines of business.

The legal framework was overhauled in 1993 with the passing of a new Banking Act, that was introduced to bring Austrian banking laws in line with the EU directives. Certain categories of credit institutions are regulated by other legislation (e.g. Savings Bank Act, Postal Savings Bank Act etc.) to the extent that is not incompatible with the Banking Act.

Sectors

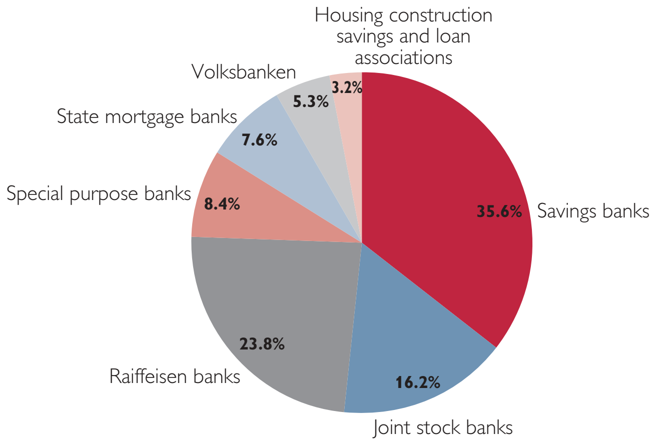
The Austrian banking system is organized by category or "sector". Austria's 896 independent banks (December 2003) are divided into seven sectors, including the so-called special purpose banks established for special financing purposes (which do not have full banking licenses):

63 joint stock banks;
63 savings banks;
9 state mortgage banks;
596 *Raiffeisen banks;*
69 *Volksbanken;*
5 housing construction savings and loan associations;
91 special purpose banks.

The sectoral organization of the banking industry has historical roots in Austria. Today, there are few differences between the activities of the different sectors, but the sectoral structure is still in place. In practice, almost all banks are universal banks and there are only a few credit institutions that are specialized in specific lines of business.

Individual Sectors Percentage Shares of the Austrian Banks' Aggregate Balance-Sheet Total

December 2003



Source: Oesterreichische Nationalbank.

The classification of banks by sector is determined by their legal form or by the industry association they belong to.

The sectors are organized in single-tier and multi-tier structures. The sectors of joint stock banks, state mortgage banks, housing construction savings and loan associations and specialized credit institutions are single-tier. Savings banks and *Volksbanken* have a two-tier structure and *Raiffeisen* banks a three-tier structure.

Within the multi-tier sectors, also known as the decentralized sectors, the so-called central or umbrella institution assumes the tasks of coordination, including sectoral funding. Above all, the central institutions serve as the hub for business done with the other sectors.

In the decentralized sectors of savings banks, *Volksbanken* and *Raiffeisen* banks, the awareness of belonging together is very strong. If an institution in one of these sectors gets into difficulties, it can usually count on the support of the other credit institutions in its sector.

Joint Stock Banks

The main business of joint stock banks has traditionally been the financing of large industrial projects and providing banking services to corporate customers in the trade and industrial segments of the economy. Other activities include international business and export financing for Austrian enterprises.

In total, this sector comprises 63 credit institutions with 531 branch offices (as per December 2003). Their legal status is either that of a stock corporation or a limited liability company.

Some of the largest institutions belonging to the joint stock bank sector are:

- *Bank für Arbeit und Wirtschaft AG – BAWAG,* the third largest bank, and
- *Postsparkasse – P.S.K.* (Postal Savings Bank), the sixth largest bank.

Postsparkasse

BAWAG

In August 2000, *BAWAG* bought *PSK,* the Austrian postal savings bank, for EUR 1.28 billion. The takeover propelled *BAWAG* and *PSK* to a third place ranking in the category of Austria's major banks, behind the *Bank Austria Creditanstalt* group and *Erste Bank.* With the sale of *PSK,* the government has successfully implemented yet another privatization plan.

The former 46% owner of *BAWAG,* the *Bayerische Landesbank,* sold its minority equity stake to the bank's majority shareholder, *Österreichischer Gewerkschaftsbund* (Austrian Federation of Trade Unions), in June 2004, which is the sole shareholder of *BAWAG.*

Savings Banks

Traditionally, the savings banks sector was mainly committed to promoting and collecting savings deposits from the general public, granting loans and lines of credit to industrial, trade and commercial enterprises, as well as providing funds for housing construction and municipal projects. Today the business of these banks covers the full range of banking products and services.

Savings banks do not have owners as such. According to the Savings Bank Act of 1979, they can be founded either by municipalities (municipal savings banks) or by private individuals or associations (savings associations) as legal entities under private law. The Savings Bank Act is a special law that contains the specific legal provisions regulating savings banks, which are not set out in the Austrian Banking Act. The main difference between municipal savings banks and savings associations is that in the event of a municipal savings bank becoming insolvent, the municipality acts as deficiency guarantor.

However, since 1986 both forms of savings banks may be transformed into a savings bank joint stock corporation. In this case, a savings bank brings its banking operations into a special form of holding company *(Anteilsverwaltungs-sparkasse, AV-S),* which merely manages the bank's assets (shares are owned by the *AV-S).* The *AV-S* itself is also ownerless. In principle, the *AV-S* is liable for the savings bank's entire assets. Should the *AV-S* become bankrupt or go into composition, the municipality again comes into play as guarantor for municipal savings banks. Savings associations without guarantors include the *Erste Bank,* the second largest bank in Austria, and a number of other institutions.

Since 1 January 1999, savings banks have had the option of transforming holding management savings banks into private law foundations. This brings the transparency of the ownership structure into line with international standards. Under the new regulations, the municipalities can be held liable only for liabilities incurred before the transformation.

Bank Austria Creditanstalt

The best example of a savings bank joint stock corporation is the country's largest bank, *Bank Austria,* which was created in 1990 as a result of the merger between the *Länderbank* and the *Zentralsparkasse.*

At the beginning of 1997, *Bank Austria* bought the second-largest bank in the country, *Creditanstalt AG.*

In September 2000, the supervisory board of *Bank Austria* endorsed the integration of *Bank Austria* in the *Bayerische HypoVereinsbank* group. The two banks emerged from the merger as the third largest European bank and ranked fifth as at December 2002. Within the *HypoVereinsbank* group, *Bank Austria* was made responsible for the important growth regions Central and Eastern Europe and for the Austrian market.

In August 2002, *Bank Austria* and *Creditanstalt* merged to form *Bank Austria Creditanstalt.* The bank now operates in Austria as a single new entity.

Erste Bank

Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) is now the second-largest credit institution in Austria. Following the sale by AV-Z its 56.1% share in *GiroCredit,* the savings banks sector's leading institution at the time, to *Erste Spar-Casse,* the two institutions merged in 1997, forming the *Erste Bank,* which became the leading institution in this sector.

Cooperative Banks

There are two cooperative banking sectors in Austria, the *Raiffeisen* and the *Volksbanken* sector. They are organized in such a way that the cooperative's members hold stakes in the cooperative. Typically, members have voting rights in the general meeting, but are not entitled to receive a share in the earnings, nor are they co-owners of the cooperative's material assets, i.e. their shares are only worth the amount they paid in. The legal framework is created by the Banking Act and the Cooperatives Act.

Raiffeisen banks

The Austrian *Raiffeisen* sector is organized in the form of a regional three-tier system. At the primary level there are 596 *Raiffeisen* banks with 1,713 branch offices. The second level consists of 8 *Raiffeisenlandesbanken* (regional Raiffeisen banks), whose shares are held by the primary level cooperatives (today these regional cooperatives are joint stock corporations, the shareholders being the local *Raiffeisen* banks).

At the third or top level of the *Raiffeisen* sector is the *Raiffeisen Zentralbank Österreich AG (RZB),* which is not a credit cooperative, but a joint stock corporation whose shares are owned by the *Raiffeisenlandesbanken.* The main activities of RZB include commercial banking, international business, investment banking and treasury activities. In recent years, business expansion has focused on Central and Eastern Europe.

Liquidity and financing flows go from the local *Raiffeisen* banks to the regional *Raiffeisenlandesbanken* that serves as the lead institution for the respective Austrian region. These second-tier institutions, in turn, deposit their surplus funds with the *RZB.*

Originally the focus of this sector lay on the provision of funds to agricultural enterprises, but today more loans are in fact granted to industrial and commercial enterprises than to the agricultural enterprises.

Volksbanken

The *Volksbanken* sector is the other of the two cooperative sectors. It has a two-tier structure, i.e. there are no *Volksbanken* at the regional level. At the primary level there are 69 *Volksbanken,* all of which have the status of cooperatives. At the second and top level is the lead institution of the *Volksbanken* sector, *Österreichische Volksbanken AG (ÖVAG).* It is a joint stock company, 60% of whose shares are held by the *Volksbanken* (local cooperatives) and 23% by the *DZ BANK AG Deutsche Zentral-Genossenschaftsbank.*

In its capacity as a central institution, in addition to regular banking operations of all kinds carried out in Austria and abroad, *ÖVAG* covers the following fields of activity (similar to the role of the much larger *RZB* in the three-tier *Raiffeisen* sector):

- managing of the liquid funds of the associated commercial cooperatives, granting them loans and providing temporary liquidity,
- organizing and operating non-cash transfers of payments within the *Volksbanken* sector,
- issuing funded bonds for refinancing purposes (*ÖVAG* is, however, not licensed to issue mortgage-backed bonds or municipal credit-backed bonds).

Traditionally, the first commercial cooperatives were associations of craftsmen and owners of small businesses in the middle of the last century. Supplying trades and commercial enterprises with credit is still the main-stay of this sector today.

State Mortgage Banks

The state mortgage banks were founded by the provincial governments. At one time they specialized in mortgage-backed bonds and mortgage financing, but they have since developed into universal banks.

Their main line of business is to grant mortgage loans and loans to local authorities (provinces and municipalities) that are refinanced through own issues (mortgage-backed bonds and public sector mortgage-backed bonds and credit-backed bonds). The difference between the two is that in the first case the loan is secured by a mortgage and in the second case by loans to the public sector. These banks are also authorized to collect deposits and grant short-term loans.

Traditionally, state mortgage banks were organized as institutions created under public law. Furthermore, the respective Austrian provincial governments act as guarantors (deficiency guarantors), for which these banks pay a fee. Since 1999, the European Commission has put increased pressure on the Austrian authorities to end government guarantees, because these instruments have been qualified to distort competition. In April 2003, rules were adopted governing the expiry of the Austrian regional and local governments' guarantees for the debt of state mortgage banks and local authority saving banks (7 state mortgage banks and 21 savings banks are affected). Liabilities incurred as at 2 April 2003 will continue to benefit from a deficiency guarantee until maturity. Liabilities entered into during the transitional period will be covered by the guarantee provided that the mature before September 2017.

Over the past few years, the state mortgage banking sector has changed considerably. Changes in the legal form (from entities under public law into joint stock corporations) and (partial) privatization have completely changed the face of this sector.

In the meantime, all nine state mortgage banks have exercised the option of transforming themselves into joint stock corporations, which will pave the way for strategic alliances.

Special Purpose Banks

Apart from these five sectors, there are 91 special purpose banks. Among these are investment management companies. These are usually subsidiaries of credit institutions and insurance companies. They are not allowed to pursue any banking activity other than the investment fund business.

Oesterreichische Kontrollbank

The *Oesterreichische Kontrollbank (OeKB)* is owned exclusively by a number of leading Austrian commercial banks. The primary task assigned to it by the Republic of Austria is to provide export guarantees and long-term export financing. For refinancing purposes, the *OeKB* issues bonds in its own name and borrows long-term from credit institutions. In addition the *OeKB* also acts as a clearing house for the *Wiener Börse AG* and as central securities depository and settlement agency.

Investkredit Bank AG, as a bank for corporates, provides its customers with all financial services going beyond the scope of day-to-day company business. It raises its funds mainly by issuing medium-term and long-term bonds.

Market Share of Largest Banks in Austria

in Terms of Total Assets (Dec. 2003) unconsolidated

Institution	Percentage share	
	per bank	*aggregated*
Bank Austria Creditanstalt	17.46	17.46
Erste Bank AG	10.21	27.67
BAWAG	6.53	34.21
RZB	6.25	40.46
Kontrollbank	3.99	44.45
ÖVAG	2.29	46.75
PSK	2.11	48.85
RLB OÖ	2.10	50.95
RLB NÖ-WIEN	1.84	52.80

Source: Oesterreichische Nationalbank, Monthly Reports.

Furthermore, Austria also has five housing construction savings and loan associations with 51 branch offices. Their task is to grant savers who have paid in a minimum amount of capital, secondary loans and mortgages at low interest rates. The loans must be used for the purchase of housing.

The Structure of Austria's Banking System

The concept of the universal bank model includes significant potential for synergy, allows for a high degree of risk-spreading and translates into flexible adaption to shifting demand. With the member banks of the two-tier and three-tier sectors cooperating closely and sharing a spirit of solidarity, difficulties that could affect other small banks can be largely prevented and insolvency problems may be resolved within the sector. Austrian banks' competitiveness vis-à-vis their EU counterparts is further underpinned by traditionally strong relations with their customers. In particular, Austrian banks boast indepth knowledge of the workings and needs of small and medium-sized enterprises, offer an all-encompassing range of services, including the distribution of products not traditionally linked with banks, are renowned for their Eastern European know-how and, over the years, have acquired invaluable expertise in an environment that benefits from a stability-oriented monetary policy.

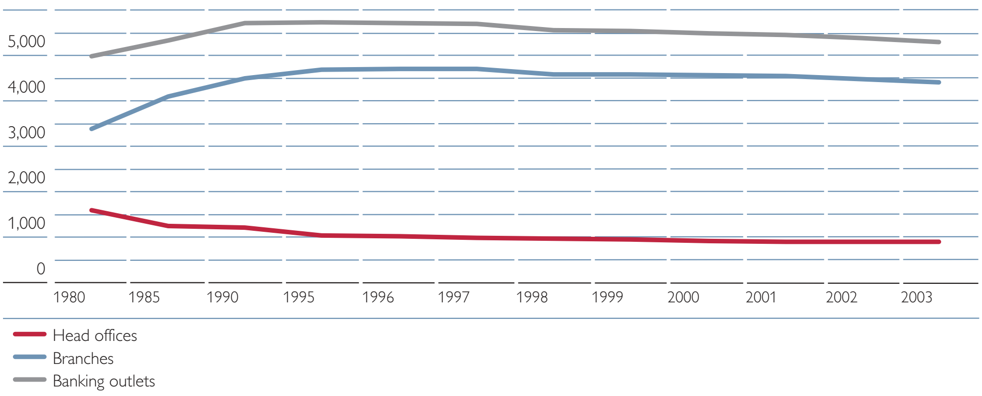
The Development of the Banking Sectors

Sector	Total Assets Dec. 2003		Total Assets Dec. 2002		Total Assets Dec. 1990	
	EUR million	*% share in aggregate total assets*	*EUR million*	*% share in aggregate total assets*	*EUR million*	% share in aggregate total assets
Savings banks	215,446.67	35.60	214,777.71	37.50	72,856.60	24.80
Joint stock banks	97,775.15	16.16	91,936.05	16.00	105,895.60	36.10
Raiffeisen banks	144,012.22	23.80	131,264.08	22.90	52,804.10	18.00
Special purpose banks	51,062.38	8.44	46,325.36	8.10	22,625.10	7.70
State mortgage banks	45,749.83	7.56	40,457.16	7.10	16,279.70	5.50
Volksbanken	31,859.11	5.27	29,789.58	5.20	12,593.30	4.30
Housing construction savings and loan associations	19,201.98	3.17	18,717.98	3.30	10,578.50	3.60

Source: Oesterreichische Nationalbank.

The Austrian banking sector has undergone structural changes over the past decade via privatization, consolidation and refocused strategies. Further consolidation among the smaller institutions, such as cooperative and savings banks is expected to continue, but the Austrian banking market remains one of the most competitive. Consolidation on a large scale seems to be limited.

Number of Austrian Credit Institutions 1980–2003



Austria's banking system comprises 5,297 independent banks and branch offices. The relatively high number of offices compared to other international banking sectors may be explained by the fact that banks are the first choice for savings and for the funding of investments, over-shadowing the comparably minor – but now steadily increasing – role of other financial intermediaries (capital market, institutional investors) in Austria.

Banking outles

From 1980 to 2003, the total number of Austrian credit institutions considerably decreased from 1,595 to 896, i.e. a reduction of more than 40% or 699 institutions. This reduction was especially pronounced in the decentralized sectors (savings banks, *Raiffeisen* banks and *Volksbanken).* In the same period the number of banking outlets increased by 396 institutions or approxematly 8%. The most important trend is the absolute reduction both in the number of head offices and branches since 1996.

In 2003 the number of branch offices decreased by 70 and the number of head offices was reduced by 1. Thus the total number of bank outlets was reduced by 71.

The high number of credit institutions is one reason for the comparatively low degree of concentration in the Austrian banking system, which encompasses many small and a fair number of medium-sized banks, but only few large banks.

As regards the concentration of the five largest banking groups in terms of assets, the ratio decreased slightly from 45.9 % in 2002 to 44.5 % in 2003.[1] This ratio has hardly changed over the past few years, which is evidenced by the band ranged between 43.4 % (in 1999) and 45.9 % (in 2002), despite the merger between Bank Austria and Creditanstalt to *Bank Austria Creditanstalt* in August 2002, up to that time the both were considered unconsolidated, like currently *Bawag* and *PSK.*

Radically changes in market concentration go back to 1997 when *Bank Austria* acquired *Creditanstalt* and *Erste Österreichische Spar-Casse* merged with *GiroCredit* to *Erste Bank der Österreichischen Sparkassen* disregarding the unconsolidated consideration of Bank Austria and Creditanstalt.

1 *Data is based on monthly reports.*

Impacts of the single market on Austria's credit institutions

Austria's banks have been players in the European Single Market since the start of 1994, when the European Economic Area (EEA) came into effect. The ensuing freedom of establishment and of services (mutual recognition of bank licenses and supervisory systems) has helped Austrian credit institutions to do business in other EEA countries and vice versa.

The EU's common market has served as a key catalyst for the Austrian banking sector's increased consolidation efforts to make the banks more competitive. Major banks have been taking over more and more small credit institutions in the multi-tier segments of the banking industry in the past few years.

Mergers have also taken place across banking sectors (see above). A number of strategic alliances was also forged. The traditionally large stake held by the Republic of Austria in Austria's banks has been steadily trimmed over recent years. By year-end 2002, the government's shareholdings in the nominal of Austrian banks had thus dropped to EUR 22.67 million. Government ownership of Austrian banks had come down to one specialized institution (100% in *Austria Wirtschaftsservice Gesellschaft m.b.H.,* the former *BÜRGES Förderungsbank* and *Finanzierungsgarantie Gesellschaft m.b.H.)* as well as a stake of 15% in *Österreichischer Exportfonds.*

Central and Eastern Europe

Some large Austrian banks *(RZB, BA-CA und Erste)* realised at an early stage to open up new resources, by expanding into Central and Eastern Europe (CEE). This cross-border diversification strategy proved to be very successful as these banks continue to be largely supported by their activities in CEE. The performance of these operations continues to benefit from higher margins both in interest income and fees & commissions. Compared to total assets *Erste* is now the largest Austrian player in CEE followed by *BA-CA* and *RZB.*

The accession of many CEE countries to the EU and the consequent economic growth impulse, paired with harmonised legal framework, should continue to impact positively on profitability of these banks.

Compared to 2002, the aggregate operating result of the Austrian banking sector has increased in 2003 by 4.5% to EUR 4.41 billion, reflecting improved market conditions. The key items of operating income are net fee-based income, income from securities portfolios and participations, and net interest income. The latter totaled EUR 7.06 billion in 2003, which corresponds to a slight decrease of 0.3%.

The ratio of net interest income to total operating income, however, deteriorated to 50.9% in the year 2003 compared to 51.6% in 2002. In fact, after a decline below the 50% level of total operating income in 2000, net interest income contributes once again more than 50%.While interest income continues to account for the biggest share of revenues by far, it has continually become less dominant in recent years (see also chart below).

In 2002 the turmoil on financial markets resulted in a reduction of fee-based income to EUR 3.01 billion. The improved financial environment in 2003, especially in the second semester, significantly raised this ratio by 5,8% to EUR 3.19 billion, which is mainly due to a rise in commissions derived from securities transactions (+EUR 70 million), followed by commissions derived from credit transactions (+EUR 60 millions) and payments (+EUR 60 millions).

Operating income, consequently, increased marginally in 2003 by 1.1% to EUR 13.87 billion.

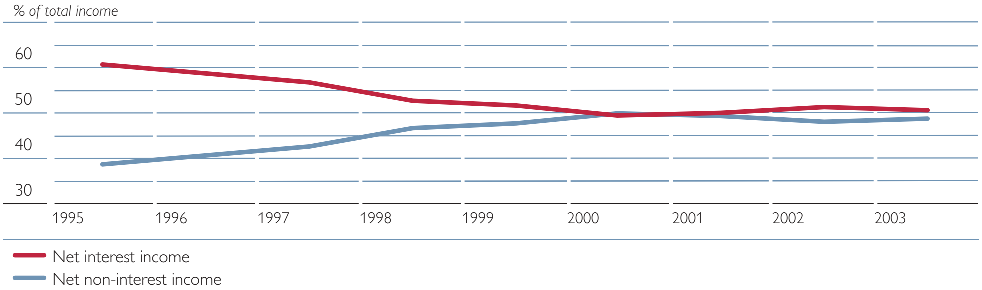
Turning to expenses, the tense earning situation in the year 2002 which has become more and more apparent since the economic downturn in 2001 has led to intensive cost reduction programs, which are now reflected in a decline in personnel and other administrative expenditures. Personnel expenditures decreased in 2003 by 0.9 % to EUR 4.74 billion and other administrative expenditures decreased by 1% to EUR 3.11 billion.

Austrian Banks' Earning Indicators

	1997	1998	1999	2000	2001	2002	2003
	as percentage of balance sheet total						
Net interest income	1.49	1.32	1.20	1.20	1.21	1.23	1.16
Net commission	0.49	0.50	0.52	0.56	0.52	0.52	0.53
Operating income	2.62	2.50	2.30	2.40	2.39	2.38	2.29
Operating expenditure	1.81	1.71	1.63	1.60	1.61	1.65	1.56
Net operating income	0.81	0.80	0.68	0.80	0.78	0.73	0.72

Source: Oesterreichische Nationalbank.

Relative Importance of Interest and Non-interest Income



Source: Oesterreichische Nationalbank.

4.4 Supervisory Requirements

Capital Requirements for Credit and Market Risks

Treatment of market risk and credit risk in the European Union and the Basle Committee on Banking Supervision

Following the introduction of capital standards for credit risk under the Solvency Ratio Directive (the European equivalent of the Basle Accord 1988) further work was done to develop capital charges for the market risks incurred by banks. The European Union's Capital Adequacy Directive of 1996 (closely related to the Basle Market Risk Proposals of 1995) provides for a standardized approach as well as for Value at Risk (VAR) models for the calculation of the own funds requirements applying to the trading book. The Basle Committee on Banking Supervision[1] also examined the problem of market risk and proposed the possible use of three different types of VAR model – historical simulation, variance/covariance and Monte Carlo simulations. Both the Basle Committee and the European Commission also formulated qualitative and quantitative criteria designed to guarantee a degree of uniformity in the approval process. The quantitative standards define inter alia the level of confidence and the holding period. The qualitative standards include the involvement of senior management in the risk management and the existence of a risk control unit that is independent of the trading units. The internally computed VAR must be multiplied by a supplementary factor ("multiplication factor") of between three and four that is calculated for each bank individually. The results of backtesting programs, i.e. ex-post comparisons of forecast values with actual results, and the results of stress-tests are key elements in the evaluation of internal VAR models.

Implementation in Austria

The Solvency Ratio and Capital Adequacy Directives have both been implemented into the *Bankwesengesetz* (Austrian Banking Act). Trading book transactions are subject to the own funds requirements of the Capital Adequacy Directive, while banking book transactions continue to be subject to the solvency regulations. The *Oesterreichische Nationalbank* has become more actively involved in banking supervision as a result of the implementation of the Capital Adequacy Directive. Prior to the approval of an internal model by the *Finanzmarktaufsicht* (Financial Markets Authority) two opinions, one from an independent expert, one from the *Oesterreichische Nationalbank,* are required. In addition, at least 12 months of backtesting results are subject to strict evaluation according to the criteria of para. 26 a) *Bankwesengesetz* (Austrian Banking Act).

