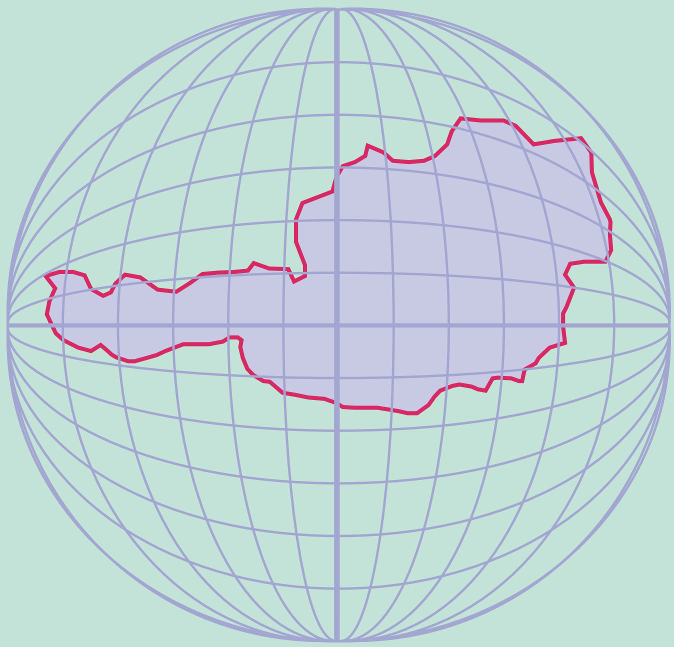
Oesterreichische Nationalbank
&
Financial Markets Austria Services Ltd.

The Austrian Financial Markets
A Survey of Austria's Capital Markets

Facts and Figures



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Editor in chief:

Wolfdietrich Grau
Secretariat of the Governing Board and Public Relations
Oesterreichische Nationalbank

Edited by:

Gudrun Mauerhofer
Financial Markets Analysis and Surveillance Division
Oesterreichische Nationalbank

Georg Zinner
Oesterreichische Kontrollbank AG / FMA

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Inquiries:

Oesterreichische Nationalbank
Secretariat of the Governing Board and Public Relations
Otto-Wagner-Platz 3, A-1090 Vienna, Austria
Postal address: P. O. Box 61, A-1011 Vienna, Austria
Telephone: +43-1-404 20, ext. 6666
Fax: +43-1-404 20, ext. 6696
http://www.oenb.co.at

Orders:

Financial Markets Austria Services Ltd. (FMA)
attn. Hiltrud Grohs
Am Hof 4, A-1010 Vienna, Austria
Telephone: +43-1-531 27, ext. 506
Fax: +43-1-531 27, ext. 237
e-mail: hiltrud.grohs@oekb.co.at

Oesterreichische Nationalbank
Secretariat of the Governing Board and Public Relations
Otto-Wagner-Platz 3, A-1090 Vienna, Austria
Postal address: P. O. Box 61, A-1011 Vienna, Austria
Telephone: +43-1-404 20, ext. 6666
Fax: +43-1-404 20, ext. 6696
http://www.oenb.co.at

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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 support and assistance to the Federal Chancellery, The Federal Ministry of Finance, as well as The Federal Ministry for Economy and Labor. Also, 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. We would also like to thank *ÖIAG Österreichische Industrieholding AG,* The Austrian Institute of Economic Research, *ÖVFA Österreichische Vereinigung für Finanzanalyse und Anlageberatung* (Austrian Association of Financial Analysts), *KPMG Alpen-Treuhand Gesellschaft mbH* and Dr. Pöch, legal counselor to *OeKB.*

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Preface

Karl-Heinz Grasser
Austrian Federal
Minister for Finance

The greatly improved investing environment of Austrian securities markets has enhanced the country's standing as a financial centre for domestic and international investors. The Austrian federal government continues to focus its efforts on strengthening Austria's position. The federal government has proposed further measures aimed at promoting the capital needs of Austrian companies, as well as the creation of new jobs. The government programme will foster the growth and venture capital segments. Especially small and medium-sized enterprises of which thus far only 10% take advantage of venture capital, stand to benefit from the improved conditions that will make it easier to obtain equity capital in line with international standards.

Fostering new technologies is a prime policy goal. Policies will include measures to create closer ties between business and research and to increase the spending quota on research up to 2.5% of GDP within the next few years. The aim is to ensure sustainable economic development in the future by attaining a significant share of high technology enterprises. Additionally, the government aims to strengthen business in the private sector through measures designed to improve the environment on the capital market, among which are more attractive pension fund schemes.