Future Capital Framework

Both the Basle Committee and the European Commission have produced suggestions for a future capital framework. These papers follow a so-called three-pillar approach. The first pillar focuses on credit risk, including credit risk mitigation techniques, market risk and operational risk. The second pillar deals with the supervisory review process. The third pillar tackles the role of market discipline. The content of each pillar is outlined briefly below. After a first consultation period in the year 2000, a second set of consultative docu-

1 *The Basle Committee on Banking Supervision is made up of representatives of national central banks and the supervisory authorities of the Group of Ten (i.e. Belgium, Germany, France, the United Kingdom, Italy, Japan, Canada, the Netherlands, Sweden, Switzerland, the USA) and Luxembourg.*

ments was issued. The consultation period lasted until end May 2001. The consultation process was accompagnied by an impact study trying to find first results on the impact of the new capital regime on the capital situation of the banking system. The results of this second round of consultation showed that the proposals once again have to be modified. Therefore a third impact study was conducted in the second half of 2002 and a third consultation process carried out in 2003. In addition to that the European Commission has conducted a so-called "pre-consultative dialogue exercise" where supervisory authorities, the banking industry and all interested parties had the opportunity to comment on the latest proposals for the content of the new directive. In May 2004, the Basel Committee on Banking Supervision archieved consensus on the New Accord. The Commission announced to present its directive proposals for transposing Basel II into EU legislation in July 2004.

Risk Weighting

The treatment of credit risk in the banking book is a key focus of the present review. Banking supervisors and market participants have taken the opportunity to strengthen the relationship between credit risk weights and economic risk, to enhance the differentiation between credit risk weightings, and to align credit allocation and pricing strategies more closely. Significant changes in banks' credit risk business (e.g. the move from static to dynamic management techniques for the credit risk portfolio, new financial instruments and innovative structured financing) have all contributed to the pressure for revision.

Use of internal and external ratings

A priority is to ensure that the economic risk of financial transactions is better captured by capital charges. The initial proposals included the use of external ratings as a means of improving the existing standardized weighting scheme. In the course of discussion the value of developing an approach based on banks' own internal rating systems became clear and this now appears in the Basel and EU texts as the Internal Ratings-Based Approach, a more advanced and risk sensitive approach supplementing the standardized approach.

Risk mitigation

Under the existing regime risk mitigation is only partly taken into account. In order to recognize sound risk management practices, the Basel Committee and the European Union will allow capital relief if risk mitigation techniques are used. While the original proposals concentrated on more sophisticated products such as asset backed securities or credit derivatives, it is now clear that traditional bank collateral will also be included.

The current framework covers interest rate risk for trading book items only. In future, the interest rate risk in the banking book will also be covered.

Operational Risks

Capital change for other risks

The current capital framework concentrates on credit and market risks. An analysis of bank failures shows that another risk category can cause serious problems for banks. This so-called "operational risks" category covers risks of loss resulting from inadequate or failed interest processes, people and systems or from external events, which are currently not subject to a specific, identifiable capital charge. Under the new framework, a three-strand approach for the calibration of operational risks will be introduced. A so-called basis indicator approach using gross income figures should be replaced by a business-line based standard approach. In the future banks should develop advanced measurement approaches using their internal loss data. As a capital charge never can replace good management activity, the development of sound risk management techniques to measure and control these risks will be required and also discussed in the supervisory review process.

Supervisory Review Process

Capital requirements cannot substitute for sound risk management practices. The underlying objective of supervisory review is to ensure not only that institutions have adequate capital to support their risks, but also to encourage institutions to develop and make use of better risk management techniques to monitor and manage those risks. Different institutions have different risk profiles and it may therefore be appropriate for supervisors to be able to apply differentiated capital requirements, at least for banks of systemic relevance. Supervisory authorities should also have the right to intervene when the own funds ratio decreases but remains above 8%.

Market Discipline

Market discipline has the potential to complement the improvements in financial supervision proposed in the first two columns. Financial institutions should be required to disclose adequate, accurate and timely information to the market on their capital, their business and the risks to which they are exposed.

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5

The Capital Markets

5.1 Wiener Börse AG

The Central Role of Wiener Börse in the Austrian and CEE Capital Markets

Wiener Börse is a modern customer- and market oriented financial service company that plays a pivotal role in the Austrian capital market. *Wiener Börse* has always acted as an intermediary for market participants with the objective of promoting the development of the Austrian capital market. In an increasingly converging European economic area, regional institutions will continue to play an important role and will be indispensable for guaranteeing certain quality standards.

Market Review 2003

Never before in the history of *Wiener Börse* has such rapid growth been seen within a period of one year. While the leading index rallied, market capitalization and trading volumes also rose steadily to hit a five-year high. The price gain of the ATX was almost 35% in 2003. The overall trading volume rose in 2003 by over 50% to EUR 20.6 billion. Market capitalization grew 39% to EUR 44.8 billion.

This performance was achieved with the strong support of domestic investors. Nine new listings came to the market. Among these were some Austrian stock companies that delisted from foreign exchanges to return to their home market. The going public of BA-CA was the largest IPO of the year 2003 in Europe. Despite the internal political turbulence, the placement through the stock exchange was very successful and encourages hopes of more new listings in the near future.

The bond market was also dominated by above average growth rates. Trading volumes rose by over 40%. The top issuers were banks with a gain of 105%. Corporate bonds also succeeded in more than doubling issuing volumes.

New Members

After stagnating membership numbers, *Wiener Börse* has won five new members again. These include the international institutions Baader Wertpapierhandelsbank AG, Gebhard & Co Wertpapierhandelsbank AG, J. P. Morgan Securities Ltd., Mapel Bank GmbH and VEM Aktienbank AG. The international attention gained is a clear sign that *Wiener Börse* has come one step closer to its goal of becoming internationally competitive as a regional exchange.

Indices and Products

The steadily growing interest of international investors has led to the issue of over 50 structured products (warrants, index certificates, bonds, swaps) on the indices developed by *Wiener Börse,* ATX, CECE and RTX by Austrian banks (Erste Bank, Raiffeisen Centrobank, Volksbank) and by international investment banks (ABN Amro, CSFB, Deutsche Bank, Goldman Sachs, UBS Investment Bank, Nordea, Danske Bank).

The year 2003 marked the five year anniversary of the Russian Traded Index (RTX). The RTX is a capitalization-weighted price index and consists of the eight most actively traded Russian blue chips. On 31 December 2003, the RTX hit 1,018.97 points marking a new all-time high. The performance of the index was a remarkable 90% in 2003.

Since 10 December 2003, futures on the indices RDXEUR and RDXUSD can be traded with six different maturities on the otob market. The RDXEUR and the RDXUSD (Russian Depositary Receipts Index) are capitalization-weighted price indices. The free float is represented accordingly by the weighting factors.

Capital Market Activities 2003

Wiener Börse continued efforts in the past few years to motivate all existing and potential market participants to dedicate more attention to the Austrian capital market. The basis of this strategy is a broadly networked communication activity.

- **The Committee for the Capital Market**
  With the establishment of the Committee for the Austrian Capital Market *Wiener Börse* has succeeded in motivating major institutions and companies in Austria's business sector to work for the Austrian capital market. The idea has produced a large number of activities that are reflected in the exchange's excellent performance. The members of the Committee for the Austrian Capital Market work together at the management level as well as at the expert level. There are activities organized by institutions, banks and insurances as well as by the listed companies.
- **Research Projects, Educational Measures and Initiatives Abroad**
  Within the framework of a research project conducted by the Institute for Higher Studies in Vienna the significance of an active capital market for the economy has been analysed. It verified that the establishment of a capital market will help to achieve remarkable effects to promote the economy and the labor market.
- **Investor Relations Campaign 2003**
  These activities of *Wiener Börse* are communicated to all interested Austrians visibly through an advertising campaign to encourage investing in Austria's businesses. Major listed companies promoted their stocks. At a number of information events in Austria and abroad, the topical issues of the Austrian capital market were discussed with partners and a very interested audience. Ongoing press relations and direct contacts with the diverse target groups complete the broad package of measures.
- **Advertising campaign**
  A particularly important pillar of opinion-making over the long term in the Austrian population are the activities of private investors. The advertising campaign was designed to draw attention to Austrian stocks. This was promoted by demand for state-subsidized retirement products that are now being offered by many leading banks and insurances.
- **Austrian investment funds for Private Retirement Provision**
  Investment funds that invest in Austrian securities are also becoming increasingly popular. The best single-year performance was at 16.9%. A market is starting to emerge with a variety of offerings that support private retirement planning.

- **Services for private investors expanded**
  Wiener Börse AG is committed to enlarging the range of offerings for private investors. In July, a new price information system went live that has been designed for the needs of private investors and offers extensive and up-to-date information on market events. In December 2003, *Wiener Börse Live* was launched, another service for private investors. This new real-time price data service for private investors gives this customer group very inexpensive access to professional real time price data.

Outlook 2004

The start into the new year with an all-time high of the ATX has immediately raised the level of expectations for developments in 2004. In fact, the forecasts for a new excellent stock market year are very good. *Wiener Börse AG* will continue its numerous activities this coming year to motivate listed companies and investors to take advantage of the Austrian capital market. A large number of measures have already been planned within the scope of an overall strategy to develop the capital market into a competitive marketplace.

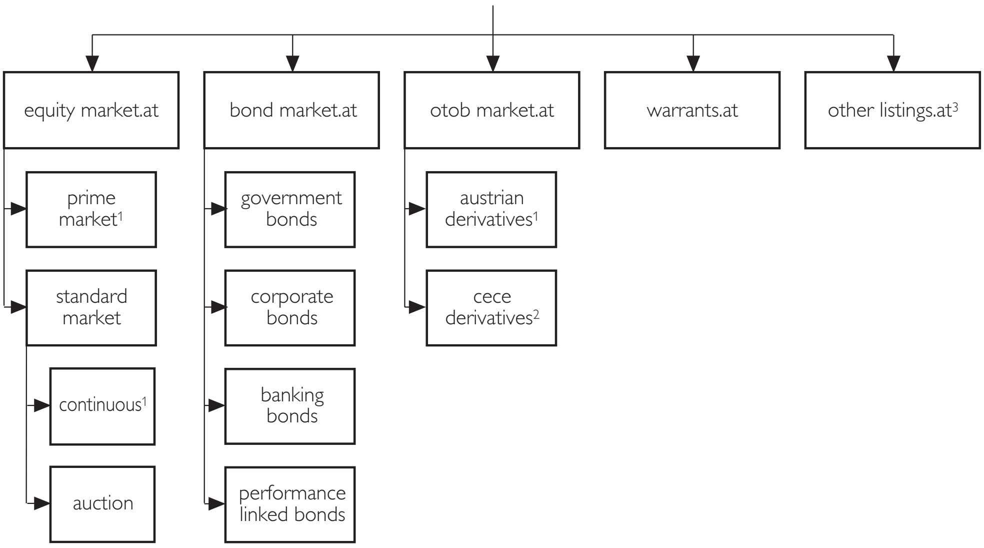
Special focus

- Acquisition of new listings
- Motivating domestic and foreign investors
- Heightening commitment to the Austrian capital market
- Improving the legal framework
- Developing new market-oriented products
- Expanding the range of services
- Continuing the image promoting measures
- Engaging in more cooperation projects with market participants
- Widening the scope of information activities

The Market Segmentation on Wiener Börse

Trading of securities is grouped into five market segments as of 2 January 2002: *equity market* (stocks), *bond market* (bonds), *otob market* (derivatives), *warrants* (warrants) and *other listings*.

Market Segmentation on Wiener Börse



[1] Specialist required / MM possible.
[2] MM required.
[3] Stocks = MM possible.
(For all other segments, no specialist or MM possible).

A. equity market.at

prime market

This segment contains stocks that are admitted to listing on the Official Market or Semi-official Market and meet special additional listing criteria.

The commitment of a trading participant to act as a specialist is also required and who agrees to enter firm quotes into the system on a permanent basis. It is desirable to have further commitments of market makers to increase liquidity in the stock.

The trading platform used is XETRA® with the trading procedure "Continuous Trading" in conjunction with several auctions (opening auction, intra-day auction, closing auction). The additional requirements are as follows: The minimum requirements for companies listed on the prime market in addition to a sufficient percentage of free float (>25 percent and a market capitalization >EUR 15 million. If the free float is <25 percent, the market capitalization >EUR 30 million is needed) and the admission to listing on the Official Market or Semi-official Market, also include the commitment of a specialist in consecutive trading. Moreover, after a transition period, only the common stock of companies will be listed on the prime market, and foreign stocks will be admitted only on a case-by-case basis. The lock-up period for a newly listed stock will be six months.

After a transition period, the ongoing obligations of companies on the prime market will foresee financial statements prepared according to IAS or US-GAAP accounting standards. This requirement is designed to improve the comparability of the stocks with their peer groups. The publication of quarterly reports will be required within two months in German and English and must contain specific contents that will be obligatory as of 2003. A separate outline for quarterly reports was developed for banks, insurances and other companies. Basically, it must contain an abbreviated profit and loss account, a balance sheet, cash flow statements and statement of changes in the shareholders' equity. Financial statements must be published within four months in German and English.

A corporate calendar of events that contains the dates, for example, of the annual general meeting, analyst conferences and financial statements press conferences will have to be published in advance at the beginning of each year. Furthermore, a company listed on the prime market will be required to be linked to an electronic system for ad hoc reports that guarantees equal dissemination.

standard market

All other stocks that are admitted to listing on the Official Market or Semi-official Market will be listed on the standard market. There will be a difference between trading in the standard market continuous and standard market auction procedures. Standard market continuous trading will correspond to the Specialist Market in place up to now.

standard market continuous

The segment standard market continuous contains stocks admitted to listing on the Official Market or Semi-official Market, but that do not meet the more stringent criteria of the prime market.

The commitment of a trading participant to act as a specialist is also required and who agrees to enter firm quotes into the system on a permanent basis. It is desirable to have further commitments of market makers to increase liquidity in the stock.

The trading platform used is XETRA® with the trading procedure "Continuous Trading" in conjunction with several auctions (opening auction, intra-day auction, closing auction).

standard market auction

The segment standard market auction contains less actively traded stocks and participation certificates. These stocks must be admitted to listing either on the Official Market or Semi-official Market.

This segment contains all stocks and participation certificates for which no trading participant was found willing to assume the function of a specialist.

The trading platform is XETRA® trading system with the trading procedure "Auction" (single intraday auction), with the trading participants having the possibility of assuming the obligation of entering binding buy and sell prices during the trading phase as nostro orders and to concluded trades in such orders for the purpose market making.

B. bond market.at

The segment bond market contains all bonds that have been allocated to the Official Market, Semi-official Market or Third Market. These are government bonds, federal treasury certificates, treasury notes, interest rate and government strips, corporate bonds, bank bonds and convertible bonds. The trading platform used is XETRA® with the trading procedure "Auction Trading" (intra-day auction).

C. otob market.at

Austrian derivatives

This segment contains both ATX futures and ATX options, which are defined as independent products to which special criteria apply. A trading participant is required who assumes the function of a specialist and agrees to enter firm buy and sell orders for series requiring quotes on a permanent basis. The trading platform used is OM Click® with the trading procedure "Continuous Trading".

CECE derivatives

This segment contains all the CECE index products. At least one trading participants must assume market making commitments for stocks listed in this segment. The trading platform used is OM Click® with the trading procedure "Continuous Trading".

D. warrants.at

The segment warrants contains all warrants that are admitted to listing to the Official Market, Semi-official Market and Third Market. The trading platform is OMex® with the trading procedure "Continuous Trading".

E. other listings.at

The segment other listings contains all securities that cannot be allocated to any other segment. These include profit-sharing rights, investment and index certificates that are admitted to listing on the Official Market, Semi-official Market or Third Market as well as stocks and participation certificates admitted to the Third Market.

The trading platform is XETRA® trading system with the trading procedure "Auction" (single intraday auction), with the trading participants having the possibility of assuming the obligation of entering binding buy and sell prices during the trading phase as nostro orders and to concluded trades in such orders for the purpose market making.

If a market making commitment is given for a stock admitted to the Third Market, the trading procedure "continuous trading" in combination with several auctions (opening auction, closing auction) shall be available. The trading procedure "continuous trading" in combination with several auctions (opening auction, closing auction) shall only be available for securities other than shares only in cases in which the liquidity of exchange trading and the avoidance of high price volatility is guaranteed in said security by appropriate measures such as market making in the security by the applying stock exchange member.

Listing on Wiener Börse

The Application for Admission to Listing

Application for Admission to Listing

(Article 72, Stock Exchange Act 1989, as amended by BGBl. I Nr. 2/2001)

(1) Applications for admission to listing on the Official Market and on the Semi-Official Market are to be made in writing to the exchange operating company. They must be signed by a bank that is a Member of the exchange if the issuer is not a bank and Member of the corresponding exchange.

(2) The application shall contain the name and registered office of the applicant, the type and denomination of the securities as well as the total amount of the issue to be admitted by stating the nominal value or in the case of no-par value securities, the expected market value and the number of securities. Furthermore, it shall specify any other exchanges on which an application for admission to listing has been made at the same time or within the past 30 days or will be made in the near future.

(3) The application shall be accompanied by the following documents:

1. An excerpt from the commercial register in which the issuer is registered that is not older than four weeks;
2. a valid copy of the articles of association or partnership agreement of the issuer;
3. any official authorization certificates if such are required for the establishment of the issuer's company, the pursuit of its business activities or the issue of securities;
4. proof of any other legal requirements for the issue of securities;
5. any proof of registration of the issue in a register if this is required for the issue to be legal;
6. a) if shares are to be admitted for the first time to listing on the Official Market, the annual audited accounts with the statement of the auditor and the financial reports for the past three complete business years; if a company has not existed in this legal form during the preceding three complete business years, then proof shall be given that it is the universal successor to another and that the accounting is continuous, in particular the transformation reports and audits shall be presented;
   b) in all other cases the annual audited accounts with the statement of the auditor and the annual report for the last complete business year.
7. two copies pursuant to Article 74 of the prospectus signed by the applicant and by the persons responsible in accordance with Article 80;
8. in the case that security certificates are to be printed, two sample prints of the security certificates of each of the denominations of the securities for which admission is applied for;
9. in the event that the securities or certificates seeking admission are to be secured by a global certificate, a declaration of the issuer stating at which central depository for securities or similar depository the global certificate shall be in the custody of.

(4) The exchange operating company must reach a decision on applications pursuant to paragraph 1 within 10 weeks after receipt. During this period, however, the time consumed in gathering information from the issuer pursuant to Article 73 paragraph 1, or due to publishing this information pursuant to Article 73 paragraph 2, or consumed by the procedure pursuant to Article 75 a, or is necessary to remedy irregularities of form pursuant to

Article 13 paragraph 3 General Law on Administrative Procedure (AVG) 1991 shall not be included.

Conditions for the Admission to Listing on the Official Market

(Article 66, Stock Exchange Act 1989, as amended by BGBl. I Nr. 2/2001)

Admission to listing on the Official Market

(1) The conditions for the admission of securities to listing on the Official Market are:

1. The establishment of the issuer's company and the statutes or the partnership agreement of the issuer must comply with the laws of the country in which the issuer has its registered office.
2. The securities to be listed must have at least a total nominal value of EUR 2.9 million for shares and of EUR 725,000 million for other securities. In the case of admission of no-par value securities, the issuer shall certify that the market value is expected to reach at least EUR 750,000 million; the total number of such securities must be at least 20,000. In the case of preferred shares without voting rights of Austrian companies whose ordinary shares are not listed on the Official Market, the nominal value of the preferred shares must be at least EUR 1 million.
3. A stock corporation whose shares are being admitted for the first time must have existed for a period of at least three years and have published annual accounts in accordance with applicable regulations for the three complete financial years preceding the application; if the stock corporation is the universal successor to another and the accounting is continuous, then the period of existence of this other company shall be taken into the three-year time period. The requirement of the three-year period of existence shall not apply if this is in the interest of the issuer and of the public and documents are provided that contain information equivalent to the annual accounts of the past three years as regards the evaluation of the economic and legal status of the issuer. In any case, the stock corporation must have published one full year's accounts.
4. The securities shall be in compliance with federal and provincial laws governing securities and new issues as well as the decrees and rulings issued on the basis of these provisions; this also applies mutatis mutandis to foreign regulations of the country in which the security has been issued. Insofar as the issuing of securities must be entered into an official register, this entry must have been effected.
5. The securities must be freely negotiable. However, the following may also be admitted:
   a) securities that are not fully paid up if it is guaranteed that trading on the exchange shall not be hindered by this and if the prospectus or the decree announcing the admission pursuant to Article 78 paragraph 2 mentions the lack of full payment as well as the measures taken in this respect, as well as
   b) shares that may only be purchased subject to prior authorization if trading on the exchange is not hindered by the authorization requirement.
6. The denominations of the securities, especially the smallest one, and the number of certificates issued in this smallest denomination shall correspond to trading requirements and the needs of potential investors.
7. The application for admission shall be made for all shares already issued of the same kind or for all securities of the same offering; however, shares

may be excluded from admission that may not be traded for a certain period of time for legal reasons if this exception does not prejudice the bearers of the shares to be admitted and the prospectus or the decree announcing the admission mentions this exception.

8. The securities shall have an adequate distribution in the general public. If this is to be achieved by the admission to the exchange, the necessary amount for trading on the exchange shall be provided. In the case of shares an adequate distribution is reached if at least EUR 725,000 million nominal share capital, in the case of no-par shares at least 10,000 shares are in the possession of the public or are offered to the public for sale.
9. In the case of securities that give the bearer conversion rights or subscription rights to other securities, those underlying securities shall be admitted at the latest simultaneously with these to the exchange; exceptions may be made to this requirement if the issuer furnishes proof that the owners of the securities with conversion rights or subscription rights have all the information at their disposal that is necessary in order to make a judgement on the value of the underlying securities; this is to be assumed especially if the underlying securities are officially listed on an internationally recognized stock exchange and the prospectus for the admission of securities with conversion or subscription rights contains the necessary information in accordance with Article 74 paragraph 2 lit. 2.

(2) In the case of admission of shares that have already been admitted to official listing on one or more foreign exchanges and that have an adequate distribution outside the country, the requirements stated in paragraph 1 lit. 8 do not apply.

(3) In case of subsequent listings of further securities of the same type, the requirements stated in paragraph 1 lit. 2 and 8 do not apply.

(4) The restriction pursuant to paragraph 1 lit. 2 does not apply to the admission of debt securities that are issued constantly without being restricted to a subscription period and to a certain limited maximum amount.

(5) Debt securities of international organizations that are legal entities under public law must be freely negotiable in order to be admitted to official listing, the application for admission to listing must be made for all debt securities of one issue. Debt securities issued by the federal government, the provinces (Länder) and states party to the EEA agreement shall be admitted to official listing on every stock exchange.

(6) Certificates that represent shares may be admitted if

1. the issuer of the shares represented fulfill the requirements in paragraph 1 lit. 1 to 3,
2. the certificates are in compliance with the requirements stated in accordance with paragraph 1 lit. 4 to 9 and
3. the issuer of the certificates offers a guarantee for the fulfillment of its obligations towards the bearers of these certificates.

Conditions for the Admission to Listing on the Semi-Official Market

Admission to listing on the Semi-official Market

(Article 68, Stock Exchange Act 1989, as amended by BGBl. I Nr. 2/2001)

(1) The conditions for the admission of securities to listing on the Semi-Official Market are:

1. The establishment of the issuer's company and the articles of association or the partnership agreement of the issuer must comply with the laws of the country in which the issuer has its registered office.
2. The securities to be listed must have at least a total nominal value of EUR 725,000 million. In the case of admission of no-par value securities the issuer shall certify that the market value is expected to be at least EUR 362,500 million; the total number of such securities must be at least 10,000.
3. A stock corporation whose shares are being admitted for the first time must have existed for a period of at least one year and have published annual accounts in accordance with applicable regulations for the complete financial year preceding the application; if the stock corporation is the universal successor to another and the accounting is continuous, then the period of existence of this other company shall be taken into the one-year time period.
4. The securities shall be in compliance with federal and provincial laws governing securities and new issues as well as any decrees and rulings issued on the basis of these provisions; this also applies mutatis mutandis to foreign regulations of the country in which the security has been issued. If the issuing of securities must be entered into an official register, this entry must have already been effected.
5. The securities shall have adequate amount of free floating shares. If this is to be achieved by the introduction to the exchange, the necessary amount for trading on the exchange shall be provided. In the case of shares an adequate distribution is reached if at least EUR 181,250 million nominal share capital, in the case of no-par shares at least 2,500 are in the possession of the public or are offered to the public for sale.
6. The securities must be freely negotiable. However, the following may also be admitted:
   a) securities that are not fully paid if it is guaranteed that trading on the exchange shall not be hindered by this and if the prospectus or the decree announcing the admission pursuant to Article 79 paragraph 3 mentions the lack of full payment and the measures taken in this respect, as well as
   b) shares that may only be purchased subject to prior authorization if trading on the exchange is not hindered by the authorization requirement.
7. The denominations of the securities shall meet trading requirements.
8. The application for admission shall be made for all shares already issued of the same kind or for all securities of the same offering; however, shares may be excluded from admission that may not be traded for a certain period of time for legal reasons if this exception does not prejudice the bearers of the shares to be admitted and the prospectus or the decree announcing the admission mentions this exception.
9. In the case of securities that give the bearer conversion rights or subscription rights to other securities, those underlying securities shall be admitted at the latest simultaneously with these to the exchange; exceptions may be made to this requirement if the issuer furnishes proof that the owners of the securities with conversion rights or subscription rights have all the information at their disposal that is necessary in order to make a judgement on the value of the underlying securities; this is to be assumed

especially if the underlying securities are officially listed on an internationally recognized stock exchange and the prospectus for the admission of securities with conversion or subscription rights contains the necessary information in accordance with Article 74 paragraph 2 fig. 2.

(2) Certificates that represent securities may be admitted if:

1. the issuer of the securities represented fulfill the requirements in accordance with paragraph 1 fig. 1 to 3,
2. the certificates fulfill the requirements in accordance with paragraph 1 fig. 4 to 9 and
3. the issuer of the certificates guarantees the fulfillment of its obligations towards the bearers of these certificates.

(3) The rules of exception in Article 66 paras. 2 to 4 apply mutatis mutandis.

Trading on the Third Market

Trading on the Third Market

(Article 69,"The Third Market", Stock Exchange Act 1989, as amended by BGBl. I Nr. 2/2001)

(1) Securities other than those admitted to official listing or to the Semi-Official Market may only be traded on the exchange under the following conditions:

1. The written application for admission to listing is submitted by a member of the exchange to the exchange operating company;
2. The applicant furnishes proof that the legal status of the issuer and the issuance of its securities are in compliance with the laws of the state in which it has its registered office or in the state in which the securities have been issued;
3. It meets the federal legal requirements regarding the obligations relating to the publication of a prospectus.

(2) Admission to the Third Market shall be rejected if the requirements pursuant to paragraph 1 are not met, or if the admission would be against the interests of maintaining a properly functioning securities industry for the benefit of the national economy or of safeguarding the vital interests of the investing public.

(3) Article 72 paragraph 2 shall apply to the application for admission to listing with respect to the requirement that the exchange member submitting the application must provide the information required. A prospectus according to the Capital Market Act shall be attached to the application for admission to listing or the status of exemption pursuant to the Capital Market Act shall be documented.

(4) The applicant is under the obligation during the entire period of listing to immediately inform the exchange operating company of any important facts relating to the issuer or its securities as well as any significant changes in this context. An important fact is, for example, a change in the legal form of the issuer or in the event of a corporate action.

(5) The admission to listing shall be revoked if compliance with any of the listing requirements pursuant to paragraphs 1 and 2 no longer applies, if incorrect information was provided to meet the requirements or if the applicant fails to meet its ongoing reporting obligations. If the interests of investors are not violated, the applicant may be requested to take measures to meet the legal

stipulations within an appropriate period of grace granted in the event that compliance with the listing requirements no longer applies or if the applicant failed to meet its reporting obligations; in these case admission to listing shall be revoked only after the period of grace has expired.

(6) An appeal against a decision to reject an application for listing to the Third Market or the revocation of the admission to listing shall be heard by the Appellate Committee pursuant to Article 64 paragraph 2.

(7) The exchange operating company shall be notified of the withdrawal of securities from the Third Market at least one month in advance; this period of notice may by shortened upon request in the case of special circumstances. This period of notice does not apply if an application is submitted for admission to listing to the Semi-official Market or Official Market before the end of the period of notice.

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Xetra® – The Trading System on the Cash and Warrants Market

Cash Market

Since 5 November 1999, Austrian stocks, other equities and bonds have been traded through Xetra® (Exchange Electronic Trading), the trading system of *Deutsche Börse.* The Xetra® market model for *Wiener Börse* supports continuous trading with several auctions as well as trading with only one auction per trading session.

Xetra® trading at *Wiener Börse* is open only to institutions admitted to trading on the exchange, such as banks, and their representatives (dealers). Investors' orders are entered into the Xetra® electronic order book by the responsible dealer. The system automatically checks whether a matching order is available on the opposite side of the order book and the order can be executed. If none match, the order is entered into the order book (except in the case of "fill-or-kill" and "immediate-or-cancel" orders).

Auction

With auctions, the liquidity available in a security is concentrated at a specific point in time. An auction consists of the call phase, the price determination phase and the order book balancing phase. Prices are determined according to the principle of executing as many orders as possible. The auction price is the price at which the largest volume of orders can be executed and the fewest are left unfilled. In stock trading, the order book is open during the call phase. An indicative price or the best buy/sell limit is quoted to inform market participants of the market situation. An auction schedule is published to announce the times when specific securities are called.

Continuous Trading

Continuous trading starts after the end of the opening auction. In Xetra®, each order is first entered into an electronic order book in which buy and sell orders are displayed opposite each other. In continuous trading, the order book is open, showing aggregate order volumes along with applicable limits. As soon as buy and sell orders are matched, they are executed automatically by the system.

The advantage of continuous trading is that trades can be concluded at any time without the need to wait for an auction. The market makers and specialists at *Wiener Börse* guarantee that firm buy and sell quotes are entered into the system continuously, thus increasing the liquidity of the market.

Warrants Market

Issuers have a choice of two trading procedures: unrestricted continuous trading during which quotes are placed into the system continuously between 9:00 a.m. and 5:30 p.m. and short continuous trading during which quotes are placed into the system continuously between 11:30 a.m. and 11:50 p.m.

Buy and sell prices are quoted by the warrants' issuers although this may also be done by other trading participants. Market orders and limit orders are possible in both segments. Trading is anonymous and the order book is open. If no transaction is concluded, Wiener Börse determines the price according to a predefined set of rules.

Transaction Fees Cash Market

Segment	Participant	Variable	Minimum	Maximum
Prime market, Standard market continous (equity market.at)	Agent	4.00 bps	EUR 1.80	EUR 90.00
	Principal	4.00 bps	EUR 1.80	EUR 90.00
	Market Maker	2.00 bps	EUR 1.80	EUR 36.00
	Specialist	0.00 bps	EUR 0.00	EUR 0.00
Standard market auction (equity market.at)		6.00 bps	EUR 3.60	NA
bond market.at		1.00 bps	EUR 5.50	EUR 55.00
other listings.at	Agent	7.00 bps	EUR 3.60	NA
	Market Maker	2.00 bps	EUR 1.80	NA
warrants.at	Agent	EUR 3.00	..	..
	Principal	EUR 3.00	..	..
	Market Maker or Specialist	0.50%	EUR 1.00	EUR 6.00

Each bp (basis point) represents 1/10,000 of the trading volume per trade and side in EUR.

Adjustment Fees Cash Market		
Adjustment	Fee in EUR	Calculation Basis
Changes – cash market trades under XETRA®	5.00	per change and trade
Cancellation – cash market trades under XETRA® by *Wiener Börse AG*	100.00	per order triggering cancellation
Changes – warrants trades under otob market.at	5.00	per change
Cancellations – warrants trades under otob market.at by *Wiener Börse AG*	10.00	per trade
Manual input – warrants trades under otob market.at by *Wiener Börse AG*	5.00	per trade
Manual order input by *Wiener Börse AG*	5.00	per order
Manual order cancellation by *Wiener Börse AG*	0.00	per order
Give-up trades	1.00	per trade

Clearing and Settlement System (Arrangement)

SICS

Clearing and settlement of all transactions concluded at *Wiener Börse* is conducted by the Oesterreichische Kontrollbank AG as the clearing agency authorized by *Wiener Börse.*

Stock exchange clearing

SICS means Settlement Information Clearing System and is the system used to clear and settle transactions on *Wiener Börse* within the Austrian Clearing and Settlement System *(Arrangement)*. Prices and transaction data are generated within the trading systems Xetra® and OMex® on the basis of the orders placed. SICS uses the transaction data delivered by Xetra® and OMex® for fully electronic settlement. In this manner SICS supports the clearing procedure required for exchange trading on the day of the transaction within the *Arrangement* system and the preparation of data flows related to this process.

SICS advantages

SICS places at your disposal one of the most advanced systems of its kind in Europe designed to maximize client satisfaction and at the same time minimize settlement risk.

Real-time electronic trading information can be made available for and processed by bank IT-systems. The transfer is compatible with the most modern data transmission techniques. Conventional sources of error can be eliminated since data are transferred directly from the *Oesterreichische Kontrollbank AG's* central settlement system to a bank in-house system without any additional processing.

The settlement procedure offers both full collateralization of exposures and settlement security, whilst optimizing capital employment by means of "netting positions." Prompt and detailed information guarantees cover ideally matched to exposure. Due to prompt and comprehensive information 99.8% of transactions are settled punctually, the international benchmark being clearly lower.

Under the Austrian clearing and settlement system exchange transactions executed within a trading period are collected and processed immediately after the trading session. The final settlement takes place on the relevant payment day; within the clearing and settlement period in SICS it is the 3rd day after the date of the transaction.

Only exchange members may become clearing participants. There are direct and indirect clearing participants. Participation in the clearing and settlement system is obligatory for exchange members.

Clearing members

SICS supports the two-tier structure of the clearing participants (direct clearing member, indirect clearing member [so called non-clearing member]). Direct clearing participants must maintain a drawing account for settling monetary transactions related to the clearing and settlement system, and must also deposit a clearing collateral and maintain a clearing collateral account and a securities depository account for crediting and debiting the units traded.

Non-clearing members

Indirect clearing participants must provide a declaration of a direct clearing member stating that the direct participant assumes the obligation to settle all of the indirect member's transactions.

The SICS data generated for non-clearing members are sent to both the clearing member responsible (indicating its group of non-clearing members), as well as to the non-clearing member.

Central Securities Depository

The Austrian Central Securities Depository (WSB)

In 1965 OeKB was entrusted with setting up the Austrian Central Securities Depository (Wertpapiersammelbank, herafter *WSB*) currently in existence. Its task is the centralised custody and administration of securities as well as the settlement of securities transactions.

The following is an explanation of the individual core processes involved:

Custody and Administration of Securities

WSB holds in custody and administrates the following securities for its customers :

- Physical securities (individual certificates or global certificates)
- Dematerialised securities
- Entries into the federal register of debts (Bundesschuldbuch) and comparable foreign entries

Securities of the same category which *WSB* itself does not hold in custody on separate securities accounts by securities account holders will be kept in collective clearing custody. Securities of the same category that are kept by *WSB* itself on separate accounts by securities account holders will be booked on the securities accounts as held in individual custody accounts.

Opening of Securities Accounts

WSB opens securities accounts on the basis of an application submitted. Securities account holder may be anyone as agreed with *WSB:* credit institutions, recognized investment firms, members of domestic stock exchanges, official brokers on *Wiener Börse,* foreign central securities depositories and securities clearing institutions. *WSB* may also accept other legal or physical persons and partnerships as owners of securities accounts.

Delivery, Co-ownership

Securities may be delivered for credit to a securities account maintained by *WSB.* Deliveries may be made by physical delivery or by book entry delivery by a transfer from another securities account to the securities account of *WSB.*

Instructions Relating to Credit Balances, Physical Withdrawal (Clearing & Settlement of Securities Trades)

Securities account holders may dispose of credits on their securities accounts and cash accounts by giving instructions

- to transfer credit balances on their securities account free of payment (FoP) or for delivery versus payment (DvP) to another *WSB* securities account,
- to transfer credit balances on their securities account FoP or DvP to a securities account maintained by a custodian in which securities of the same category are held in custody,
- for the physical withdrawal of securities at the securities desk operated by *WSB,*
- to reduce the nominal amount or the number of securities already held by *WSB* in the form of global certificates.

Instructions are submitted via the DS system developed by WSB, SWIFT or fax.

Other Administrative Measures relating to Securities

- *Securities that may be drawn by lots*
  Where the terms for the drawing by lots exclude their continued safekeeping in collective clearing custody *WSB* will transfer those securities to individual securities accounts. In case of securities where the terms for the drawing by lots permit their continued safekeeping in collective clearing custody, *WSB* will inform the securities account holder of the groups drawn that correspond to the securities account holder's share in the global certificates and the amounts thereof.
- *Coupon sheets, share certificates*
  WSB will procure the coupon sheets whenever required under the terms of a security. If changes to a security are planned, *WSB* will take any measures required within its scope of competence.
- *Destruction of invalid securities*
  Invalid securities held in safekeeping by *WSB* itself will be withdrawn from collective clearing custody after notice thereof by a debit book entry. These securities will be destroyed unless the securities account holder gives other instructions in a timely manner.
- *Instructions to exercise options*
  WSB will accept instructions to exercise options. At the same time, *WSB* will debit the securities account of the securities account holder with the corresponding number of options and will transfer these to the agent responsible for the exercise of the options.
- *Orders to buy or sell subscription rights*
  WSB will accept orders to buy or sell subscription rights and will forward these for execution to the securities trading company appointed by *WSB.*

Income

Income primarily comprises interest and dividend payments. In case of securities kept by *WSB* itself, *WSB* will redeem such securities upon maturity. In case of securities held by a custodian on behalf of *WSB, WSB* will be entitled towards the custodian to the redemption of the securities upon maturity and the crediting of the amounts due. *WSB* will have the amounts falling due by the paying agent or the custodian in favor of *WSB* to be credited to the cash accounts of the securities account holders maintained with *Oesterreichische Kontrollbank* proportionally to the credit balance booked on the securities accounts at the beginning of business on the corresponding ex date. *WSB* also takes into consideration any withholding tax involved with such payments.

Corporate Actions

WSB will carry out administrative measures relating to corporate actions for securities held by *WSB* itself (e.g. assigning a security identification number, performing a book entry delivery or a book entry receipt of subscription rights, or a book entry of bonus shares). In case of securities held in custody at a custodian, *WSB* has the right to ask the custodian to take all measures required in connection with corporate actions. In case of securities that *WSB* holds itself, *WSB* will carry out on ex-date any credits and debits on securities accounts and cash accounts relating to corporate actions in accordance with the balances on the securities accounts at the beginning of business on ex date. In case of securities held in custody at a custodian of *WSB, WSB* will carry out any credits and debits on securities accounts and cash accounts relating to corporate actions on ex-date in accordance with the balance on the securities account as of the beginning of business on ex-date to the extent it has received credits and debits from the custodian.

Participation in General Meetings

In case of securities held in custody by *WSB* itself, *WSB* will, on the instructions of the securities account holder, enter a notice stating that the securities account is blocked as regards those securities for which a depositary receipt or blocking confirmation, valid until the end of the respective general meeting, has been issued. *WSB* will confirm the blocking of the account to the securities account holder and will issue a depositary receipt or blocking confirmation. In case of securities held in custody at a custodian, *WSB* will, on the instructions of the securities account holder, procure all documents required for the securities account holder to be able to take part in the general meeting. On the instructions of a securities account holder, *WSB* will exercise the voting rights of the entitled person at the annual general meetings of stock corporations having their registered offices in Austria itself or through a representative (proxy voting).

Wiener Börse Membership

Membership

In order for an institution to participate in trading on *Wiener Börse* in the derivatives and cash markets, it is necessary for it to become a member of *Wiener Börse* and to have the required technical and human resources. The amendment of the Stock Exchange Act that took effect in August 1999 opened membership to the following institutions:

- credit institutions from EEA Member States or domiciled in third countries
- investment firms from the EEA and recognized investment firms domiciled in third countries

- local firms from EEA Member States and enterprises domiciled in third countries

A prerequisite for companies who wish to become members of *Wiener Börse* is a confirmation stating that the applicant is authorized to carry on the business of providing investment services in its home country and has been admitted as a member to a regulated market there in addition to being supervised by the competent authority. In the case of companies domiciled in third countries, fulfillment of the admission requirements are examined individually.

A membership application may be submitted for one of the following:

Participation in

- trading in securities, specifically for
  – trading in stocks and bonds
  – trading in warrants
- trading in options and financial futures contracts
- the settlement system for securities transactions concluded through the exchange
- the settlement system for trades in options and financial futures contracts concluded through the exchange

The settlement system for the cash market is operated by *Oesterreichische Kontrollbank AG,* and the clearing system for the derivatives market by *Wiener Börse AG* itself. The following types of membership are possible on the cash and derivatives markets:

- General Clearing Member (GCM)
- Direct Clearing Member (DCM)
- Non-clearing Member (NCM)
- Clearing Agent
- Indirect Clearing Member via Clearing Agent

General Clearing Members (GCM) are authorized to settle transactions for their own account and for customers as well as the transactions of other members (NCM) under the condition that a clearing agreement with such member has been concluded.

Direct Clearing Members (DCM) are authorized to settle transactions for their own account and for customers.

Non-clearing Members (NCM) have access to the trading system, but are not admitted as clearing members.

Clearing Agents are obliged to settle the trades of Indirect Clearing Members for which they have assumed commitments for their own account. The Clearing Agent commits itself to fulfill the trades of its client (Indirect Clearing Member) under the settlement and clearing system only to the extent that it has been put into a position to do so by said client.

Indirect Clearing Members who are clients of a Clearing Agent are obliged to ensure that the Clearing Agent will be in a position to meet its obligations under the settlement and clearing system.

All applicants must ensure that their transactions are settled in one of the following manners: by becoming a General Clearing Member or a Direct Clearing Member, or if applying as a Non-clearing Member, by concluding an agreement with a General Clearing Member for the settlement of its securities transactions conducted through the exchange.

Membership Fees

There are no admission fees for participation in trading in the cash market and derivatives market.

Annual Participation Fee Cash Market	Stocks	Bonds	Other	Minimum	Maximum
Official Market[1]	0.50 bp	0.16 bp	0.16 bp	EUR 2,175	EUR 10,750
Semi-official Market[1]	0.25 bp	0.08 bp	0.08 bp	EUR 1,075	EUR 5,450
Third Market	0.25 bp	0.08 bp	0.08 bp	EUR 725	EUR 3,625

[1] *The variable fees are calculated from the annual turnover using basis points (bp), each bp equals 1/10,000 per year.*

Market makers who assume a commitment for at least two instruments on the cash market segment will be refunded transaction fees up to a maximum amount of EUR 7,250 for the first 12 calendar months as of the time they become members.

Annual Participation Fee Derivatives Market	Trading Participant	
Participation fee	EUR 14,500	
Market Maker for at least two underlyings	50% of EUR 14,500	
Clearing Membership Derivatives Market	**DCM (Direct Clearing-Member)**	**GCM (General Clearing-Member)**
Clearing admission fee	EUR 29,000	EUR 43,500[1]
Annual clearing participation fee	EUR 21,750	EUR 29,000[2]

[1] *The fee is reduced by EUR 7,250 for each new NCM that the GCM offers its services to throughout the first 12 calendar months after becoming a member as a GCM (maximum fee reduction: EUR 43,500).*

[2] *The fee is 50% lower if more than 2 NCMs are serviced throughout a calendar year. If more than 6 NCMs are serviced throughout this period, the full annual fee is waived for the GCM.*

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List of Members of Wiener Börse AG

For information on membership, please also visit the Member Center at www.wienerborse.at.

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5.2 The Austrian Bond Market

Recent Performance and Developments

Increase in volume

Developments in the Austrian government bond market over the past few years have significantly increased its attractiveness to foreign investors. Its size has grown continuously since 1990 from EUR 13 billion in January 1990 to EUR 106 billion in December 2003. The substantial increase in standard issue size – from EUR 0.2 billion per bond before the introduction of the auction procedure to EUR 6.2–8.1 billion – has possibly played an even bigger role in increasing the market's liquidity.

Benchmark issues

One important development of recent years was the 1991 revision of issuance procedures for government bonds, when the government introduced regular new issue auctions (usually for a five-year or ten-year bond). Standardizing issues by focusing on five-year and ten-year bonds has helped stimulate interest among foreign investors for a number of reasons. The most important is that five and ten years are two common benchmark maturities for international government bonds. This has given potential buyers of Austrian government bonds a choice of two highly-liquid benchmarks – an intermediate-maturity bond and a bond with a longer maturity – that are both directly comparable with foreign benchmarks. Furthermore, in July 1997 the first 30-year bond was introduced in order to widen the maturity range. Another striking feature of the revised issuance procedure – and one which is helping stimulate secondary-market liquidity – has been the flotation of debt instruments in the form of new tranches of outstanding issues.

A stable currency, pick-up in yields

The volatility of the European government bond and currency markets that followed on the heels of Denmark's rejection of the Maastricht treaty in June 1992 and the ERM crisis in September 1992 stimulated investors' interest in the Austrian bond market. The strength of the Austrian schilling when compared with other European currencies was the market's principal attraction before the introduction of the euro. Investors have also been attracted by specific opportunities to exploit differences in yields between Austrian and German government bonds with comparable terms. Finally, they appreciate the increase in liquidity that has been induced by Austria's auction system.

The Characteristics and Scale of the Market

The market's structure

The Austrian bond market is smaller than the country's credit markets, but it is still considerably larger than the equity market.

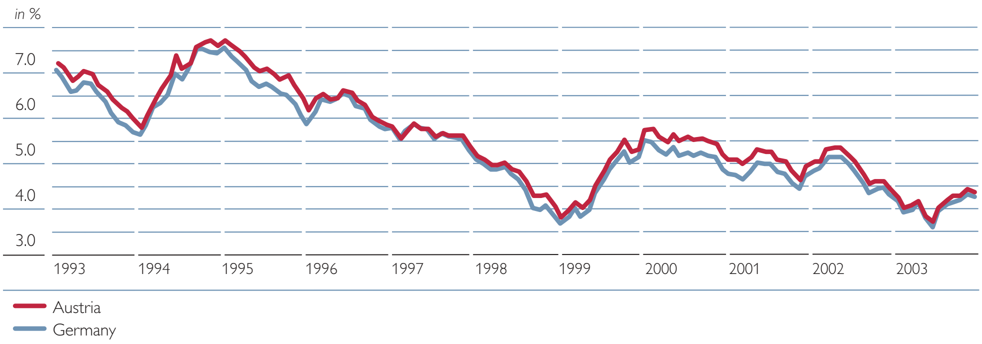
The creation in 1979 of the *Kapitalmarktausschuss* (Capital Markets Committee) under the *Wertpapier-Emissionsgesetz* 1979 (Securities Issuance Act) fostered the market's development by paving the way for the judicious adoption of international standards and practices. Austria introduced innovative instruments such as zero-coupon bonds and floating-rate notes at the same time as Germany, narrowing the gap between Austrian schilling and German mark bond yields.

The spread between German and Austrian bond yields

Austrian bonds have tended to carry a higher yield – in particular between 1985 and the middle of 1988 – in order to discourage major capital outflows. Between 1980 and 1986, the spread against German mark bonds averaged 75 basis points. After a brief period of parity in 1983, the yield differential began to widen, peaking at 186 basis points in the first quarter of 1986. This was a response not only to the relative weakness of Austria's key economic indicators at the time but also to the introduction of a coupon tax on new issues, which prompted Austrians to invest heavily in foreign-denomination securities. The outflow into foreign bonds during those years was clearly reflected in the capital account, and the annual volume of new Austrian bonds dropped considerably. The Austrian government abolished the coupon tax on new issues in 1986. This encouraged the repatriation of domestic funds and boosted foreign investment in securities denominated in Austrian schillings, confirming the underlying attractiveness of the schilling bond market at the same time as prompting a further decline in yields. The yield spread between German and Austrian bonds narrowed perceptibly as a consequence.

Secondary Market Yields of Austria and Germany

10 Year Government Bonds
January 1993–December 2003



Austria minus Germany

in basis points

Benchmark Yields, Monthly Averages.
Sources: OeKB, OeNB.

1989 saw the introduction of a 10% withholding tax. It was raised to 22% at the end of 1992 and to 25% in mid-1996 but did not cause major capital outflows.

Structural reforms

1989 also saw the start of concrete measures to deregulate the primary and secondary markets, increase trading volumes and reduce investors' transaction costs. The reforms included the introduction of a market-maker system and a bond lending scheme.

In preparation for the single European currency further steps were taken to increase the market's attractiveness, e.g. the harmonization of market conventions with international standards and the inclusion of additional non-Austrian primary dealers in the auction group to further broaden the international investor base.

The scale of the market

By the end of 2003, the outstanding volume of debentures came to EUR 185 billion, 37% of it issued by banks and 63% by non-banks. As in previous years, the Republic of Austria was the biggest single bond issuer in 2003. Outstanding Government Debt Issues totalled EUR 108 billion and accounted for 58% of the outstanding volume of bonds. The remaining 5% comprised outstanding debt of foreign issuers, power companies and others.

Market Structure

Domestic issuers

The market's biggest issuer is the Republic of Austria itself. *Bundesanleihen* (government bonds) account for 57.4% and *Bundesobligationen* (federal debentures) account for 0.5% of the market's total outstanding volume. Up to 1988, the Republic issued *Bundesobligationen* aimed at institutional investors. They were regarded as private placements with roughly the same yields as government bonds. Following the introduction of a new auction system, government bonds have superseded *Bundesobligationen*.