Building on the reforms of the past few years, Austria has succeeded in substantially strengthening its position in global financial markets. Among these reforms are the privatisation of the Vienna Stock Exchange, the introduction of Xetra®, the trading system of *Deutsche Börse AG,* the passage of the new Takeover Act and the establishment of a Takeover Commission. Recent legislation allowing stock buybacks and the use of IAS and US-GAAP accounting standards for listed companies are further improvements designed to meet the needs of internationally active Austrian enterprises. The project to establish a specialised stock exchange for Central and Eastern European securities in Vienna is in an advanced stage of progress and will further enhance the Austrian capital market, creating interesting opportunities for both investors and issuers.

Keeping up with the rapidly changing economic environment today in future will require continued efforts and the ongoing review of prevailing conditions in all stages of development. Austria's economic success and the steady improvement of the market environment have helped to make its financial markets internationally attractive offering excellent investment opportunities.

Klaus Liebscher
Governor
Oesterreichische
Nationalbank

Following the recurrent turbulences in the international financial markets in 1998, the past year witnessed a turn for the better, which smoothed the way for the start of European monetary union – a project of unique dimensions. Although the launch of EMU entailed a number of far-reaching changes to established structures, the introduction of the euro proceeded smoothly in all of the countries participating in monetary union. No frictions were noticeable in the European financial markets, and market players could rely on stable framework conditions. A member of the Eurosystem together with ten other European central banks, the Oesterreichische Nationalbank enjoys the same rights as the other central banks and actively participates in the single European monetary policy. The euro makes a crucial contribution to stability in the euro area and has come to play an increasingly prominent role on the international financial markets.

To take full advantage of the opportunities arising from European integration, a variety of measures were taken in the past year with a view to harmonizing international rules and standards applying to the financial sector. The core principles for effective banking supervision, for instance, which were drawn up by the Basel Committee on Banking Supervision in 1997, are gradually being implemented at the international level. Moreover, both the EU and the BIS published documents last year aimed at establishing a new capital adequacy framework. The envisaged changes are designed to strengthen cooperation between regulators and the private sector and to capture credit institutions' risks more adequately. Austria has been fully involved in these revision efforts.

Progressive globalization and the introduction of the euro have added to the competitive pressures in international and domestic financial markets. Austrian financial market players have taken numerous steps to hold their own against their competitors, with banks again focusing on their core business areas. Moreover, they have shown strong involvement in central and eastern Europe in order to enhance their strategic position.

Likewise, the Vienna Stock Exchange has sought to brace itself for future challenges by launching a number of initiatives, such as the adoption of the Deutsche Börse AG's electronic trading system Xetra® and the establishment of a stock exchange for central and eastern European securities (NEWEX) in Vienna in the fall of 2000.

The Austrian financial market place has continuously adapted to new, internationally harmonized standards and may be considered fully compatible with the European internal market for financial services. In times of globalized financial markets and ever bigger financial players, efforts should concentrate on further enhancing the effectiveness of the Austrian banking supervisory system and stepping up national and international cooperation between supervisory authorities.

The numerous legal, structural and organizational measures help improve the competitive edge of the Austrian financial market and thus contribute to the successful strategic positioning of the domestic financial market within the euro area.

2

Focus on Special Topics

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

2.1 The Financial Markets Initiative

Improving Austria's Financial Markets Environment

In the light of the ongoing internationalization of capital markets and integration into the European Union, an initiative to increase the attractiveness of the Austrian financial markets was felt to be of considerable economic importance.

The Austrian Financial Markets Initiative is the most comprehensive and concerted attempt to date to carry out a fundamental review of Austria's capital-market regulations and procedures. One of the initiative's most striking features is that it enjoys the broad support and cooperation of the markets' principal participants. It is undoubtedly true that some of this support is a consequence of the fact that there is general consensus as to the importance of enhancing Austria's capital markets. The shared goal is to prepare Austria for growing competition in the world's financial markets, and a big step towards the achievement of this goal has already been taken.

Reforms

In early 1992, the Vienna Stock Exchange commissioned *Oesterreichische Kontrollbank AG,* a specialized financial institution with numerous functions within Austria's capital markets, to prepare a reform concept for the Vienna Stock Exchange and the Austrian financial markets. Drawing on the collaboration of domestic and foreign market participants, the pertinent regulatory authorities and more than 100 experts in the fields of the legislative framework, market propriety and behavioural standards, market procedures and methods, marketing and the fiscal framework *Oesterreichische Kontrollbank AG* issued recommendations and proposals for reform.