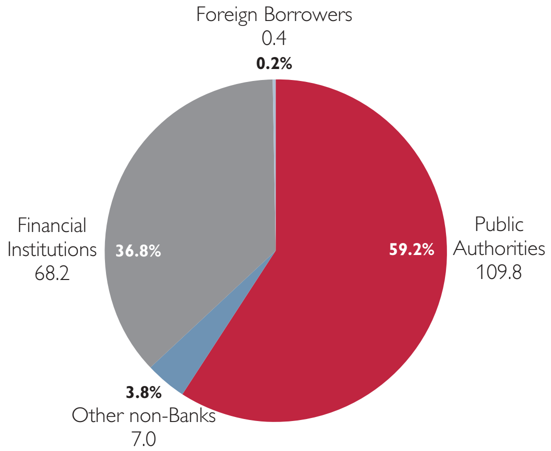
Like the central government, public authorities such as *Länder* (provincial governments) and municipalities also used to raise funds in the capital markets, but their share of the bond market has declined considerably.

Bank debentures account for 37% of the market's total outstanding volume (including mortgage bonds, municipal bonds and *Kassenobligationen* [cash bonds]). Austrian banks also issue subordinate bonds and *Ergänzungskapital-Anleihen* (supplementary capital bonds) under the *Bankwesengesetz* (Banking Act).

Corporate bonds and other non-government and non-bank bonds account for about 5% of the market. Despite continuing deregulation, the corporate segment is rather small.

Outstanding Volume in the Austrian Bond Market (December 2003)

in EUR billion and percent



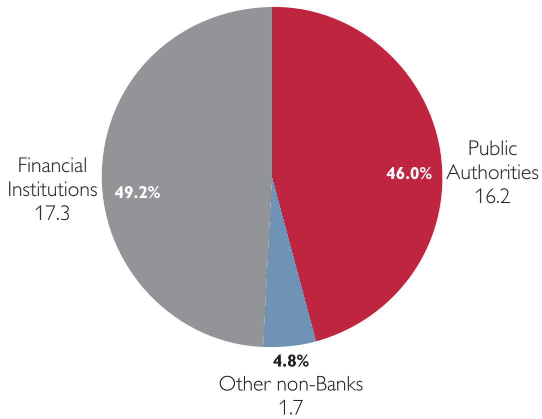
Sources: OeNB, OeKB.

Standards for new issues

At the beginning of 1992, it became unnecessary to obtain formal approval from the *Bundesministerium für Finanzen* (Austrian Federal Ministry of Finance) before issuing a bond when the new *Kapitalmarktgesetz* (Capital Markets Act) replaced the *Wertpapier-Emissionsgesetz* (Securities Issuance Act) as the legal basis for bond issues.[1]

New Issues January to December 2003

in EUR billion and percent



Sources: OeNB, OeKB.

Security variants

Until 1986, most government issues were serial bonds, with the principal redeemable in equal instalments throughout the life of the bond. Since then the majority of bonds have been bullets. The other issues include FRNs, whose interest rates are adjusted according to average secondary-market yields or money market rates. Adjustment periods range from 3 months to 5 years. FRNs are issued almost exclusively by banks.

1 *See Chapter 5.6 "The Capital Markets Act" for further details.*

Bond types

Austrian bonds are bearer bonds. They are usually represented by a global note. Austrian fixed-rate bonds pay an annual coupon. In 1999, accrued interest calculation for government bonds was changed to an actual/actual day count basis according to the ISMA convention. This change was effected on the first coupon date in 1999 for each individual bond.

Denomination

On 1 January 1999, virtually all outstanding government bonds trading on the Vienna Stock Exchange were redenominated into the euro. New issues normally have a per-unit denomination of EUR 1,000. Denominations in the private placement sector are usually many times higher.

Secondary market and trading system

Most bond trading takes place in the interbank market or involves institutional investors. Government bonds are usually traded over the counter. Daily prices are also quoted on banks' Reuters and Bloomberg pages. Only a smaller proportion is traded on the Vienna Stock Exchange.

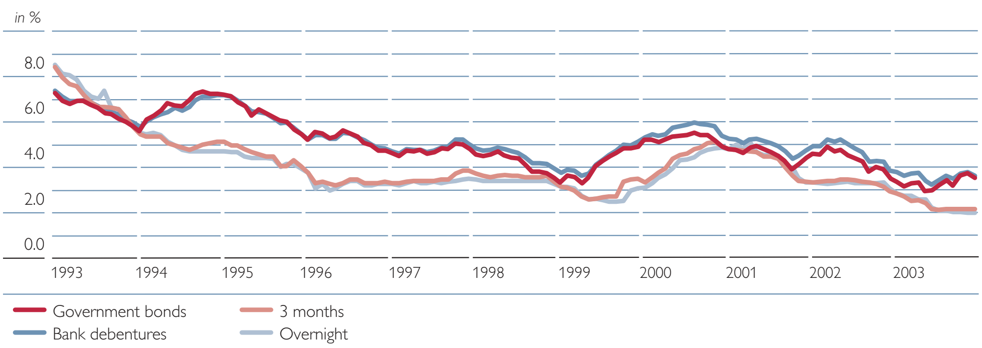
In 1999, the Vienna Stock Exchange joined XETRA, the electronic trading system of the Frankfurt Stock Exchange. A "Viennese market segment" administered by the Vienna Stock Exchange was installed and trading hours were extended.

Measures recently taken to increase government bond market liquidity (increase in volume, fungible tranches etc.) helped total market turnover to rise significantly. Due to the increase in volume the most liquid government bonds are also eligible for trading on Euro-MTS, an electronic bond trading platform for European benchmark bonds.

Market data and yield statistics

Oesterreichische Kontrollbank AG computes the daily yields on all Austrian bonds and publishes them weekly together with primary and secondary market data on each individual bond in bulletins called *Anleiheninformationen*. These bulletins can be ordered from *Oesterreichische Kontrollbank AG*. Selected data are also available via Internet (www.oebk.at).

Secondary Market Yields and Deposit Rates



Source: OeKB.

In addition, *Oesterreichische Kontrollbank AG* publishes average yields for individual issuer groups, such as the government, other public authorities, other domestic non-banks etc. Group yields are computed by weighting the yield on each individual bond according to the amount outstanding. Calculations include all bonds quoted on the Vienna Stock Exchange that have a remaining maturity of more than one year. The formula used to calculate group yields in Austria is currently based on a 360/360 basis. *Oesterreichische Kontrollbank AG* calculates these figures on a daily basis and publishes them in *Anleiheninformationen.* The monthly arithmetic mean is announced in *Statistisches Monatsheft,* a periodical published by the *Oesterreichische Nationalbank.* All these data have a significant effect on the Austrian banking and capital-market sectors, providing the basis for interest rates on many loan contracts as well as FRNs.

Taxation

Since 1 January 1993 a withholding tax has been levied on interest income derived from bank deposits (savings deposits, time deposits, deposits on current account) and interest-bearing securities (mortgage bonds, bonds, convertible bonds, profit-sharing bonds). If such interest income accrues to private individuals, the withholding tax also replaces individual income tax and inheritance tax (not the gift tax). In 1996, this withholding tax was increased from 22% to 25%.

Exemptions from the withholding tax:

- If the interest paying agency is located abroad:
  - interest income on foreign bank deposits and interest bearing securities (such income must be declared on the recipient's income tax return in Austria and attracts the applicable income tax rate).
- If the interest-paying agency is located within Austria:
  - interest bearing securities denominated in Austrian schillings issued before 1 January 1984
  - interest from interest-bearing securities denominated in foreign currencies issued before 1 January 1989
  - interest from interest-bearing securities issued by international financial institutions before 1 October 1992.
- Investors who can prove they are not resident in Austria.

Their holdings of interest-bearing securities have to be deposited with a bank in Austria.

The Auction System for Government Bonds

The auction system

January 1989 saw important changes in the way government bonds are issued and traded in the secondary market. The earlier practice of placing government bonds within a fixed syndicate of Austrian banks gave way to an auction system with an "underwritten component". This meant that roughly half the volume issued in any one year was underwritten by a syndicate. The auction system was modified again in February 1991 and 2001 and now functions as follows:

Participants

The *Österreichische Bundesfinanzierungsagentur* (Austrian Federal Financing Agency) as the issuer's representative specifies which banks can participate in auctions. Its decision is based on a number of factors, including a bank's capital adequacy, the number of its domestic and foreign branches, staff and size and turnover of fixed income portfolios in euro and other relevant currencies. 25 banks currently participate in auctions and subsequently act as market makers. Foreign institutions have taken part in the auctions since mid-1994 (for a detailed list, see Appendix C.1.: The Bond Market).

Announcing the maturity and volume of a bond

Every year, the *Österreichische Bundesfinanzierungsagentur,* a privately run agency, announces the nominal total that can be expected to be issued during the coming year as well as an issuing calendar. One week before each auction, the *Bundesfinanzierungsagentur* announces the bond's maturity and target volume. The bottom limit will be at least EUR 1 billion unless the announced minimum annual volume has already been reached. Volumes below EUR 1 billion usually apply to fungible issues whose purpose is to increase the total volume of bonds outstanding in the market. Before the bond's maturity and volume are announced, the participants in the auction are invited to make recommendations to the government regarding the auction itself and/or terms of the bond. The *Bundesfinanzierungsagentur* may cancel an issue until a predetermined time after the deadline for the submission of bids. In such a case a new auction date is set one week later.

Liquidity

Standardized maturities and the regular intervals between auctions are geared to increasing the market's liquidity. Bonds can be sold as new tranches of existing bonds so as to prevent the proliferation of coupons and bonds with different maturities.

The bidding system

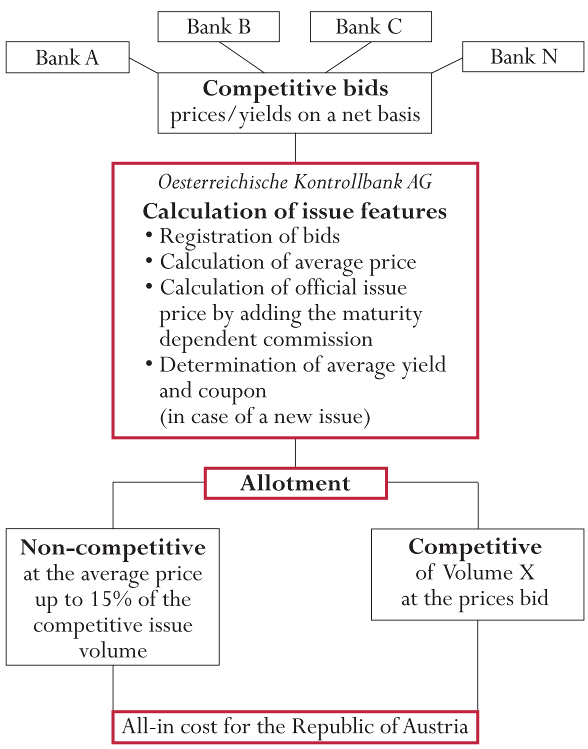
Each of the 25 participating banks must submit a bid for at least one 25th of the bond's envisioned volume. This ensures that the entire volume of each issue is bid for. In order to prevent any one institution from purchasing a substantial share of the issue, no individual bank's bid can exceed 30% of the bond's announced volume in case of an issue amount of at least EUR 1 billion and above.

Competitive bids

Competitive bids must be submitted to *Oesterreichische Kontrollbank AG* by 11:00 a.m. on auction day. By tradition *Oesterreichische Kontrollbank AG* acts as the fiscal agent for government bonds.

For the issuance of Austrian government bonds both price auctions and yield auctions are foreseen:

Issuing Method



For tap issues price auctions have been employed since February, 2001. The bids submitted are ranked according to price in descending order. Bids at the lowest price accepted (cut-off-price) may be subject to pro rata curtailments to provide for a precise representation of the scheduled competitive issue volume. The allotment of bonds is carried out based on the prices bid.

Calculating the coupon and official issue price

For new issues bids are submitted in the form of yields, as the coupon is calculated based on a weighted average of the accepted yields and an issue price as close to par as possible. The yields bids are then transformed into prices.

The official issue price corresponds to the weighted average of the accepted prices plus the maturity-dependent sales commission. This maturity-dependent sales commission awards to 1.05% for maturities of 5 years and 1.50% for maturities of 10 years.

Non-competitive bids

As a performance incentive for panel members the former performance-commission was replaced by a modified non-competitive bidding possibility in February 2001: An additional 15% of the competitive issue amount is made available for the submission of non-competitive bids at the average price of the accepted competitive bids. Non-competitive bids have to be submitted until 11:00 a.m. CET one business banking day after the announcement of competitive allotments. The maximum amount of non-competitive bids for each bank corresponds to each bank's market-share (i.e. the weighted average of the competitive allotments) of the previous two auctions.

Electronic auction

Since May 1998 an auction procedure has been carried out through ADAS (Austrian Direct Auction System), software developed for this purpose by *Oesterreichische Kontrollbank AG.* As this software has been adjusted continuously to accommodate changing requirements, it covers a wide range of possibilities (different auction procedures, submission of competitive and non-competitive bids, various communication- and information tools etc.). Constant communication and feedback on both sides, the issuer as well as the banks, before, during and after the auction, has promoted the development of ADAS.

Thus ADAS was established as a reliable and user-friendly application with a high standard of security. In addition to technical support, *Oesterreichische Kontrollbank AG* assists all parties involved in dealing with questions concerning the auction procedure. All results can also be calculated on Excel-spreadsheets, in order to guarantee the participants a maximum of transparency and the possibility to arrive at the same results calculated by the system.

The essential advantage of the electronic auction-system can be found in its ability to respond quickly:

- The submission of bids is carried out electronically.
- The issuer confirms the issue electronically after the deadline for the submission of competitive bids has expired.
- Then, the total auction results are made available to the participants (approximately 5–10 minutes after the deadline for the submission of bids).
- All information (total auction results, resulting parameters in case of a new issue as well as individual allotments per bank) is communicated electronically via ADAS.
- Additionally, ADAS provides specific tools to enable the issuer via *Oesterreichische Kontrollbank AG* to communicate with participants individually via messages and info pages and generally offers the possibility to

exchange views during round table chats (either using an ID or anonymously).

Syndicated government bonds

Since 1999, government bonds are also launched via a syndicate which may change for each issue. Only participants in the auction procedure are eligible to act as leadmanager or co-leadmanager. With the issuance of syndicated tranches the *Bundesfinanzierungsagentur* intends to react flexibly to specific market situations and investor demands.

The bond lending scheme

In order to help market makers fulfil their obligations, *Oesterreichische Kontrollbank AG* – the clearing bank and central depository for Austrian securities – has drawn up regulations for bond lending in government securities. The lending scheme has been in place for the bonds of other issuers since the middle of 1991.

Stripping of bonds

To further increase the attractiveness of government bonds an official strip-facility was set up by *Oesterreichische Kontrollbank AG* as the central securities depositary in October 1996. This facility provides the possibility to trade the capital and the coupons of selected government bonds separately.

Bond-Market Indices

Oesterreichische Kontrollbank AG and various Austrian banks regularly compute a number of Austrian bond market indices. International indices are published among others by Goldman Sachs, Salomon Brothers, Merrill Lynch and Bloomberg.

See Appendix C.1. for details of the pertinent Austrian and international bond indices.

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5.3 The Austrian Equity Market

Index Performance 2003

In 2003, *Wiener Börse AG* achieved a top performance as compared to European and international stock markets. The development of the ATX, which attained a price gain of almost 35% vs. the previous year was remarkable.

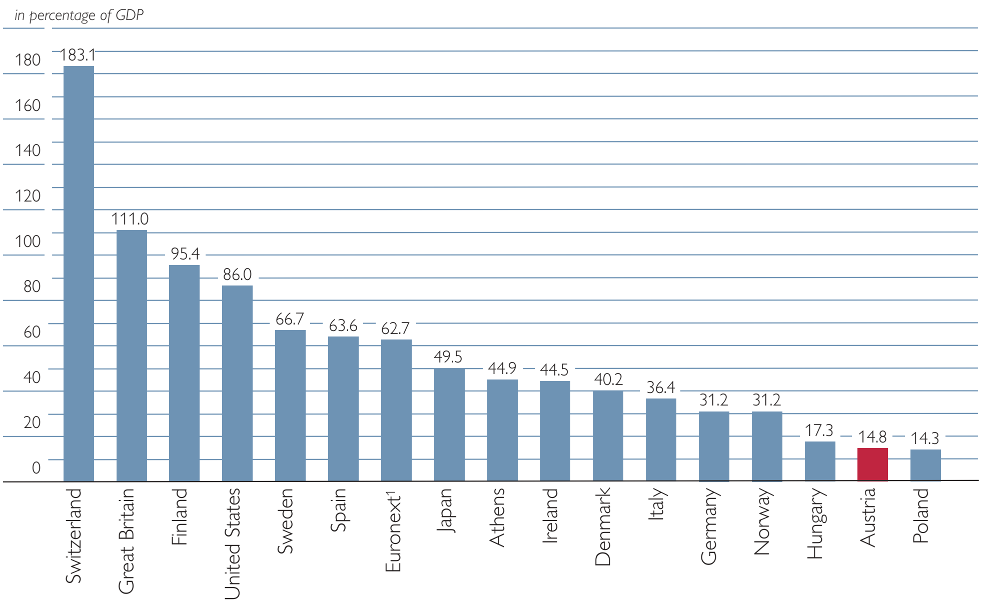
The ATX closed at year-end 2003 at 1,545.15 points, with a plus of 34.36% over year-end 2002 (1,150.05 points). The ATX hit its all-year high on 29 December 2003 at 1,548.69 points, the all-year low was 1,120.21 points (12 March 2003).

The ATX Prime, the all-share index of the prime market segment, closed at year-end 2003 at 802.04 points, with a plus of 33% against year-end 2002 (601.67 points).

The WBI, *Wiener Börse's* all domestic shares index, closed at year-end 2003 at 623.75 points, with a plus of 30.16% against year-end 2002 (479.21 points).

The prime market top performers in 2002 were BETandWIN (+342.86%), JoWooD (+190.48%), EYBL International (+154.67%), Agrana (+123.05%) and Rosenbauer (+114.29%). The heaviest losses suffered Generali (–82.89%), Head N.V. (–45.97%), BWT (–39.63%), Austrian Airlines (–16.41%) and EVN (–12.61%).

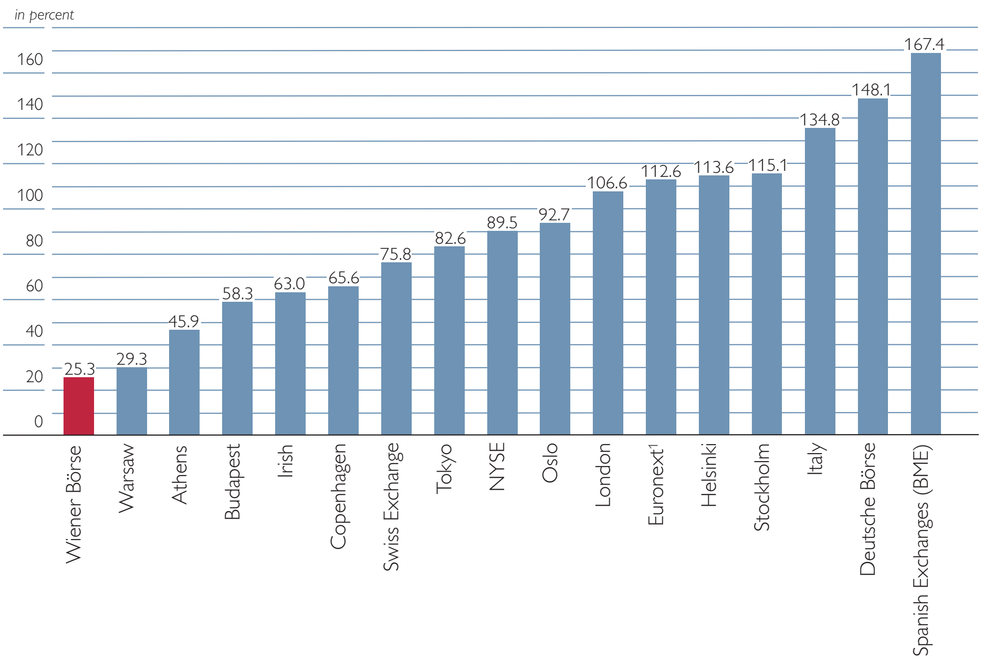
Stock Market Capitalization in Relation to GDP in 2002



Source: FIBV Statistics
[1] Euronext figures include data from Belgium, France, Netherlands and Portugal.

Turnover in domestic shares in 2003 was EUR 18.90 billion, an increase of 53.28% compared with 2002 (EUR 12.33 billion). Domestic equity market capitalization at year-end 2003 was EUR 43.23 billion, an increase of 42.25% compared with EUR 30.39 billion registered at the end of 2002.

Stock Market Turnover Velocity of Domestic Shares 2003



Source: FIBV Statistics 2003.
Turnover velocity ratios have been calculated with monthly moving averages.
[1] Euronext figures include data from Belgium, France, Netherlands and Portugal.

The Structure and Scale of the Equity Market in 2003

Capitalization and Trading Volume by Market Segments

Market segment[1]	Capitalization in EUR	Turnover in EUR[1]	Listings	Issuers
prime market		18,484,115,894	37	37
Domestic	36,139,474,422			
Foreign	80,039,561			
standard market continuous		466,142,547	11	10
Domestic	3,139,834,872			
Foreign	139,285,742,285			
standard market auction		360,479,071	68	59
Domestic	4,033,903,108			
Foreign	513,022,349,817			
other listings		274,414,324	47	38
Domestic	1,498,284,148			
Foreign	87,238,000			

Source: Wiener Börse AG.
[1] Double count.

New Listings of Domestic Shares[1] at Wiener Börse in 2003[1]

New listings

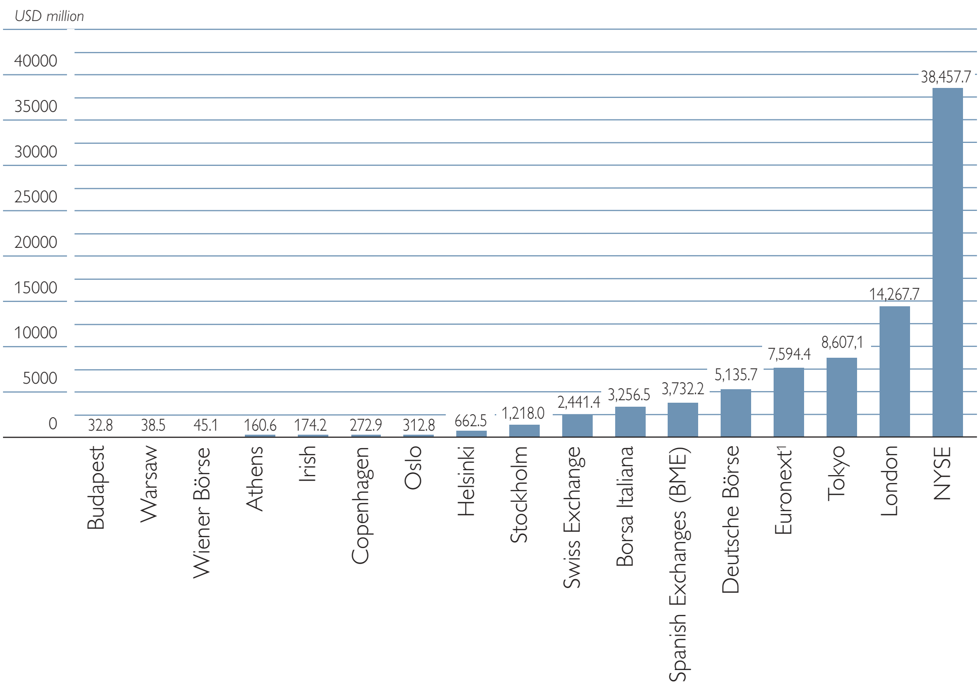
The data below is a snapshot taken at the time of the initial public offering. For current and detailed information on a company, please visit the Investor Center at www.wienerborse.at.

1 Official Market and Semi-official Market only.

equity market.at

Company	First day of listing	Trading segment
Schoeller-Bleckmann	27. 3.	Official Market
S & T	11. 4.	Official Market
Bank Austria-Creditanstalt	9. 7.	Official Market
Eybl International	19. 9.	Official Market
IMMOEAST Immobilien Anlagen AG	12. 12.	Official Market
CROSS Holding	12. 12.	Semi-official Market
SEG Immo AG	18. 12.	Semi-official Market

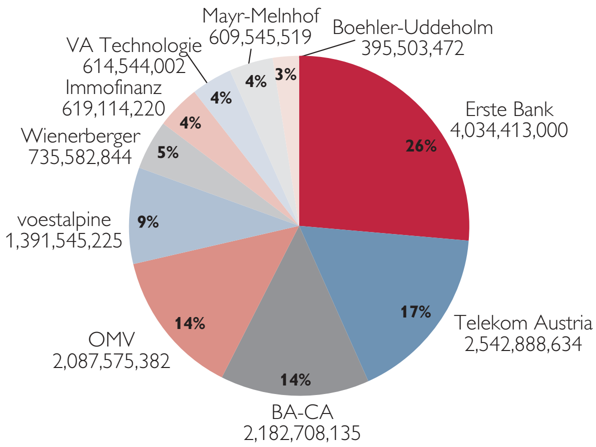
Daily Average Volumes Traded on the World's Stock Market in 2003



Source: FIBV Statistics 2003.
Note: The sale & purchase of a share counted as one transaction.
[1] Euronext figures include data from Belgium, France, Netherlands and Portugal.

The 10 Most Heavily Traded Shares in 2003

Stock exchange turnover in EUR



Source: Wiener Börse AG.

The Different Types of Shares Traded on Wiener Börse AG

Common shares

Common shares

Common shares carry voting rights and pre-emptive rights that allow shareholders to subscribe to new issues in proportion to their existing holdings. Decisions that require a majority are made on a one-share/one-vote basis. Dividends will usually depend on a company's profits, although most companies try to steadily increase their dividends.

Preferred shares

Prefered shares

Preferred shares give shareholders every right except the right to vote. In return, non-voting cumulative preferred shares have priority when dividends are distributed. There may be years in which only part of the dividends on these shares can actually be distributed. If the arrears are not paid in the next year together with the regular dividend, holders of these shares are entitled to vote until the arrears have been paid in full. Non-voting cumulative preferred shares can only be issued up to a total of half the company's outstanding ordinary shares. This means that non-voting cumulative preferred shares can never account for more than one third of a company's share capital. The attraction of these shares is their dividend guarantee. Unlike dividends on preferred shares in the United States, the guaranteed dividend is a minimum return. In good years companies may supplement guaranteed base dividends with a bonus. This means that dividends paid to preferred shareholders may not be lower than dividends paid to holders of ordinary shares.

Market Capitalization by Branches and Market Sectors

prime market[1], Year-end 2003

Branch	Market Sector	EUR
Basic Industries	Construction Materials	1,382,608,648
	Mining & Metals	588,940,000
	Oil & Gas	3,188,160,000
Basic Industries Total		5,159,708,648
Cyclical Consumer Goods & Services	Automobiles & Parts	68,760,000
	Leisure Goods & Services	80,039,560
	Textiles & Apparel, Accessories	90,900,000
Cyclical Consumer Goods & Services Total		239,699,560
Financial	Banks	12,152,433,290
	Diversified Financial	129,927,513
	Insurance	2,620,293,130
	Real Estate	1,268,721,985
Financial Total		16,171,375,917
Industrial Goods & Services	Industrial Engineering and Machinery	1,198,867,976
	Industrial Holdings	1,663,230,000
	Packaging	1,370,400,000
	Transportation & Transportation Infrastructure	1,002,880,000
Industrial Goods & Services Total		5,235,377,976
IT & Media	Internet	172,824,008
	Software & IT Consulting	87,924,266
	Technology Hardware & Equipment	24,110,080
IT & Media Total		284,858,354
Non-Cyclical Consumer Goods & Services	Food	597,665,568
	Healthcare	538,824,277
Non-Cyclical Consumer Goods & Services Total		1,136,489,846
Telecommunications	Fixed Line Communications	4,900,000,000
Telecommunications Total		4,900,000,000
Utilities	Diversified Utilities	1,503,258,200
	Electric Utilities	1,398,426,680
Utilities Total		2,901,684,880
All Branches		36,029,195,183

Source: Wiener Börse AG.

[1] *Some minor branches that do not fall into the categories listed above are not included.*

Turnover by Branches and Market Sectors

prime market[1], Year-end 2003

Branch	Market Sector	EUR
Basic Industries	Construction Materials	735,582,843
	Mining & Metals	395,503,472
	Oil & Gas	2,087,575,382
Basic Industries Total		3,218,661,698
Cyclical Consumer Goods & Services	Automobiles & Parts	14,964,096
	Leisure Goods & Services	10,482,263
	Textiles & Apparel, Accessories	78,436,822
Cyclical Consumer Goods & Services Total		103,883,183
Financial	Banks	6,221,867,452
	Diversified Financial	19,582,498
	Insurance	266,250,463
	Real Estate	619,114,219
Financial Total		7,126,814,634
Industrial Goods & Services	Industrial Engineering and Machinery	572,273,250
	Industrial Holdings	2,006,089,227
	Packaging	620,993,233
	Transportation & Transportation Infrastructure	393,240,535
Industrial Goods & Services Total		3,592,596,247
IT & Media	Internet	116,749,670
	Software & IT Consulting	57,499,339
	Technology Hardware & Equipment	10,294,643
IT & Media Total		184,543,653
Non-Cyclical Consumer Goods & Services	Food	12,594,657
	Healthcare	270,597,403
Non-Cyclical Consumer Goods & Services Total		283,192,060
Telecommunications	Fixed Line Communications	2,542,888,634
Telecommunications Total		2,542,888,634
Utilities	Diversified Utilities	104,268,237
	Electric Utilities	268,999,986
Utilities Total		373,268,223
All Branches		17,425,848,334

Source: Wiener Börse AG.

[1] Some minor branches that do not fall into the categories listed above are not included.

Participation certificates

Participation certificates

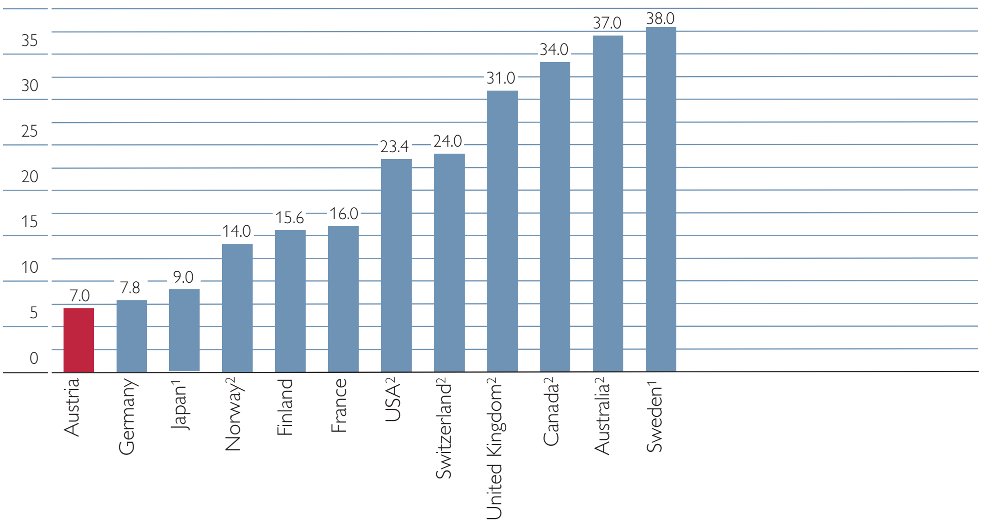
The participation certificates (PCs) issued by the major banks and some industrial corporations are very similar to non-voting cumulative preferred shares. Holders of these instruments have an interest in the assets and profits of the respective company. Holders of participation certificates may attend AGMs and ask questions but are not allowed to vote. As a result, PCs are usually traded at a discount compared with other company shares.

Over the last few years, the participation certificate capital on Wiener Börse has steadily declined due to the conversion of participation certificates into shares.

Austrian Shareholders

Based on the study by *Fessel – GfK* 17% of Austrian population owned securities in 2003 (16.5% in 2002/2001, 15% in 2000, 13.4% in 1999). Securities are taken to include mortgage, municipal and other bonds, shares, profit-sharing certificates, investment fund certificates and participation certificates. The percentage of Austrians owning shares in 2003 was 7% (7% in 2002, 7.5% in 2001, 7% in 2000 and 6.5% in 1999).

Percentage of Population Owning Shares end of 2003



Source: Source: Australian SE, DAI, Helsinki SE, Oslo SE.
[1] Only 2001 data available.
[2] Only 2002 data available.

The Indices Traded at Wiener Börse

Austrian Indices

The *ATX* (Austrian Traded Index) comprises the blue chips of *Wiener Börse* and has been designed as underlying reference for futures and options. The *ATX* contains the most actively traded and highly capitalized stocks on the prime market segment. The *ATX Prime* is designed as an all-share index and consists of all securities traded in the prime market segment. As the direct successor to the *ATX50*, the *ATX Prime* serves as a benchmark for institutional investors.

The *ATX five* is a capitalization weighted price index, which consists of the five shares with the highest weighting in the *ATX*. The inclusion in the *ATX* five or the removal from the *ATX* five is decided on basis of the index capitalization in the *ATX*.

The *ViDX* (Vienna Dynamic Index) includes growth- and technology-oriented companies listed at the *Wiener Börse.* The companies are either listed at the official market or at the semi-official market and are traded on a continous basis.

The *Immobilien-ATX* (Austrian Real Estate Securities Index) is the index of the most significant Austrian real estate securities.

The *WBI* (Wiener Börse Index) contains all shares listed on the Official Market and the Semi-Official Market. The WBI as overall index reflects movements on the Austrian stock market as a whole.

The Composition of the ATX

(as of May 21, 2004)

Company	Weighting in %
Erste Bank	20.22
Telekom Austria	19.08
OMV	9.43
Wienerberger	8.24
Bank Austria Creditanstalt	7.91
voestalpine AG	5.22
Verbund Kat. A	4.86
EVN	3.71
Flughafen Wien	3.34
Mayr-Melnhof	2.88
Boehler-Uddeholm	2.47
VA Technologie	2.27
Generali Hold. Vienna	2.06
Andritz	1.71
RHI	1.61
UNIQA	1.42
BETandWIN	1.38
AUA	0.86
BWT	0.82
Semperit	0.39
ATX total	100.00

Source: Wiener Börse AG.

CEE Stock Indices

Wiener Börse calculates and disseminates real-time a range of representative indices for the CEE (Central and Eastern Europe) region. There are two groups of indices: the CECE Index Family and the Russian indices.

The *CECE Index Family* consists of country indices which track the major blue chips of Czech Republic (*CTX* – Czech Traded Index), Hungary (*HTX* – Hungarian Traded Index), Poland (*PTX* – Polish Traded Index) and an index for the whole region (*CECE* Composite Index). The CTX, HTX, PTX indices and the CECE Composite Index are denominated in USD and EUR. With the same composition as their peers denominated in USD and EUR, the CEE country indices are calculated in respective local currency, too: CTL for Czech Republic, HTL for Hungary and PTL for Poland.

Wiener Börse provides three indices for Russian equities:

- the *RTX* – Russian Traded Index, based on stocks traded in Russia on the RTS – Russian Trading System, calculated in USD
- the *RDXEUR* – Russian Depositary Index, based on GDRs traded at London Stock Exchange, calculated in EUR
- the *RDXUSD* – Russian Depositary Index, based on GDRs traded at London Stock Exchange, calculated in USD

All CEE indices are calculated as capitalization-weighted price indices. They are valuable instruments for issuers of structured products. Furthermore, six of the CEE Indices – CTXEUR, HTXEUR, PTXEUR, RTX, RDXEUR and RDXUSD – serve as underlyings for standardized futures and options tradable in the market segment for derivatives otob market. This enables investors and issuers to trade four different CEE markets on a single trading platform in one single currency.

Detailed information on all indices on *Wiener Börse's* indices information site: www.indicess.cc

For more information regarding our indices (methodology, composition, calculation, rules) please direct your queries or comments to

idx-mgmt@wienerborse.at or call +43 1 53165-198

For licensing opportunities please send an e-mail to

licences@wienerborse.at or call +43 1 53165-169

5.4 otob market.at – Wiener Börse's Derivatives Market

A. Austrian Derivatives

This segment contains

- **Futures and options on the ATX and the ATX five**
- **stock options on currently 19 Austrian stocks:**
  Austrian Airlines (AUA)
  Bank Austria Creditanstalt (BACA)
  Böhler-Uddeholm (BUD)
  BWT (BWT)
  Erste Bank (EBS)
  EVN (EVN)
  Flughafen Wien (FLU)
  Hypo Vereinsbank (HVB)
  Mayr-Melnhof (MMK)
  OMV (OMV)
  RHI (RHI)
  Semperit (SEM)
  Telekom Austria (TKA)
  UNIQA (UQA)
  VA Technologie (VAT)
  Verbund Kat. A (VER)
  Voestalpine (VAS)
  Wienerberger (WIE)
  Wolford (WOL)

All these derivatives are defined as independent products to which special criteria apply. A trading participant is required who assumes the function of a specialist and agrees to enter firm buy and sell orders for series requiring quotes on a permanent basis. The trading platform used is OM Click® with the trading procedure "Continuous Trading".

B. CECE Derivatives

This segment contains all the CECE index products, which are:

- Futures and options on the CTXEUR, HTXEUR,PTXEUR (denominated in Euro)
- Futures on the RDU and RDX (Russian Depositary Receipts denominated in USD and Euro)
- Futures and options on the RTX (denominated in USD)

At least one trading participant must assume market making commitments for stocks listed in this segment. The trading platform used is OM Click® with the trading procedure "Continuous Trading".

Clearing

The clearing of transactions in futures and options concluded on *Wiener Börse* is an integrate part of the fully electronic marketplace system. As a neutral clearing house, *Wiener Börse* guarantees the fulfillment of transactions in derivatives and also requires clearing members to deposit margins for all binding positions (futures and short positions in options). *Wiener Börse* maintains principal, agent and market maker accounts. Margin and clearing accounts for Euro-denominated instruments are run by Oesterreichische Kontrollbank (OeKB), and for USD-denominated instruments by Euroclear.

The otob market rules and statistics

Rules for trading futures and options at the otob market (including the contract specifications) under: http://www.wienerboerse.at/cms/2/81/377

You may find all otob market statistics as Pdf-downloads on the Website: www.wienerborse.at under market data – Monthly and Yearly statistics.

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5.5 Privatizations in Austria

The first 15% of the issued share capital of oil, gas and chemicals group *ÖMV AG* (now *OMV AG*) was placed on the Vienna Stock Exchange in 1987 in the course of alterations to the legislative basis of *ÖIAG* (a holding company for the Republic of Austria's industrial interests). This laid the cornerstone for Austria's successful program of privatization. Even though the very first public sale of shares in an *ÖIAG* company occurred during one of the international equity markets' most difficult phases, the 15% were firmly placed at a price of EUR 31.98, allowing the stock exchange offering of another 10% in 1989. For the very first time, 25% of the issued share capital of an *ÖIAG* company is consequently now in the hands of domestic and foreign shareholders. *OMV AG* has become one of the Vienna Stock Exchange's most traded securities.

Because *OMV AG's* share sale was so successful, other companies of the *ÖIAG* group have since floated their shares on the stock exchange. For instance, 49% of *VAE (VA Eisenbahnsysteme AG)* was placed in the market in 1992, followed by 74% of *AMS (Austria Mikro Systeme International AG)* in 1993.

Parliament re-amended the existing *ÖIAG* act at the end of 1993, making it possible for the *ÖIAG* group to sell majorities of its industrial interests. Since that time, *ÖIAG* has been performing its new task – the sale of majorities of its industrial interests or 100% privatization – as allowed by market receptivity and subject to the proviso that investors must be offered solid investment opportunities.

Austria's biggest capital-market transaction to date took place in May 1994 with the placement of 51% of *VA Technologie AG,* a globally active technology group. The share's price rose from EUR 65.41 at issue to EUR 73.84 at the end of 1998, furnishing convincing proof of the company's acceptability to Austrian and foreign investors.

Thanks to placement know-how and years of experience, the following going publics also made a positive contribution to Austria's capital markets.

The first 100% privatization took place in 1994 with the stock exchange sale of the entirety of *ÖIAG's* interests in *VAE* and *AMS. AMS* has since developed very well, climbing from an issue price of EUR 24.42 to EUR 32.05 at the end of 1998. *VAE* rose from EUR 66.50 at issue to EUR 122.82 at the end of 1998.

At the beginning of 1995, three million shares of *Böhler-Uddeholm AG,* an internationally active special-steel group, were placed on the Vienna Stock Exchange at a price of EUR 39.97. By year-end 1995, the share was already trading at EUR 55.96.

In October 1995, 31.7% of *VA Stahl AG,* one of Central Europe's leading steel groups, was privatized via the stock exchange. Demand for this share was so lively that the green-shoe option had to be enlarged from an initial 15% of the total transaction to 20%. The issue price was EUR 20.71.

At the beginning of 1996, *ÖIAG* carried out a private placement that reduced its 43.3% interest in *VA Stahl AG* to 38.8%. Furthermore, in the first half of 1996 *ÖIAG* successfully floated 47.7% of the share capital of *Böhler Uddeholm AG* – that is a total of 5.25 million shares – during a secondary offering at a price of EUR 57.05 per share, reducing its stake in the company to 25%. In a subsequent transaction (likewise a secondary offering), *ÖIAG* floated 14.9% of the share capital of *OMV AG* – that is a total of 4,023,000 shares – at a price of EUR 76.67 per share, reducing its interest to 35%. *ÖIAG* floated a total volume of EUR 608 million in transactions during the first half of 1996 and managed to place an average of almost 40% of each issue in the Austrian marketplace.

In the middle of 1996, *Austria Tabak AG* was transferred to *ÖIAG* for privatization. In November 1997, 49.5% of *Austria Tabak AG,* the sole tobacco product manufacturer in Austria, having a leading market position with its own cigarette brands of 59% and being with its wholesale division market leader in Austria, Germany and Hungary, was issued via the stock exchange.

Demand totalled 61.5 million shares with a value of more than EUR 2.25 billion – the biggest amount ever ordered during an Austrian IPO. Prior to the exercise of the green-shoe option, available volumes were oversubscribed 4.6 times in Austria and 8.8 times abroad. 10,890,000 shares were on offer post-green-shoe, giving an aggregate oversubscription quotient of 5.6 times. Turnover in *Austria Tabak AG* shares during their first trading session was the highest ever recorded in the history of the Vienna Stock Exchange. They closed at EUR 37.50 on that day, which compared with an issue price of EUR 36.70, and gained almost 78% to end 1998 at EUR 65.33.

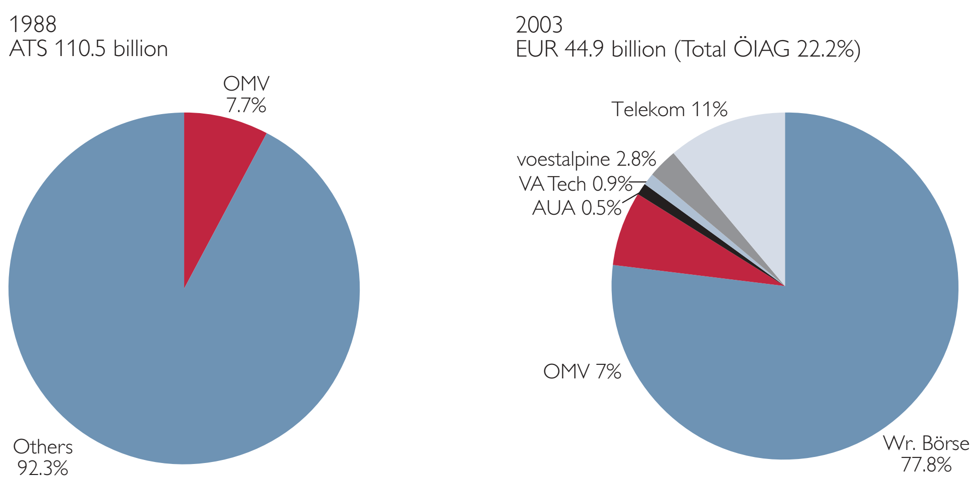
In the year 1998, *ÖIAG* did not organize any large-scale privatizations or capital market transactions. However, *ÖIAG* has been assigned the legal duty to prepare the public offering of the stakes held by the Republic of Austria in the companies *Österreichische Staatsdruckerei AG* and *Dorotheum Auktions-, Versatz- und Bank Gesellschaft m.b.H. (Dorotheum)* through the stock exchange.

Furthermore, *ÖIAG* has been assigned the Republic of Austria's stakes of 51.94% in *Austrian Airlines AG (AUA)* and 17.38% in *Flughafen Wien AG,* the pertinent law providing for *ÖIAG* to exercise the ownership rights in the stead of the Republic.

ÖIAG also conducts sales on behalf of the Republic for companies in which it does not own any interests. In 1998 the shares held by the Republic in

ÖIAG Issues Enhanced Liquidity on Vienna Stock Exchange

Market Capitalization (Austrian Shares)



Sources: Wiener Börse AG.

Dachstein Fremdenverkehrs AG were sold to an Austrian syndicate of bidders. ÖIAG has also been assigned the task of preparing the sale of the 50% stake held by the Republic of Austria in *Wiener Börse AG,* in June 1999 the mentioned stake was sold to Austrian investors.

1999 *ÖIAG* reduced the stake in *Austria Tabak AG* from 50.5% to 41.1% via an institutional offer to national and international investors (block trade).

1999 *Austrian Airlines AG* increased its share capital from EUR 188.9 million to EUR 247.1 million by an issue of new shares. *ÖIAG* did not take advantage of its subscription right, as a result, *ÖIAG's* stake was reduced to 39.7%.

On the initiative of the government, the Austrian parliament passed a new law in May 2000, which marks a change in the policy of *ÖIAG.*

The main content of the law:

- The amalgamation of *PTBG (Post und Telekombeteiligungsgesellschaft): Post AG* (Austrian Postal Service), *Telekom Austria AG, PSK* (postal saving bank) into *ÖIAG*, and
- the privatization mandate assigned by the government to *ÖIAG,* under which the following state holdings are earmarked for privatization by the end of 2003: *Telekom Austria AG* (75% +1 share held by *ÖIAG), PSK, Dorotheum GmbH, Print Media Austria AG, Staatsdruckerei GmbH,* the 17.4% share held in *Flughafen Wien AG* and the *ÖIAG* share in *Austria Tabak AG* (41.1%). The purpose of this mandate is to service all existing debts of *ÖIAG* within this government's tenure by using privatization proceeds.

Within the scope of this privatization mandate, *ÖIAG* sold the *PSK* to *Bank für Arbeit und Wirtschaft AG (BAWAG)* in August 2000. In November 112 million shares (22.4% of the share capital) of *Telekom Austria AG* were floated at a price of EUR 9 per share in the initial public offering through *Wiener Börse* and the New York Stock Exchange (NYSE). A total of 112 million shares were offered for sale and placed in Austria and abroad. With the support of an ambitious marketing campaign, over 92,000 shares were placed with Austrian shareholders through private investor incentives (bonus of 5% up-front, one free share for every ten shares after a certain holding period).

Further privatization measures in 2000 were the sale of the state-owned printing company *Sicherheitsdruck GmbH* to an Austrian investor and a reduction of the 17.4% share held in *Flughafen Wien AG* to 8.92%.

In line with the mandate of May 2000, *ÖIAG* continued to privatize state-owned assets in 2001. The remaining share of 8.92% in *Flughafen Wien AG* was disposed of, a 1% stake in *voestalpine* was sold, thus reducing *ÖIAG's* share from 38.8% to 37.8%. After a call for tenders in which the major international tobacco concerns participated, the remaining 41.13% in *Austria Tabak AG* were sold to the British tobacco company Gallaher. As a consequence of Gallaher's offer to remaining shareholders, *Austria Tabak* was delisted from *Wiener Börse AG.*

The traditional Austrian auction house *Dorotheum GmbH* was sold to an Austrian investor group at the end of 2001, and *Staatsdruckerei GmbH* was sold to an Austrian financial investor effective as of the beginning of 2002.

In accordance with a cabinet resolution *ÖIAG* was allocated a new privatization mandate in May 9, 2003. Privatizations should lead to the maximum possible increase in corporate value and revenues for the owner. In addition, the following Austrian interests are to be protected: Creation and retention of safe employment in Austria, headquarters and decision-making bodies should remain in Austria, retention and expansion of existing research and development capacities through the creation of Austrian core shareholder structures and the taking into consideration of the Austrian capital market.

Complete privatization was envisaged for *Böhler-Uddeholm AG, VA Technologie AG, voestalpine* and *ÖIAG-Bergbauholding.* Privatisation of up to 100% is planned for *Telekom Austria AG* and for *Österreichische Post,* a strategic partner is being sought as an initial step towards privatization.

In the second half of 2003 *ÖIAG* succeeded in using the positive economic development for the completion of several successful transactions. *ÖIAG* sold off 9% of its shares in *VA Technologie AG* and thus reduced its holding form 24% to 15%. *ÖIAG* was the first Austrian company to issue an exchangeable bond in August 2003 on 5% of *Telekom Austria AG* shares. The nominal value was EUR 325 million which corresponded to 25 million shares. The bond is listed on the Luxembourg Stock Exchange.

Furthermore, the sale of *Postbus* was finalised by an agreement of *ÖBB* and *ÖIAG* to sell shares to each other in September 2003. Following an antitrust investigation, the final delivery of the shares took place on 15 September 2003 when *ÖBB* paid the purchase price.

Two further successful transactions during the period under review related to *voestalpine.* In September 2003, 19.7% of shares were sold via the stock markets. Thereof, 15.9% were sold to institutional and retail investors at a price of EUR 32.50 per share. 3.8% of the shares on offer were sold to the voestalpine employee trust at the reduced price of EUR 28.28 per share. Parallel to this transaction, exchangeable notes were issued on the remaining *ÖIAG* holding of 15% of *voestalpine* shares. The transaction volume totalled EUR 245.2 million and a conversion price of EUR 41.275 was established. This bond, which runs until October 2006 and is listed on the Vienna Stock Exchange, bears interest of 1.5%.

Finally, during November, *ÖIAG* privatized its entire 25% holding in *Böhler-Uddeholm AG* via the stock markets. The sale provided proceeds of EUR 133.4 million. In total, *ÖIAG* received revenues of EUR 532.4 million from the sale of shares and the volume of the two exchangeable notes issues amounted to EUR 570.2 million.

Despite the aforementioned privatizations, the value of the *ÖIAG* portfolio in the last few years has remained largely unchanged. As at December 31, 2003, the portfolio containing all *ÖIAG* investments had a value of around EUR 4.55 billion. In 2003, there was a marked improvement in the net debt, which as compared to 2002, was reduced from EUR 2.04 billion to around EUR 1.74 billion. As a result, the portfolio value provided surplus cover of the net debts amounting to EUR 2.81 billion, or 162%. In 2000, this value only amounted to 58%.

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5.6 The Capital Markets Act

General

Deregulation

As part of the deregulation efforts of the Austrian government and in order to comply with EEC regulations the Capital Markets Act (the "CMA") was passed in autumn 1991 and published in the Federal Law Gazette 1991/625. The CMA followed the prospectus directive of the EEC, Council Directive dated 17 April 1989, 89/298/EEC for non-listed securities (the "Directive").The CMA does not require an authorization by a governmental office or other organization. Issues of securities may be freely made, but in case there is a public offering the provisions of the CMA will apply. The CMA was amended the last time by Federal Law Gazette I, 2003/80 published on 26 August 2003.

Public Offer

Potential application of the CMA

The CMA applies only if there is a public offering. The definition of a public offer reads: A declaration of intent aimed at selling securities or other investments and not directed towards specified persons; a declaration of intent not directed towards specified persons exists in any case where the offeror has not determined by name the identity of the persons to which an offer is addressed prior to making the declaration of intent; is the declaration of intent addressed to more than 250 people, the offer is deemed to be public unless the offeror proofs to the contrary.

Prospectus

Publication of a prospectus

In case the CMA must be applied, the most important consequence is that of publishing a prospectus, the (minimum) contents of which are laid down in various schemes annexed to the CMA. The prospectus must be in German or English. The Act provides for the recognition of certain prospectuses published in member states of the EEA and translated into German or English if not produced in these languages. In conformity with the Directive the CMA provides for exemptions from the obligation to publish a prospectus (e. g. the "European Bond"-exemption; denomination of the securities of at least EUR 40,000 each or equivalent in foreign currency; exercise of conversion- or subscription rights; offer to exchange securities; mergers of companies).

Prospectus to be tested

The prospectus, which is seen as the tool to protect the investors, must be "tried" by either banks or auditors. In view of the potential liability of the tester, the CMA requires insurance coverage in case of auditors and a minimum of own funds of EUR 18.2 million, or equivalent in foreign currency, in case of banks.

Notification Office

Submission of prospectus to notification office

The CMA orders the prospectuses to be submitted to the notification office at least one day prior to the public offering. The CMA named *Oesterreichische Kontrollbank AG* as notification office. It must check whether the required signatures (mainly of the issuer and the tester) have been made on the prospectus. It must keep the prospectuses on record and on request must inform anybody whether a prospectus has been handed in for a specific issue, where and when it was published and must provide (photo)copies of it.

Calendar of issues

Everybody – with few exceptions – who plans to make an offering in Austria must inform the notification office of the planned issue, its foreseeable date, amount, denomination, term and other relevant conditions. This information is designed to enable the notification office to publish a preview of forthcoming issues that helps potential issuers in evaluating the market conditions.

Oesterreichische Nationalbank
&
Financial Markets Austria Services Ltd.

The Austrian Financial Markets

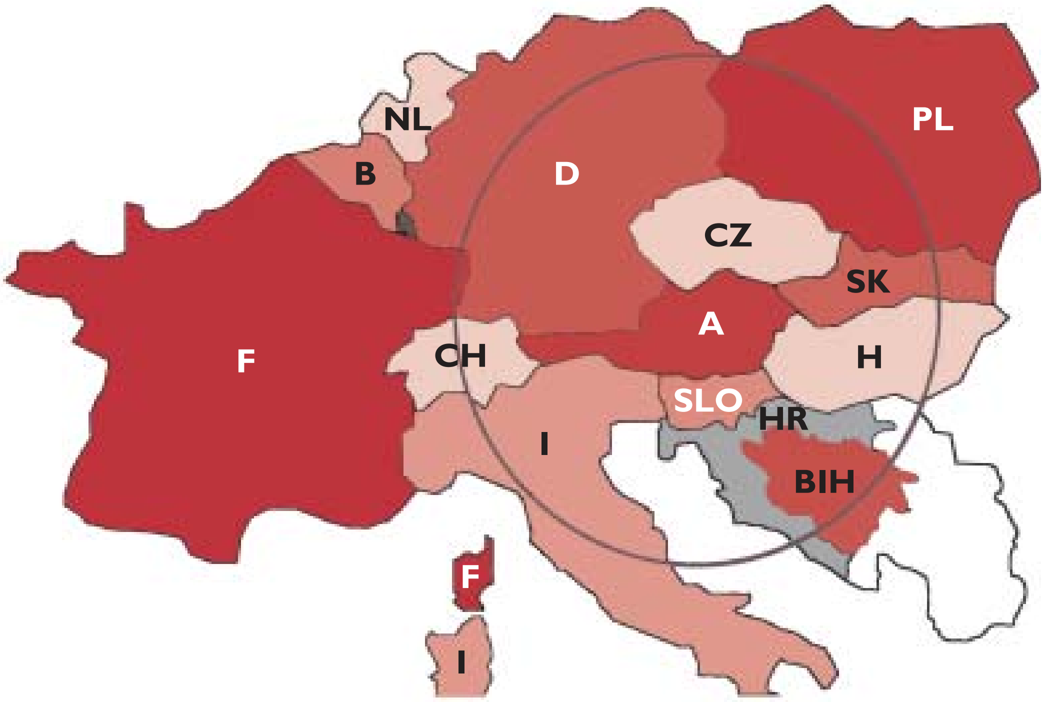
A Survey of Austria's Capital Markets

Facts and Figures

Annex

Revised Edition 2004

A. Key Facts on the Republic of Austria



The Country and its Population

Population (2002, estimated)	8,053,106
Language (2001):	German (88.6%)
Number of inhabitants/km^2:	96
Borders (as agreed in by the Treaty of St. Germain in 1919) with:	Switzerland, Liechtenstein, Germany, The Czech Republic, Slovakia, Hungary, Slovenia, Italy
Total area:	83,870.95 km^2
Under agriculture:	26,335.48 km^2
Exploited forest area:	36,232.25 km^2
Climate:	Continental in the east, alpine in central Austria
Capital:	Vienna
Major business center:	Vienna
Populations of major cities (as of May 2001):	
Vienna:	1,550,123
Graz:	226,244
Linz:	183,504
Salzburg:	142,662
Innsbruck:	113,392

Jobholders (2003):	3,184,759
Foreign workers (2003):	350,361
Unemployment rate (2003):	7.0%

The Government

Bundespräsident (Federal President):	Heinz Fischer
Bundeskanzler (Federal Chancellor):	Wolfgang Schüssel *(ÖVP;* *Austrian People's Party)*
Bundesminister für auswärtige Angelegenheiten (Federal Minister for Foreign Affairs):	Benita Ferrero-Waldner *(ÖVP;* Austrian People's Party)
Bundesminister für Finanzen (Federal Minister of Finance):	Karl-Heinz Grasser
Bundesminister für Wirtschaft und Arbeit (Federal Minister for Economy and Labour):	Martin Bartenstein *(ÖVP)*
Political system:	Parliamentary democracy
Political parties:	
Ruling parties:	*Österreichische Volkspartei (ÖVP;* Austrian People's Party) 79 seats *Freiheitliche Partei Österreichs (FPÖ;* Austrian Freedom Party) 18 seats
Opposition parties:	*Sozialdemokratische Partei Österreichs (SPÖ;* Social Democratic Party of Austria) 69 seats *Die Grünen – die Grüne Alternative* *(Grüne;* Green Party) 17 seats
Next general election:	2006
Military status:	Neutral since the *Staatsvertrag* (state treaty) re-established Austria as an independent and democratic state in 1955

Membership in International Organizations

Membership in international organizations

Austria is a member of many international organizations:

- the United Nations and of all of its affiliated organizations. Two of these organizations, the International Atomic Energy Agency (IAEA) and the United Nations Industrial Development Organization (UNIDO), have their headquarters in Vienna,
- the International Monetary Fund (IMF),
- the International Bank for Reconstruction and Development (IBRD),
- the Multilateral Investment Guarantee Agency (MIGA),
- the International Finance Corporation (IFC),
- the International Development Association (IDA),
- the Asian Development Bank,
- the Asian Development Fund,
- the Inter-American Development Bank,
- the African Development Fund,
- the African Development Bank,
- the European Bank for Reconstruction and Development (EBRD),
- the European Investment Bank (EIB),
- the Fund for Special Operations,
- the Organization for Economic Cooperation and Development (OECD),
- the Council of Europe,
- the International Energy Agency,
- the International Fund for Agricultural Development (IFAD),
- the Common Fund for Commodities.

Austria is a founding member of the World Trade Organization (WTO) and was previously a party to the General Agreement on Tariffs and Trade (GATT).

Vienna is recognized as a center for international conferences and has served as the site of numerous United Nations meetings as well as Strategic Arms Limitation Talks. The headquarters of the Organization of the Petroleum Exporting Countries (OPEC) are located in Vienna.

The Republic has been a member of the EFTA since its establishment in 1960. By 1966, all tariffs between EFTA members were eliminated. On 17 July 1989 Austria applied for membership of the European Union.

On 2 May 1992 Austria signed, along with its former EFTA partners (except Switzerland) and EU counterparts, a treaty designed to create a European Economic Area (EEA), linking the EFTA with the EU as a single trading bloc. The EEA was ratified by Austria's parliament in 1993 and came into force on 1 January 1994. The EEA guaranteed free movement of industrial goods, capital and labor throughout 18 participating states.

On 2 March 1994 an agreement was reached on the terms of Austria's entry into the EU. On 12 June 1994 the Austrian electorate voted by a $^2/_3$ majority to enter the EU. Membership has become effective on 1 January 1995 and Austria remains a member of the EEA in the same way as other EU members form part of it. Membership in the EFTA has become incompatible.

Form of government

Under Austria's *Bundesverfassungsgesetz* (Federal Constitution Act) of 1920 as amended in 1929, Austria is a democratic federal republic. Its legislative and executive powers are apportioned between the federal government and the federation's nine constituent provinces (Burgenland, Vienna, Lower Austria, Upper Austria, Salzburg, Tyrol, Vorarlberg, Styria and Carinthia).

A Democratic Federal Republic

Legislative power

The federal government's legislative power is vested in a bicameral legislature comprising the *Nationalrat* (national council) and the *Bundesrat* (federal council). The *Nationalrat* is elected for a period of four years by direct, secret, universal suffrage under a system of proportional representation. The *Nationalrat* can be dissolved within its four-year term either at its own instigation or – under special circumstances – that of the *Bundespräsident*. The present *Nationalrat* was elected in November 2002. The members of the Bundesrat are elected by the legislatures of the different provinces in proportion to their populations.

The federal government's executive powers are vested in the *Bundespräsident,* the *Bundeskanzler* and the Cabinet. The *Bundespräsident* is elected by direct, secret, universal suffrage for a term of six years. The *Bundespräsident's* principal constitutional powers include appointing the *Bundeskanzler* and the Cabinet and dissolving the *Nationalrat.* The present administration was formed in February 2003. It is a coalition of the *ÖVP* (Austrian People's Party) and the *FPÖ* (Austrian Freedom Party).

Judicial power is exercised by federal courts. There are courts of last resort for questions of civil, criminal and administrative justice. A separate constitutional court has supreme competence to judge the constitutionality of all legislative and administrative actions on the part of the federal government and the provinces.

Political parties

The following table shows the political make-up of the *Nationalrat* and the *Bundesrat* after each of the last five national elections.

Political Parties

	1995 Nationalrat	1995 Bundesrat	1997[1] Nationalrat	1997[1] Bundesrat	1999 Nationalrat	1999 Bundesrat	2000[1] Nationalrat	2000[1] Bundesrat	2001[1] Nationalrat	2001[1] Bundesrat	2002 Nationalrat	2002 Bundesrat[2]
Social Democratic Party of Austria (SPÖ)	71	25	71	22	65	22	65	22	65	23	69	25
Austrian People's Party (ÖVP)	53	26	52	27	52	27	52	28	52	28	79	27
Austrian Freedom Party (FPÖ)	40	13	41	15	52	15	52	14	52	12	18	6
Liberal Forum (LIF)	9	–	9	–	–	–	–	–	–	–	–	–
Green Party (Grüne)	9	–	9	–	14	–	14	–	14	1	17	4
Independent	–	–	1	–	–	–	–	–	–	–	–	–

[1] *There have been changes because of members of parliament crossing party lines and by-election.*
[2] *As of April 2004. The number of seats in the Federal Council reflects the composition of provincial governments.*

The Currency

Currency:	Euro (EUR) Average 2003 USD/EUR: 1.13

Economic Output

Nominal GDP (2003, preliminary):	USD 253.2 billion/EUR 224.27 billion
Per capita GDP (2002, preliminary):	USD 31.341 billion/EUR 27.761 billion

Foreign Trade

Exports of goods and services as a percentage of GDP (2003):	51.8%
Imports of goods and services as a percentage of GDP (2003):	50.3%
Major trading partners (2003):	
Exports:	Germany (31.87%), Italy (8.80%), United States (5.20%), Switzerland (5.17%), France (4.45%), United Kingdom (4.32%), Hungary (4.04%), Czech Republic (3.07%), Spain (2.53%), Netherlands (2.04%) Eastern Europe (16.47%)
Imports:	Germany (40.84%), Italy (7.01%), France (4.79%), United States (3.97%), Czech Republic (3.29%), Switzerland (3.28%), Hungary (3.25), Netherlands (3.04%), United Kingdom (2.25%), Japan (2.25%) China (2.21%) Eastern Europe (12.31%)

Tourism in 2003

Foreign visitors:	19.078 million
Overnight stays (foreigners):	86.276 million
Total overnight stays:	117.837 million
Foreign-currency movements caused by tourism in 2003 (preliminary):	
Receipts	EUR 14,458.00 million
Outflow	EUR 11,260.50 million
Net	EUR 3,410.80 million

B. Recent Economic Developments and Outlook

Cyclical Recovery in Danger of Stalling[1]

Since the beginning of this year, economic prospects have become more subdued for the euro area as well as for Austria. Leading indicators like the business surveys conducted by the European Commission, the ifo business climate index for Germany and the WIFO business survey for Austria suggest that the business climate in the cyclically sensitive manufacturing sector, after a short-lived upturn between mid-year and end 2003, is being judged less favourable. Firms see no further improvement in their order situation and are less upbeat than before about the short-term production outlook. Whether this represents only a short "pause" in the recovery or rather an early end of the tentative cyclical upturn of the second semester 2003, remains to be seen. Similarities to the situation of mid-2002 are evident, when the cyclical revival in the euro area ended rather abruptly after only a few months, due to falling stock market values, rising oil prices and a higher euro exchange rate.

In its current projections WIFO assumes that the business cycle recovery is losing momentum, without coming to a standstill. In such a scenario, real GDP in Austria may gain 1.5 percent this year. For 2005, a rate of growth of 2¼ percent has been retained, but the margin of uncertainty appears particularly wide.

Business activity in Europe will receive stimulus from external forces, as the global economy will expand strongly on the back of booming Asia and lively demand in North America, even if the latter is subject to downward risks. Dynamism is nevertheless slow in being transmitted to the euro area. This is partly on account of the sizeable appreciation of the euro exchange rate, partly - and more importantly – of the persistently sluggish internal demand: confidence in the business sector and of private households is weak, inducing them to postpone investment plans and step up precautionary saving. Economic policy in Europe is apparently not successful in generating incentives for higher rates of growth.

Weak economic activity in major trading partner countries is weighing on Austrian merchandise export growth, projected at +4½ percent in volume for 2004. Domestic firms would thereby see their foreign market shares decline, particularly (albeit from a high level) in the EU accession countries. Imports of goods should increase somewhat less in real terms than last year, given that part of planned corporate investment spending – a demand component of high import intensity - has been carried forward into 2003 for tax reasons. The merchandise trade and the current account balances will be in small deficit of around ½ percent of GDP. Most sensitive to cyclical variations is the manufacturing sector, for which the forecast is subject to an above-average degree of uncertainty. After a stagnation of real net output last year, WIFO expects a modest pick-up of 2¼ percent in 2004.

As in 2003, domestic demand should give firm support to activity over the forecast period. Construction should again grow strongly in 2004, by 2½ percent at constant prices, largely due to lively investment in infrastructure. In 2005, for the first time in four years, retail trade and private consumption

1 *Quelle: WIFO Prognose/Economic Outlook, April 2004.*

should post gains above the long-term average of 2½ percent, thereby contributing importantly to overall GDP growth. Income tax cuts will boost disposable income markedly and add momentum to higher private consumption. At the same time, nevertheless, the household saving ratio and imports will also go up. The overall effect of the second instalment of tax cuts on GDP growth has been estimated by WIFO at +0.3 percentage point for the year 2005. The general government deficit is expected to widen by some ¾ percentage point to a ratio of around 1½ percent of GDP.

Unemployment is set to rise further over the projection period. On annual average 2005 it may reach a number close to 250,000, significantly above the level of 194,000 registered in 2000, before the protracted cyclical slowdown. This corresponds to an unemployment rate of 7.2 percent of the dependent labour force or 4.5 percent of the total labour force according to Eurostat definitions. The projected slight increase in the number of economically active of 0.5 percent in 2004 is accounted for by service sector jobs, most of them on a part-time basis.

Driven by higher energy prices, inflation has recently gained some momentum, still remaining, however, below an annual rate of 2 percent regarded as the ceiling of price stability. For 2004 and 2005, the projection foresees inflation rates of 1.4 percent and 1.3 percent on the Harmonised Index of Consumer Prices (HICP). According to the traditional Austrian consumer price index, the rates are higher by 0.2 percentage point, respectively.

In view of the considerable uncertainties concerning the further business trend, economic policy should press ahead with plans for higher forward-looking investment, both at the level of the enlarged European Union and of the member states. The current WIFO projections also imply a cut of the key short-term interest rate by the ECB.

C. Capital Market Data

Wiener Börse

Key Figures 2003

Shares

Number of companies	
prime market	37
standard market continuous	10
standard market auction	59
Number of shares	
prime market	37
standard market continuous	11
standard market auction	68
New domestic listings	9
Total market capitalization[1]	EUR 43.23 billion
Stock exchange turnover[1]	EUR 18.89 billion

[1] *Domestic shares, Official and Semi-official Market.*

Number of Issuers and Listings year-end 2003

Bonds

	Number of issuers	Number of bonds	Annual trading volume[1] *EUR*	Annual daily trading volume[1] *EUR*
Banking bonds	107	1,950	694,100,706	2,810,165
Government bonds	8	146	152,299,870	616,599
Corporate bonds	56	66	61,635,493	249,536
Performance linked bonds	44	409	106,731,504	432,111
Total	215	2,571	1,014,777,573	4,108,411

[1] *Double counting.*

New Bond Listings year-end 2003

	New listings[1]	Nominal Value[1] *EUR billion*
Banking bonds	372	10.52
Government bonds	129	21.36
Corporate bonds	26	3.36
Performance linked bonds	331	1.07
Total	858	36.31

[1] *Including increase in volume.*

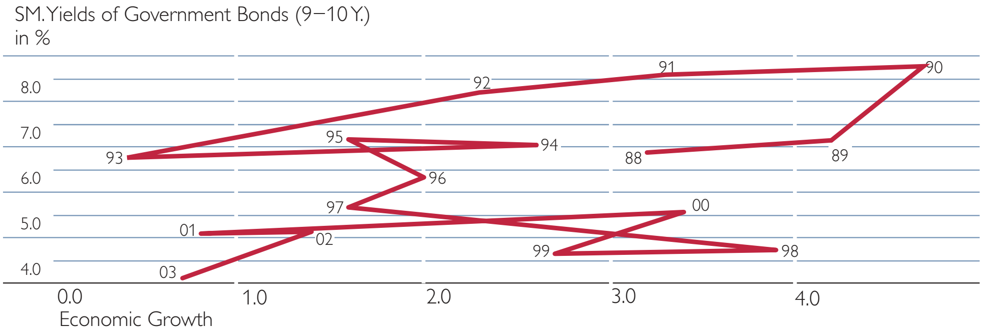
Average Yields 2003

	in %
All bonds	3.43
Government bonds	3.40

Source OeKB.

C. 1 The Bond Market

Economic Growth – Secondary Market Yields (Government Bonds) 1988–2003



Sources: OeKB, Austrian Institute of Economic Research.

This graph illustrates the close correlation between the macroeconomic climate and the development of interest rates.

Bidders in Government-Bond Auctions:

- *ABN AMRO Bank N. V.*
- *Bank für Arbeit und Wirtschaft Aktiengesellschaft*
- *Barclays Capital*
- *BNP Paribas*
- *Bayerische Hypo- und Vereinsbank Aktiengesellschaft*
- *CA Lyon*
- *CDC IXIS Capital Markets*
- *Citigroup Global Markets Limited*
- *Credit Suisse First Boston (Europe) Limited*
- *Deutsche Bank Aktiengesellschaft*
- *Dresdner Bank Aktiengesellschaft*
- *DZ BANK AG Deutsche Zentral-Genossenschaftsbank*
- *Erste Bank der oesterreichischen Sparkassen AG*
- *Goldman Sachs International*
- *HSBC CCF*
- *ING Bank N.V.*
- *J. P. Morgan Securities Ltd.*
- *Merrill Lynch International*
- *Morgan Stanley & Co. International Limited*
- *Nomura International plc*
- *Oberbank AG*
- *Österreichische Volksbanken-Aktiengesellschaft*
- *Raiffeisenlandesbank Oberösterreich reg. Gen. m. b. H.*
- *Raiffeisen Zentralbank Österreich Aktiengesellschaft*
- *UBS Limited*

Bond Market Indices

The Yield Index of Oesterreichische Kontrollbank AG

Domestic indices

For all fixed income issues (excluding *Kassenobligationen* and *Bundesobligationen)* yields to maturity, to next call, after withholding tax, etc. and other relevant key figures (e. g. duration, lifetime, etc.) are calculated daily. The average yield of specific groups of issuers (government, banks, all issuers, mortgage and municipality bonds, etc.) weighted by the outstanding amount, are available on *OeKB's* homepage www.oekb.co.at and serve as reference rates for a large variety of credits and bond issues. These average yields are also available for various remaining life to maturity periods (term structure).

The API Bond Performance Indices

These indices comprise a performance index for market portfolios of government bonds (API-1) and an index for all issuers (API-11, which does not include FRNs, *Kassenobligationen, Bundesobligationen* and mortgage and municipality bonds). Additional indices for various remaining life to maturity periods (0.5–1.5 years, 1.5–2.5 years, etc., over 10.5 years) are computed on a daily basis. The API indices are available on *OeKB's* homepage www.oekb.at.

For more information about OeKB indices, please contact:
Oesterreichische Kontrollbank AG
Attn.: Ms. Katja Titulski
Am Hof 4, A-1010 Vienna
Phone: +43-1-531 27-401, Fax: +43-1-531 27-413
e-mail: katja.titulski@oekb.at

C.2 The Equity Market

Market Capitalization

of the prime market in 2003

Company	Capitalization in EUR
Bank Austria Creditanstalt	5,954,376,420
Erste Bank	5,872,694,870
Telekom Austria	4,900,000,000
OMV	3,188,160,000
Generali Holding Vienna	1,665,664,000
EVN	1,503,258,200
Verbund	1,398,426,680
Wienerberger	1,382,608,648
voestalpine	1,279,080,000
Immofinanz	1,268,721,985
Mayr-Melnhof	1,143,600,000
UNIQA	954,629,130
Flughafen Wien	781,200,000
Agrana	597,665,568
Boehler-Uddeholm	588,940,000
Andritz	493,350,000
VA Technologie	384,150,000
Investkredit	325,362,000
RHI	302,038,339
Semperit	275,066,813
BWT	263,757,465
Constantia-Verpackungen	226,800,000
AUA	221,680,000
Palfinger	211,019,638
BETandWIN	172,824,008
Constantia-Iso	138,107,200
Schoeller-Bleckmann	115,960,000
Wolford	90,900,000
AvW Invest AG common	85,927,513
Head N.V.	80,039,561
Rosenbauer	76,500,000
EYBL International	68,760,000
JoWooD	62,591,422
DO & CO	52,211,600
Unternehmens Invest	44,000,000
Topcall	25,332,845
S&T	24,110,080

Source: Wiener Börse AG.

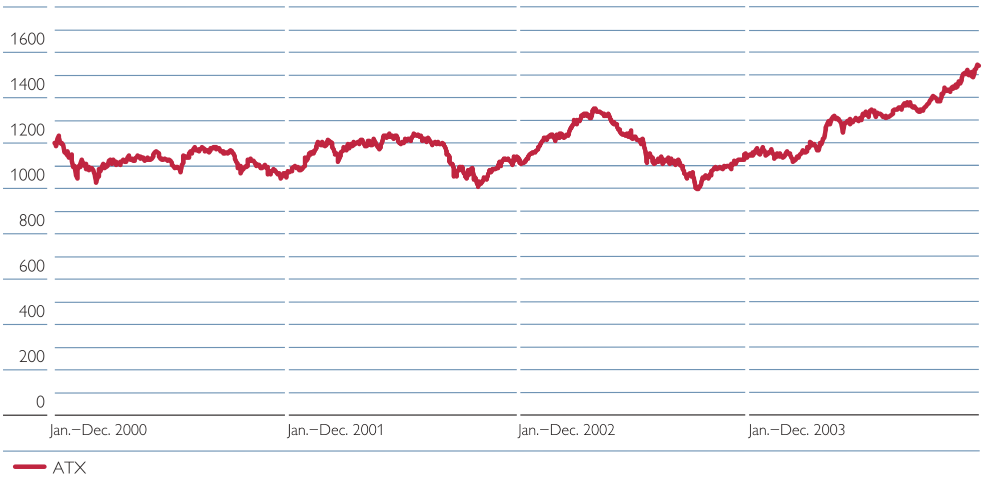
Turnover of the prime market in 2003

Company	Turnover in EUR
Erste Bank	4,034,413,000
Telekom Austria	2,542,888,634
Bank Austria Creditanstalt	2,182,708,135
OMV	2,087,575,382
voestalpine	1,391,545,225
Wienerberger	735,582,844
Immofinanz	619,114,220
VA Technologie	614,544,002
Mayr-Melnhof	609,545,519
Boehler-Uddeholm	395,503,472
Flughafen Wien	316,973,040
Andritz	302,127,695
Verbund Kat. A	268,999,986
BWT	163,801,927
RHI	143,661,599
UNIQA	137,898,372
Generali Holding Vienna	128,352,092
BETandWIN	116,749,671
Semperit	106,795,476
EVN	104,268,237
Wolford	78,436,822
Palfinger	77,587,533
AUA	76,267,496
Rosenbauer	29,073,731
JoWooD	26,187,773
Schoeller-Bleckmann	19,822,692
EYBL International	14,964,096
AvW Invest AG common	13,835,781
Agrana	12,594,657
Constantia-Iso	11,760,354
Constantia-Verpackungen	11,447,715
Head N.V.	10,482,264
S&T	10,294,643
Topcall	9,158,384
Unternehmens Invest	5,746,718
Investkredit	4,746,317
DO & CO	2,449,400

Source: Wiener Börse AG.

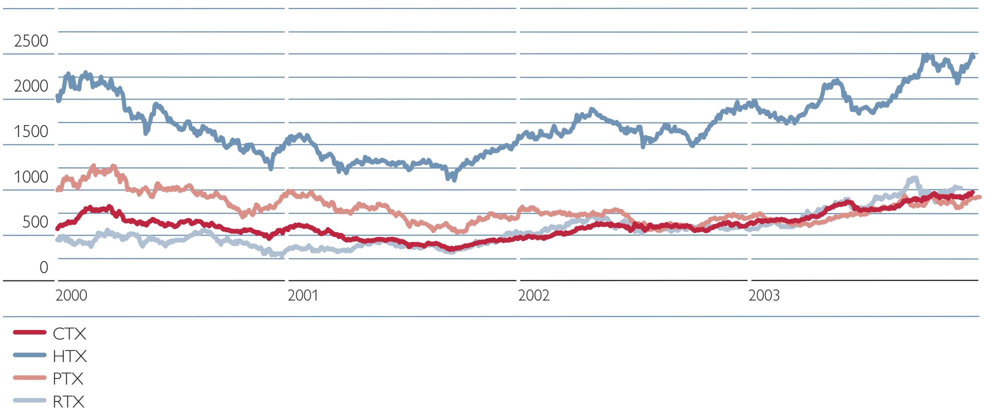
C.3 ÖTOB – Derivatives Market

Performance of the ATX



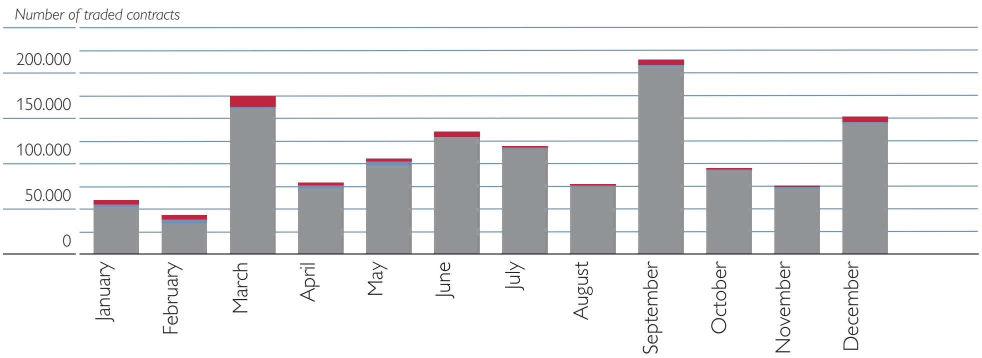
Source: Wiener Börse AG.

Performance of the CECE Index-Family



Source: Wiener Börse AG.

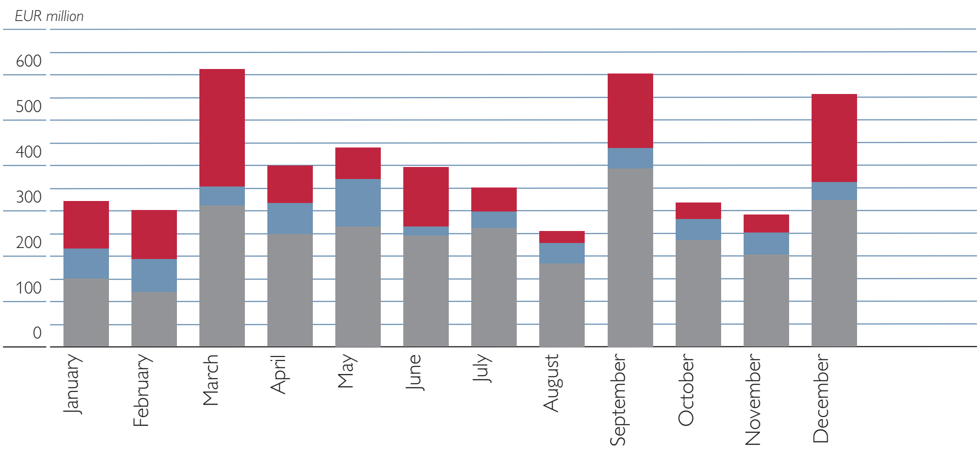
Contract Volume 2003



Stock options	Contract volume:		
ATX options	Total	1,329,000	
ATX futures	Stock options	1,252,041	
	ATX options	27,608	
	ATX futures	49,441	

Source: Wiener Börse AG..

Contract Value 2003



Stock options	Contract value:		
ATX options	Total	4,834.25	
ATX futures	Stock options	2,943.13	
	ATX options	633.49	
	ATX futures	1,257.63	

Source: Wiener Börse AG.

D. Financial Data Service

by Oesterreichische Kontrollbank AG

Profit Web

There is an increasing need for easily accessible, reliable and transparent information about securities. Austria's most comprehensive and up-to-date data pool on securities is available on the Internet. With ProfitWeb – www.profitweb.at – *Oesterreichische Kontrollbank AG* provides an information tool meeting the growing demand for expert evaluation.

The ProfitWeb consulting and analysis tool offers

- master data on domestic and foreign shares, warrants, bonds and investment funds
- all domestic investment funds (at present more than 2,650) with current market prices, comparison of ratios based on performance, risk, yield and total net assets
- up-to-date, easy to customize features: charting tool and search function with combinable criteria, personal list of investment funds

ProfitWeb has been designed to allow full or modular integration into other websites/Internet applications.

WDBO

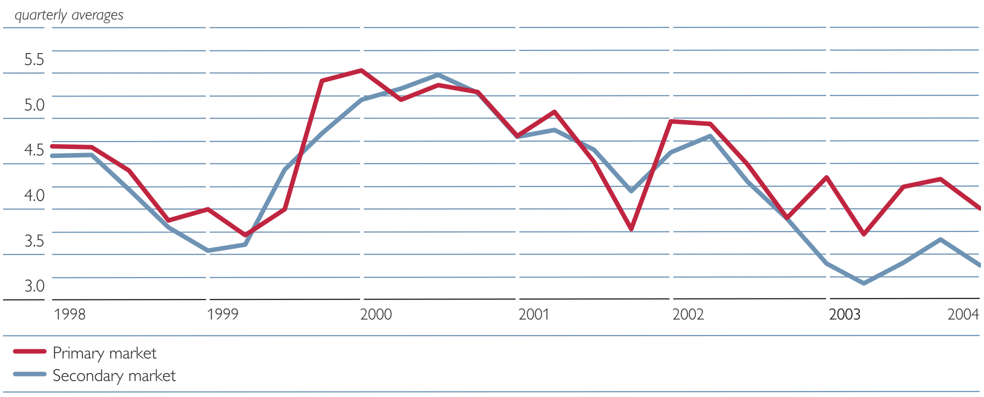
As the central registry assigning International Securities Identification Numbers (ISIN) to all Austrian securities, *Oesterreichische Kontrollbank AG* operates the Austrian Securities Data Base (WertpapierDatenBank Oesterreich – WDBO), whose master files and transaction data for securities are available both via ProfitWeb (www.profitweb.at) and by direct data acquisition.

On its website – www.oekb.at – *Oesterreichische Kontrollbank AG* provides online information such as rates and charts of shares, day-to-day data on secondary market yields and bond market indices as well as prices of Austrian investment funds computed on a day-to-day basis. *Oesterreichische Kontrollbank AG's* homepage also offers a yield curve of federal bonds based on the Svensson method; this financial indicator meets international development standards of modern parameters.

For more detailed information about securities data, please contact:

Oesterreichische Kontrollbank AG
FinanzDatenService
Postfach 70, A-1011 Vienna
e-mail: profitweb@oekb.at

Yields on Government Bonds



E. Exchange Data Provided by Wiener Börse

Wiener Börse supplies real-time and historic data on prices, trading volumes and indices generated at Wiener Börse in the trading systems Xetra® and OMex®. All data includes all indications and estimated prices on the Official Market, the Semi-official Market and the Third Market of *Wiener Börse*. The same data is available for the otob market, the derivatives market segment of *Wiener Börse*.

For more information, please contact:
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Downstream Products
Attn.: Mr. Ludwig Nießen
Wallnerstraße 8, A-1014 Vienna
Phone: +43-1- 531 65-119
e-mail: niessen@wienerborse.at

F. Taxation

Individuals whose residence and customary place of abode is not in Austria and corporate bodies whose registered offices and management is located abroad are considered non-residents. Non-residents are subject only to limited tax liability, i. e. they are taxable with regard to certain Austrian source income.

Withholding tax on investment income is not a new or additional tax but a special way of collecting (corporate) income tax.

Corporate recipients residing in Austria have to gross up the (exceptionally taxable) dividend or interest received. In case the income tax was withheld, this tax withheld is treated as a tax prepayment and credited against the assessed (corporate) income tax liability.

However, for legal entities it is possible to file for a declaration of exemption for interest withholding tax purposes (compare exemptions from withholding tax). Subsequently, no withholding tax is due and the taxation of the capital income received by that legal entity has to be effectuated via the corporate income tax return. 34% corporate income tax are due. Non-resident corporate investors are only taxable with their income that is subject to limited tax liability. E.g. they are taxable with the income that is received by an Austrian permanent establishment. A corporate tax return for such limited taxable corporations has to be filed for.

Non-resident recipients of investment income subject to Austrian withholding tax are usually entitled to credit at least part of this withholding tax against their foreign tax liability subject to the provisions of the respective double tax treaty.

However, for capital income that is not subject to a limited tax liability, non-resident investors can provide "proof of the foreign nationality" and are therefore withholding tax exempt (compare exemptions from withholding tax) on certain types of investment income (interest).

For residents as well as for non-residents, as far as they are private investing natural persons, the withholding tax on interest and dividends is a final levy for Austrian taxation purposes. For investments of natural persons due to their company (not a corporation) the withholding tax on interest is a final levy as well.

In the case of capital yields derived from shares of stock, shares in a limited liability company or a silent partnership the distributing company has to withhold and pay the tax to the tax authorities within one week after the receipt of this income by the beneficiary. A special tax return has to be filed with the tax authorities. Special prepayments have to be made for withholding tax on bank deposits (see below). The debtor of the investment income is liable for the withholding and payment of the tax to be withheld for the tax authorities.

The withholding tax amounts to 25% and is applicable to capital yields specified below derived in Austria from domestic capital and from securities representing money claims. The capital yields are deemed to be derived in Austria if the debtor of the capital income has his residence, place of management or seat within the territory of the Austrian Republic or if it is a branch of a financial institution within the territory of the Austrian Republic. Capital income derived from bond securities shall be deemed to be derived in Austria if the coupon paying agent is located within Austria.

In order to enable interest on savings received in one member state of the EU by individuals who are resident for tax purposes in another member state to be subject to effective taxation Council Directive 2003/48/EC sets up an automatic exchange of information system between the member states except for Belgium, Luxembourg and Austria. These states will not participate the exchange system but apply a withholding tax to the savings income covered by this directive during a transition period. This Directive has been adopted by Austrian law and therefore Austria will levy a withholding tax at a rate of 15% from 1 January 2005 for the first three years of the transition period, 20% for the subsequent three years and 35% thereafter.

This additional withholding tax will be applied to interest paid by a paying agent established within the Austrian territory to an individual as beneficial owner who is resident in another member state. The scope of this rule is limited to interest payments relating to debt claims of any kind either directly derived or through an undertaking for collective investment.

Exemption from Withholding Tax:

- inter-company profit shares (dividends, etc.) paid to a resident corporation provided that the participation exceeds 25%;
- inter-company dividends paid to a non-resident corporation under the parent subsidiary directive (90/435/EC) provided that the participation exceeds 10% in case of reciprocity (otherwise 25%);
- interest income from cash deposits and from other receivables from banks and capital yield from securities if the recipient is a corporation that declares in writing that this interest income is to be assessed as part 1 of the ordinary business income;
- interest income from securities representing money claims issued by international finance institutions prior to 1 October 1992;
- profit shares (dividends) derived form certain newly issued shares of stock;
- income due to the issue of shares of stock in the case of capital increases out of corporate funds (bonus shares).

Non-resident investors are exempt from withholding tax in Austria with interest income from cash deposits and from other receivables from banks as well as capital yield on invented being securities. This tax exemption from withholding tax is only granted if evidence of the investor’s non-resident status is furnished.

Investors who are Austrian nationals or nationals of Austria’s neighboring states must declare in writing that they do not have their residence and customary abode in Austria.

In general, investment income is taxed in the state of residence of the recipient. However, it may also be taxed in Austria as state of source. The tax imposed in Austria is in most cases limited by a double tax treaty to a certain percentage (for the percentage please refer to the DTT survey hereinafter).

Within the EU intra group dividends are not subject to withholding tax if the following requirements are met:

- the foreign / non-resident parent company holds at least 25% (in case of reciprocity 10%) of the distributing resident subsidiary's nominal capital continuously for a period of at least one year;
- the distributing company's legal form is a corporation *(Aktiengesellschaft – AG)* or a limited liability company *(Gesellschaft mit beschränkter Haftung – GesmbH);*
- the parent company is a corporation, which complies with the requirements set forth in Art. 2 of Directive 90/435/EC;

Withholding tax will fall due if there are reasons which induce the tax authorities to suspect cases of tax avoidance or abuse or distribution of a constructive dividend. In such cases, the parent company must apply for refund of the withholding tax.

Tax Treaties

in Force with the Following States:

Australia	IT
Argentina	IT, NWT
Armenia	IT, NWT
Azerbaijan	IT, NWT
Belarus	IT, NWT
Belgium	IT, NWT
Belize	IT, NWT
Brazil	IT, NWT
Bulgaria	IT, NWT
Canada	IT, NWT
China	IT, NWT
Croatia	IT, NWT
Cyprus	IT, NWT
Czech Republic	IT, NWT, IHT, GT
Federal Republic of Germany	IT, NWT, IHT
Denmark	IT, NWT
Egypt	IT, NWT
Estonia	IT, NWT
Finland	IT, NWT
France	IT, NWT, IHT, GT
Georgia	IT, NWT
Greece	IT, NWT
Great Britain	IT
Hungary	IT, NWT, IHT
India	IT
Indonesia	IT, NWT
Ireland, Republic of	IT
Israel	IT, NWT
Italy	IT, NWT
Japan	IT
Republic of Korea (South)	IT, NWT
Kyrgyzstan	IT, NWT
Liechtenstein	IT, NWT, IHT
Luxembourg	IT, NWT
Malaysia	IT
Malta	IT, NWT
Moldavia	IT, NWT
Nepal	IT
Netherlands	IT, NWT
Norway	IT, NWT
Pakistan	IT
Philippines	IT
Poland	IT, NWT
Portugal	IT, NWT
Romania	IT, NWT
Russia (CIS)[1]	IT, NWT
Singapore	IT
Slovak Republic	IT, NWT
Slovenia	IT, NWT
South Africa	IT, NWT
Sweden	IT, NWT, IHT
Switzerland	IT, NWT, IHT
Spain	T, NWT
Tajikistan	IT, NWT, IHT
Thailand	IT, NWT
Tunesia	IT, NWT
Turkey	IT, NWT
Ukraine	IT, NWT
Uzbekistan	IT, NWT
US	IT, IHT, GT
Tax covered:	
Income Taxes	IT
Net Worth Tax	NWT
Inheritance Tax	IHT
Gift Tax	GT

[1] *The fee treaty applies to the following successor states of the previous USSR: Armenia, Georgia, Moldavia, Kazakhstan, Tajikistan and Turkmenistan.*

Austrian Withholding Tax (Kapitalertragsteuer – KESt) on Dividends and Interest at a Glance

Recipient resident in	Austrian KESt %	Dividends KESt under DTT (max. 25%)	Refund[2]	Interest[1] KESt under DTT	Refund[2]
Argentina	25	15	10	12.5	12.5
Armenia	25	15/5A	10/20A	0	25
Australia	25	15	10	10	15
Azerbaijan	25	15/10B/5B[11]	10/15B/20B	10/0[9]	15/25
Belarus	25	15/5B	10/20B	5/0[9]	20/25
Belgium	25	15/0F	10	15	10
Brazil	25	15	10	15	10
Bulgaria	25	0	25	0	25
Canada	25	15/5A	10/20	10	15
China	25	10/7B	15/18B	10	15
Croatia	25	15/0A	15/0A	5	20
Czech Republic	25	10	15	0	25
Cyprus	25	10	15	0	25
Denmark	25	10/0F	15	0	25
Egypt[3])	25	15	10	15	10
Egypt[4])	25	10	15	0	25
Finland	25	10/0A	15/25	0	25
France	25	15/0A	10/25	0	25
Georgia	25	0	25	0	25
Germany	25	15/5A/0F	10/20A	0	25
Greece	25	0	25	0	25
Hungary	25	10	15	0	25
India	25	0	25	0	25
Indonesia	25	15/10B	10/15	10	15
Ireland	25	15/0B	10/25	0	25
Israel	25	25	0	15	10
Italy	25	15/0F	10	10	15
Japan	25	20/10C	5/15C	10	15
Korea	25	15/10A	10/15A	10	15
Liechtenstein	25	15	10	10	15
Luxembourg	25	15/5B/0F	10/15B	0	25
Malta	25	15	10	5	20
Malaysia	25	10/5B	15/20B	15	10
Moldavia	25	0	25	0	25
Nepal	25	15/10A/5B	10/15/20	15/10[5]/0[6]	10/15/20
Netherlands	25	15/5B/0F	10/20B	0	25
Norway	25	15/5B	10/20	0	25
Pakistan	25	25/10B	0/15	25	0
Philippines	25	25/10A	0/15A	15	10
Poland	25	10	15	0	25
Portugal	25	15/0F	10	10	15
Romania	25	15	10	10	15
Russia	25	0	25	0	25
Slovak Republic	25	10	15	0	25
Slovenia	25	15/5B	10/20	5	20
South Africa	25	15/5B	10/20	0	25
Spain	25	15/10C/0F	10/15C	5	20
Sweden	25	10/5B/0F	15/20B	0	25
Switzerland	25	15/0F	10	0	25
Thailand	25	25/10B	0/15	25/10[7]	0/15
Tunesia	25	20/10B	2/15B	10	15
Turkey	25	25	0	15	10
Ukraine	25	10/5A	15/20	2/5[8]	23/20
United Kingdom	25	15/5B/0F	10/20B	0	25
United States	25	5/12.5	20/12.5	0	25
Uzbekistan	25	15/5A	10/20	10/0[9]	15/25

Abbreviations: KESt = Austrian withholding tax
DTT = double taxation treaty

1 *If a double taxation treaty permits a higher rate of withholding tax than is currently applicable in Austria, the applicable Austrian capital yields tax of 25% is shown as KESt under DTT. Please note: Non-resident individuals and enterprises are not subject to limited tax liability as to interest income derived from bank deposits (in ATS or foreign currency), from foreign interest-bearing securities (in ATS and foreign currency) and from domestic interest-bearing securities (in foreign currency). Therefore, always full refund (25%) or exemption will apply.*

2 *Amount of refund = Austrian withholding tax actually withheld less withholding tax under double taxation agreement.*
A 10% holding; B 25% holding; C 50% holding; D 95% holding; E subject to tax clause; F After Austria's joining the EU no capital yield tax will be withheld if the recipients of dividends meet the requirements described above. In these cases the DTT rates (as far as intra group dividends are concerned) do not apply.

3 *Case Egyptian dividend paying company and Austrian recipient.*

4 *Case Austrian dividend paying company and Egyptian recipient.*

5 *Interest on bank deposits.*

6 *Interest paid to regional authorities and to financial institutions that are subject to public law and interest on loans concerning public credit guarantees.*

7 *Recipient is an Austrian bank or insurance company.*

8 *For interest on bank loans for sale on hire purchase agreements.*

9 *0% in special cases.*

10 *10% if investment worth more than USD 100,000, 5% if more than USD 250,000.*

After having joined the EU no capital yield tax is withheld on intra group dividends if the following requirements are met:

- the foreign/non-resident parent company holds directly at least 25% of the distributing resident subsidiary's stated capital/share capital continuously for a period of at least two years. The percentage of the participation has been reduced to 10% in case of reciprocity and the holding period has been reduced to one year. Moreover it is no longer necessary for the non-resident parent company to hold the participation directly. This change in law is applicable to dividends distributed in fiscal years ending after 31 December 2003;
- the distributing company's legal form is a corporation *(Aktiengesellschaft – AG)* or a limited liability company *(Gesellschaft mit beschränkter Haftung – GesmbH);*
- the parent company is a foreign/non-resident corporation which complies with the requirements set forth in Art. 2 of Directive 90/435/EC as amended from time to time.

The capital yield tax, however, has to be withheld if at the date of distribution the one year-period has not yet expired or if there are reasons which induce the tax authorities to suspect cases of tax avoidance or abuse or distribution of a constructive dividend and, therefore, the tax authorities give order to withhold. In such cases, the parent company must apply for refund of the withholding tax.

Company Law Requirements

Austrian commercial law offers a variety of incorporated and unincorporated forms of business. The most common forms in which a foreign enterprise may operate in Austria are the Limited Liability Company *(Gesellschaft mit beschränkter Haftung ["GesmbH" oder "GmbH"])* and the Stock Corporation *(Aktiengesellschaft ["AG"]).*

Limited Liability Company

The *GesmbH* is an incorporated enterprise the shareholders' liability of which is limited to the unpaid portion of the par value of the shares. Unless it is intended to raise funds on the Austrian stock market, the GesmbH will be the most convenient form of organization owing to the relative flexibility it offers. Most foreign-owned businesses in Austria are operating in this legal form.

a) Formation

Generally a *GesmbH* is formed by individuals or legal entities, resident or non-resident, Austrian or foreign citizens. All shares may be owned by one shareholder.

The articles of incorporation (together with the by-laws) must be executed before a notary public; they must include: name, registered domicile, purpose of business, the total amount of stated capital and the amount to be contributed by each shareholder.

However, it is also possible to form a GesmbH by one person; this person may be an individual or legal entity, resident or non-resident, Austrian or foreign citizen. The articles of incorporation, may be replaced by a written statement certified by a notary public; the statement must include the same information as the articles of incorporation.

A *GesmbH* comes into legal existence when it is entered into the Commercial Register *(Firmenbuch)*. Before registration, any person acting in the name of the *GesmbH* is personally liable for obligations arising from such acts.

The articles also frequently contain provisions as to the number of registered managers *(Geschäftsführer)*. The manager is allowed to hold an interest in the GesmbH and needs not be an Austrian citizen.

According to Austrian Commercial Code *("Handelsgesetzbuch", "HGB")* there are three different size classifications for GesmbHs, i.e. "small-", "medium-" and "large-sized" *GesmbHs:*

- Small-sized *GesmbHs* are those meeting at least two of the following criteria:
  - balance sheet sum must not exceed EUR 3.125 million
  - revenue *("Umsatzerlöse")* must not exceed EUR 6.25 million within 12 months prior to balance sheet date
  - annual average number of employees must not exceed 50 persons. The respective average number of employees is determined by the number of employees on the respective ends of months within the preceding calendar year.
- Medium-sized *GesmbHs* are those exceeding at least two of the above stated criteria and do not qualify for large-sized *GesmbHs.*
- Large-sized *GesmbHs* are those meeting at least two of the following criteria:
  - balance sheet sum exceeds EUR 12.5 million
  - revenue *("Umsatzerlöse")* exceeds EUR 25 million within 12 months prior to balance sheet date
  - annual average number of employees exceeds 250 persons. The respective average number of employees is determined by the number of employees on the respective ends of months within the preceding calendar year.

Small-sized *GesmbHs* are allowed to prepare notes to the financial statements which are limited to a minimum volume of details. They are not subject to statutory audit unless they are obliged to appoint a supervisory board by virtue of law (please compare below).

Medium-sized *GesmbHs* are subject to statutory audit. Furthermore, they are obliged to publish their financial statements to a minimum volume of details comparable to large-sized GesmbHs.

Large-sized *GesmbHs* have to include all basic particulars in the notes to the financial statements. They are subject to statutory audit and have to publish the financial statements along with the audit opinion in the official gazette. The publication of the above may be replaced by publishing a mere reference as to the submission of the financial statements along with further documents and particulars with the Commercial Court.

A supervisory board is mandatory only for *GesmbHs* meeting any of the following criteria:

- the stated capital exceeds EUR 70,000 and there are more than 50 shareholders,
- an annual average number of employees exceeding 300, *or*

- centralized management control (holdings of more than 50%) of stock corporations or limited liability companies having a mandatory supervisory board, and the total number of employees of these companies together exceeding 300 employees on an average.

A manager cannot be a member of the supervisory board of the same *GesmbH*. As to the functions of the supervisory board, see below the statements under the caption “stock corporation”.

The cost of formation will depend on the amount of stated capital. In the case of a stated capital of EUR 35,000 the overall cost will be roughly between EUR 3,500 and EUR 5,000. The following cost items must be considered:

- capital transfer tax 1% of each shareholder’s contribution
- fixed commercial register fee
- fees for consultation and drafting of documents, particularly those of the legal counsel and the tax adviser. These fees reflect the time and amount of work involved.
- cost of notarization charged by the notary public according to the fee schedule. As a rule, the cost of formation are borne by the company to be formed; therefore, it is required to include a respective provision in the articles of this company.

According to commercial law the cost of formation are deemed to be expenses; for tax purposes they are deductible.

b) Annual Meetings

A general shareholders’ meeting must be held at least once a year (ordinary meeting) and, in addition to the cases expressly referred to in the law or the articles, it shall be called whenever required in the interest of the company and, in particular, without delay after it has been ascertained that one half of the stated capital has been lost. The meeting shall be held at the registered domicile of the company unless the articles determine otherwise. Decisions that the law or articles have made subject to a shareholder’s resolution shall be made in the shareholders’ meeting unless all shareholders have, in the individual case, given their written consent to the provision to be adopted or at least to a written vote. The shareholders decide on the audit and approval of the annual financial statements, the distribution of net profits and the release of the managers and members to the supervisory board (if any). The resolutions mentioned above shall be adopted with respect to the preceding financial year within the first eight months of each financial year.

c) Stated Capital

The minimum stated capital of a *GesmbH* is EUR 35,000 and shall consist of shares with a minimum nominal value of EUR 70. All shares must be subscribed in full on formation of the company, but only the higher of either EUR 17,500 or 25% of the total share capital must be paid in before registration.

The law does not provide for the issue of share certificates; shares in a *GesmbH* cannot be traded on the stock exchange. Accordingly, a valid transfer of the ownership of shares is only possible by means of an assignment before a notary public.

d) Insolvency, Liquidation

A *GesmbH* is considered insolvent when it cannot pay its debts as they mature, or as soon as the liabilities exceed the fair market value of the assets and no positive forecast of continuity has been stated. In both cases, the managers are required, without delay, to apply to the court for liquidation proceedings or for a settlement with creditors *(Ausgleich)*. Failure to initiate the appropiate proceedings can involve the managers in personal liability. A petition in bankruptcy may also be filed by any creditor of the company.

Liquidation procedures are initiated by a 75% majority of the voting stock. The general meeting has to appoint a liquidator, usually one of the (former) managers who must file a relevant notification with the Commercial Register. The registration must be published in the official gazette *"Wiener Zeitung"*, it must be accompanied by a request to all creditors to submit their claims. After settlement of all the creditors' claims, the remaining assets are distributed to the shareholders, but not earlier than three months after the public notification of the creditors. After the company has been finally wound up, its termination has to be notified to the Commercial Court which deletes the *GesmbH* from the Commercial Register.

Stock Corporation

a) Formation

A stock corporation *(AG)* is formed by at least two promoters who subscribe for the shares and sign the Articles of Incorporation to be certified by a notary public. Besides the name, legal seat, business object and total amount of share capital, the Articles must include the par value of the different types of shares to be issued and name the publications in which the audited annual accounts etc. are to be published.

The promoters of the stock corporation appoint the supervisory board *(Aufsichtsrat)* which in turn appoints the board of management *(Vorstand)*. The stock corporation comes into legal existence with its entry in the Commercial Register. For this purpose the Articles of Incorporation, the opening balance sheet as well as evidence that the capital has been settled in (see below) and the 1% capital transfer tax has been paid must be filed with the Commercial Register. Special requirements must be complied with if shares are issued against contributions in kind.

The size classifications as described in the case of a *GesmbH* (see above) also apply to *AGs*. *AGs* whose shares of stock are admitted to listing or are included in semi-official listing are always deemed to be large legal entities.

The cost of formation of a stock corporation depend on the amount of its capital stock. The cost items referred to in the case of a *GesmbH* also apply to stock corporations. In the case of a formation by incorporators and subscribers, additional cost including cost of prospectus, additional meetings of shareholders must be included. For a stock corporation with a stated capital of EUR 70,000, total formation cost of EUR 9,000 through EUR 15,000 must be envisaged.

b) Supervisory Board

The statutory supervisory board consists of at least three members who are elected by the shareholders' meeting. According to a special act of law members of the works council *(Betriebsrat)* are delegated to the supervisory board as representatives of the employees. The number of these delegated members amounts to 33% of the members elected by the shareholders. The main functions of the supervisory board are to appoint and remove the members of the management board, to supervise and, as appropriate, give advice to the management board, to approve certain types of transactions, to safeguard the shareholders' interests and to give the corporation's employees some participation in management matters. The audited annual financial statements must be approved by the supervisory board before they are submitted to the shareholders' meeting.

c) Board of Management

The members of the board of management are the main officers of the corporation and are responsible for its management. They have legal power of representation which cannot be limited as far as their dealings with third parties are concerned. They periodically report to the supervisory board and submit the annual financial statements for their approval.

d) Annual Meetings

A general meeting of the shareholders *(Hauptversammlung)* is to be held annually within eight months after the balance sheet date. In the ordinary annual meeting the shareholders decide on the distribution of profits, the formal discharge of the supervisory board and board of management from legal responsibilities and the appointment of the auditors. For fundamental decisions, e. g. increases or reductions of capital and other changes of the articles of incorporation, mergers, profit and loss pooling agreements, liquidation, etc., the approval by 75% of the votes is required. The shareholders' meeting is usually called by the board of management; in addition, the supervisory board or shareholders holding at least 5% of the voting common stock are entitled to call an extraordinary shareholders' meeting. In order to become legally binding, the decisions of a general meeting must be certified by a notary public.

e) Share Capital

The statutory minimum capital stock for an AG is EUR 70,000 and shall consist of shares of at least EUR 1,00 or any multiple in full euro, non-par shares are permitted.

Before registration in the Commercial Register, at least 25% of the capital subscribed and, if the shares are issued at a premium, the full premium amount has to be paid in. Shares must not be issued at a discount. Normally, bearer certificates are issued; registered shares are required as long as the shares are not fully paid up. As a rule, one common share entitles its holder to one vote in the general meeting. Preference shares without voting right may be issued up to one third of total share capital. Shares with multiple voting rights are not permitted.

f) Insolvency, Liquidation

As regards insolvency, see above under *GesmbH.*

Liquidation proceedings for an AG are, in principle, the same as for a *GesmbH,* except that the request to all creditors to submit their claims must be published three times and that the liquidation proceeds must not be distributed earlier than twelve months after the latest publication of such request.

g) Stock Corporation and Limited Liability Company in Comparison

Stock Corporation	**Limited Liability Company**
Minimum Stated Capital Stock	
EUR 70,000	EUR 35,000
Shares	
Share certificates issued	No share certificates issued
Quotation on stock exchange possible	Quotation on stock exchange not possible
Shareholders can be anonymous	List of shareholders must be filed with the Commercial Register
Assignment of shares by physical transfer	Assignment of shares by notarial deed of assignment
Management	
Managing board members appointed by supervisory board	Managers appointed by shareholders/articles of incorporation
Appointment for a maximum period of 5 years	Appointment for indefinite period of time possible
Not bound by direct orders of shareholders	Bound by direct orders of shareholders
Revocation for good cause only	Appointment revocable at any time without cause
Supervisory Board	
Obligatory	Obligatory under certain conditions only
Number of members depends on capital stock, at least three	Number of members unlimited, at least three
Shareholders entitled to elect two-thirds of the members	Shareholders entitled to elect two-thirds of the members
Minority Protection	
5% of capital stock entitle shareholders to exercise most of the minority rights	10% of capital stock required for exercising minority rights

Both types of corporations have in common that all share certificates or share quotas may be concentrated in a single owner. Corporate existence is not affected thereby and the corporation remains a legal entity distinguishable from the personality of its sole shareholder who as a rule is not liable for the debts of the corporation.

Other Forms of Companies

A Sole Proprietorship *(Einzelfirma)* must be registered with the local Commercial Register if the business requires an administrative or commercial organization. The owner of the business has unlimited liability for any debts.

A Civil-Law Association *(Gesellschaft bürgerlichen Rechts)* is not a legal entity and cannot sue or be sued. It is often used for single joint ventures (e.g. construction projects) and comes to an end when the joint project has been completed.

Partnerships exist in the legal forms of a General Partnership *(Offene Handelsgesellschaft, OHG)* and a Limited Partnership *(Kommanditgesellschaft, KG).* In the *OHG,* all partners are fully liable for the partnerships' debts, whereas in the *KG* there are general partners with unlimited liability and limited partners whose liability is restricted to a certain amount. Although a partnership itself is not a legal entity, it may acquire rights and incur liabilities, become civil owner of real estate and sue or be sued.

The *GesmbH & Co KG* is a limited partnership with the sole general partner being a limited liability company. It can thus combine the advantages of a partnership with the limited liability of a corporation.

A Dormant Partnership *(Stille Gesellschaft)* comes into existence when a person makes a contribution to an existing enterprise (company, partnership, sole proprietorship) and shares in the latter's profits and, possibly, in the losses as well. The dormant partner has no liability for the debts of the enterprise and in case of insolvency of the enterprise he is creditor with the portion of his contribution not consumed by losses. The dormant partnership is a form of an undisclosed participation.

A Private Foundation *(Privatstiftung)* is a legal entity consisting of assets but no shareholders, its activities involve managing its own funds and assets for the beneficiaries.

The requirements for a private foundation are:

- legal domicile in Austria
- registration with the Commercial Court
- no activities by way of business or trade (ancillary activities are permitted) and
- minimum assets of EUR 70,000.

Any contributions made by any donors are subject to inheritance and gift tax. The tax rate is 2.5% if the donor is another Austrian foundation and 5% for all other donations made by donors if the donor is mentioned as such in the charter of the Private Foundation. The tax rate for all other donations ranges between 14 and 60% depending on the donated amount.

If the contributions include real estate, an additional gift tax amounting to 3.5% of triple of a specific tax value of the real estate (which is considerably lower than the fair market value) has to be paid. Capital yields earned are in some cases (compare below) not subject to withholding tax until distribution. The foundation's regular income (e. g. income derived from rentals and royalties) is subject to 34% (25% from 2005 on) corporate income tax, whereas capital gains are not taxable unless they are realized within one year of the acquisition of the asset or out of disposals of participations in Austrian and foreign corporations of at least 1% of the nominal capital. Furthermore, the following tax benefits are due, if the charter of the Private Foundation is disclosed to the competent tax authority;

- Dividends received from participations in Austrian corporations are tax-exempt.
- Dividends received from participations in foreign corporations are tax-exempt, if no discharge from foreign withholding taxes due to the corresponding double taxation treaty is effectuated.
- Austrian and foreign interest income and capital gains out of the disposal of participations in Austrian and foreign corporations of at least 1% are subject to a 12.5% interim taxation, unless there are distributions to the beneficiaries of the foundation in the same calendar year and 25% withholding tax is levied on those distributions. If the 12.5% taxation was due in a precedent calendar year, later related distributions to the beneficiaries are subject to 25% withholding tax but the 12.5% interim tax already paid in prior years can be recovered in the course of the corporate tax assessment. Capital gains out of the disposal of participations in Austrian and foreign corporations of at least 1% can be rolled over to another participation exceeding 10% of the nominal capital within 12 months.

Branch

A foreign enterprise may establish a branch in Austria. The branch must be registered with the local Commercial Register and provide proof of the legal existence of the foreign company and of a regular business activity in the country where it is domiciled. Moreover an authorized representative residing in Austria has to be appointed in case the foreign enterprise has not been established according to the rules of an EEC member state.

An Austrian branch of a foreign enterprise is considered a taxable entity and has to maintain proper books and records in Austria. Bookkeeping abroad is possible but has to be allowed by the tax office.

Tax Incentives

Special tax incentives are granted for investments in fixed assets used in an Austrian permanent establishment. All the incentives are applicable for income tax purposes (both corporate and individual income tax).

a) Investment Incentives

The investment allowance *(Investitionsfreibetrag)* has been abolished for all acquisition or production costs occurred after 31 December 2000. For the years 2002, 2003 and 2004 it is possible to apply for an investment premium amounting to 10% of the acquisition or production costs that exceed the average investment costs of the preceding three years. Capital gains deriving from the sale of fixed assets may be rolled over to investments of fixed asset within the period of one year if certain criteria are met. This rollover will not be possible for capital gains derived after 31 December 2004.

b) Research and Development, Education

In addition to incurred research and development expenses another 25% of these expenses (excluding administration and distribution costs as well as cost of fixed assets) are tax deductible.

The tax deductible amount is raised to 35% of the current actual expenses for Research and Development as far as the arithmetical mean of the expenses of the preceding three business years is exceeded.

Another 20% of education expenses for employees are tax deductible excluding traveling expenses.

Tax Rates in Austria

1. Individual Income Tax

Unlimited Tax Liability

from 1. 1. 2003

	Tax Rate on Total Income
	%
first EUR 3,640	0
next EUR 3,630	21
next EUR 14,530	31
next EUR 29,070	41
income exceeding EUR 50,870	50

The Income tax is reduced by the following deductions

General deduction (for every taxpayer)	EUR 1,264[1]
Deduction for employees and pension earners	EUR 54
Deduction for solitary earner in a family	EUR 364
Commuter's deduction for employees	EUR 291
Deduction for pensioners	EUR 400

[1] *Depending on total income and other variables.*

The tax rate for individuals and partnerships with regard to retained earnings is reduced to the half of the average tax rate. Any distribution of these retained earnings within a seven-year period will lead to additional taxation of this amount up to the average tax rate.

2. Corporate Income Tax

The basis for the corporate income tax assessment of a resident corporation is the taxable profit including income from all domestic and foreign sources in consideration of relating double taxation agreements. All the proceeds drawn by a corporation fall into the category "business income" and the total taxable income is taxed at a flat rate of 34% that will be reduced to 25% from income derived after 31 December 2004.

Resident legal entities have to pay a minimum corporate income tax which amounts to 5% of the minimum stated capital per year (for limited liability company EUR 1.750, stock corporation EUR 3.500, banks and insurance companies EUR 5.450). This payment may be credited against the corporate income tax liability of the assessment period infinitely. Taking into account a withholding tax for dividends of 25%, the overall income tax burden on retained and distributed earnings of corporations may be shown as follows:

	until 2004	*from 2005 on*
retained earnings	34.0%	25%
distributed earnings	50.5%	43.75%

This overall tax rate in the case of distributions may decline if due to double tax treaties the withholding tax of 25% will be reduced to treaty rates for income from qualified participations.

So-called financing companies are tax exempted with the income which is to be allocated to the financing sphere, if they meet, inter alia, the following requirements:

- minimum stated capital EUR 7.3 million
- at least 75% of the company incorporators have to be investment companies or credit institutions
- nature and purpose of business has to be investment of own funds; 75% thereof have to be invested domestically
- investments have to be for the benefit of such Austrian small and medium-sized enterprises, which carry on business mainly in Austria.

3. Other Taxes

There is neither a trade tax on income nor a net worth tax.

G. Useful Addresses and Telephone Numbers

Oesterreichische Nationalbank
(Austrian National Bank)
A-1090 Vienna, Otto-Wagner-Platz 3
Phone: +43-1-404 20-6666
Fax: +43-1-404 20-6699
http://www.oenb.at

Oesterreichische Kontrollbank AG
A-1010 Vienna,
Am Hof 4 and Strauchgasse 1–3
Phone: +43-1-531 27-0
Fax: +43-1-531 27-5237
http://www.oekb.at

Finanzmarkt Austria
Dienstleistungs GesmbH
A-1010 Vienna, Am Hof 4
Phone: +43-1-531 27-2353
Fax: +43-1-531 27-5237

Wiener Börse AG
A-1014 Vienna, Wallnerstraße 8
Phone: +43-1-531 65-0
Fax: +43-1-532 97-40
http://www.wienerborse.at

Finanzmarktaufsicht
(The Financial Market Authority)
A-1020 Vienna, Praterstraße 23
Phone: +43-1-249 59-0
http://www.fma.gv.at

Österreichische Bundesfinanzierungsagentur
(Austrian Federal Financing Agency)
A-1010 Vienna, Seilerstätte 24
Phone: +43-1-512 25 11-0
Fax: +43-1-513 99 94
http://www.oebfa.co.at

Bank Austria Creditanstalt AG
A-1030 Vienna, Vordere Zollamtsstraße 13
Phone: +43-505 05/543 02
Fax: +43-505 05/52781
http://www.ba-ca.com

Bank für Arbeit und Wirtschaft AG
A-1010 Vienna, Seitzergasse 2–4
Phone: +43-1-534 53-0
Fax: +43-1-534 53-22840
http://www.bawag.com

Erste Bank
der oesterreichischen Sparkassen AG
A-1010 Vienna, Graben 21
Phone: +43-50100-0
Fax: +43-50100-910100
http://www.erstebank.at

BAWAG-PSK Gruppe
(BAWAG-PSK Group)
A-1018 Vienna, Buchengasse 11–15
Phone: +43-1-514 00-0
Fax: +43-1-514 00-31700
http://www.psk.co.at

Raiffeisen Zentralbank Österreich AG
A-1030 Vienna, Am Stadtpark 9
Phone: +43-1-717 07-0
Fax: +43-1-717 07-1715
http://www.rzb.at

Österreichische Volksbanken-AG
A-1090 Vienna, Peregringasse 3
Phone: +43-1-313 40-0
Fax: +43-1-313 40-3683
http://www.volksbank.co.at

ÖVFA: Österreichische Vereinigung
für Finanzanalyse und Asset Management
(Austrian Association of Financial Analysis
and Asset Management)
A-1010 Vienna, Wallnerstraße 3
Phone: +43-1-533 50 50
Fax: +43-1-531-27/5247
http://www.oevfa.at

Bundeskanzleramt
(Federal Chancellery)
A-1014 Vienna, Ballhausplatz 2
Phone: +43-1-531 15-0
Fax: +43-1-535 03 38
http://www.bka.gv.at

Wirtschaftskammer Österreich
(Austrian Federal Economic Chamber)
A-1045 Vienna, Wiedner Hauptstraße 63
Phone: +43-0590 900/0
Fax: +43-0590 900/250
http://www.wko.at

Kammer für Arbeiter und Angestellte für Wien
(Vienna Chamber of Labor)
A-1040 Vienna, Prinz-Eugen-Straße 20–22
Phone: +43-1-501 65-0
Fax: +43-1-501 65-2230
http://wien.arbeiterkammer.at

WIFO: Österreichisches Institut
für Wirtschaftsforschung
(Austrian Institute for Economic Research)
A-1030 Vienna, Arsenal, Objekt 20
A-1103 Vienna, P.O. Box 91
Phone: +43-1-798 26 01-0
Fax: +43-1-798 93 86
http://www.wifo.ac.at

Österreichische Industrieansiedlungs- und Wirtschaftswerbungs GesmbH
(Austrian Business Agency)
A-1010 Vienna, Opernring 3
Phone: +43-1-588 58-0
Fax: +43-1-586 86 59
http://www.aba.gv.at

Bundesministerium für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft
(Federal Ministry of Agriculture, Forestry, Environment and Water Management)
A-1010 Vienna, Stubenring 1
Phone: +43-1-711 00-6953
Fax: +43-1-711 00-2127
http://www.bmlf.gv.at

Bundesministerium für Wirtschaft und Arbeit
(Federal Ministry for Economics and Labour)
A-1010 Vienna, Stubenring 1
Phone: +43-1-711 00-5555
Fax: +43-1-710 85 73
http://www.bmwa.gv.at

Bundesministerium für Finanzen
(Federal Ministry of Finance)
A-1010 Vienna, Himmelpfortgasse 4–8
Phone: +43-1-514 33-0
Fax: +43-1-512 62 00
http://www.bmf.gv.at

Bundesministerium für auswärtige Angelegenheiten
(Federal Ministry for Foreign Affairs)
A-1014 Vienna, Ballhausplatz 2
Phone: +43-5-011 50-0
Fax: +43-5 011 59-0
http://www.bmaa.gv.at

Bundesministerium für Inneres
(Federal Ministry for Interior)
A-1014 Vienna, Herrengasse 7
Phone: +43-1-531 26-0
Fax: +43-1-531 26-3480
http://www.bmi.gv.at

Bundesministerium für Justiz
(Federal Ministry for Justice)
A-1070 Vienna, Museumstraße 7
Phone: +43-1-521 52-0
Fax: +43-1-521 52-2727
http://www.bmj.gv.at

Bundesministerium für soziale Sicherheit Generationen und Konsumentenschutz
(Federal Ministry for Social Safety, Generations and Consumer Protection)
A-1010 Vienna, Stubenring 1
Phone: +43-1-711 00-6155
Fax: +43-1-711 00-2156
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