The most important changes to improve the financial markets environment to date are:

- the establishment of *Wiener Börse AG* by merging the *ÖTOB AG* and the Vienna Stock Exchange;
- strategic alliance of *Wiener Börse AG* with *Deutsche Börse AG* (all listings of Vienna Stock Exchange are traded on the trading system Xetra® of *Deutsche Börse AG* since November 1999, both exchanges will introduce a jointly owned exchange for central and eastern European shares [CEEX] in the course of 2000);
- the introduction of a rolling settlement procedure for the Vienna Stock Exchange with daily settlements on a T+3 basis (SICS – Settlement Information Clearing System);
- the installation of an independent Austrian Securities Authority (ASA) at the beginning of 1998;
- the introduction of the *Übernahmegesetz* (Takeover Law) in January 1999 and the implementation of an independent Takeover Commission;
- the implementation of a new segmentation for the Austrian Equities Market (AEM) at the Vienna Stock Exchange including the introduction of specialists for the 44 most liquid shares and the establishment of the Austrian Growth Market (AGM), the exchange for small and medium-sized companies;

Insider legislation

- the amendment of the *Börsegesetz* (Stock Exchange Act), among other things criminalizing insider dealing;

- endorsement of the Standard Compliance Code by banks and acceptance of individual compliance rules by investment trusts, pension funds, insurance companies, financial analysts, investment consultants and issuers; *Compliance rules*
- the amendment of the Austrian Stock Corporation Act to enhance the possibilities of stock corporations to buy back own shares;
- the installation of the "Profit Line" on-line database system including information on bonds, investment funds and equities to facilitate access to yield curves, price and performance indices, company profiles, stock exchange indices, stock exchange performance and turnover; *Profit Line*
- the presentation of the Austrian capital markets and their participants to investors in London and New York, with leading roles being played by Austria's former Federal Minister for Public Economy and Transport and Austria's former Federal Minister for Economic Affairs. *Road shows in London and New York*

Outlook

The Austrian Financial Markets Initiative is an ongoing reform initiative aimed at maintaining Austria's competitive edge in the field of finance.

The continuing process of reform will ensure that the competitiveness of Austria's capital markets can continue to grow within the new environment created by membership of the European Union.

For more detailed information please contact:
Finanz Markt Austria Dienstleistungs GmbH
Attn.: Mr. Georg Zinner
Am Hof 4, A-1010 Vienna
Phone: +43-1-531 27-353
Fax: +43-1-531 27-237
e-mail: georg.zinner@oekb.co.at

2.2 Austria in Central Europe

Jan Stankovsky
Austrian Institute
of Economic Research
(WIFO)

The coalition programme of Austria's new *ÖVP/FPÖ* government, which took office at the beginning of this year, and the inaugural statement by Federal Chancellor Mr. Schüssel both contain unambiguous commitments to the enlargement of the European Union. The programme calls for transition measures only with respect to "the freedom of movement of persons", the "freedom to provide services" and in the case of agricultural trade, which is to be fully liberalised only on the basis of high safety standards. These positions are by and large not at all new and have been advocated by Austria for some time. The European Union has shown great understanding for these wishes (which have also been voiced by other countries, such as Germany). Austria will try to defend its national interests, but will certainly not obstruct the integration of Eastern Europe into the European Union.

A number of studies show that Austria has benefited substantially from the reform and liberalisation process in Eastern Europe, and that the EU eastward enlargement may also be expected to have an highly positive impact. In the past, however, the benefits and losses have been unequally distributed and the integration of Eastern Europe has not only created winners, but also losers in Austria. The latter are mostly less-skilled workers who belong largely to the same social groups which have also been adversely affected by the economic globalisation process and are concentrated in certain regions (especially near Austria's eastern border).

There is concern in Austria that the EU's eastward enlargement could put pressure on wages and drive up unemployment, leading to a deterioration of the labor market situation. Particular difficulties could arise in connection with the problem of commuting in border regions. Migration to Austria may result from the fact that wages in the neighbouring Eastern countries are only 10–30% of those paid in Austria and the standard of living is 40–60% of that in Austria (GDP per capita relative to purchasing power parities).

For these reasons, Austria has for a long time called for transition measures regarding the liberalization of the labour market within the scope of Eastern enlargement. This position has been advocated mainly by labour representatives (trade unions and the chambers of labour) who are highly influential in economic policy decisions within the framework of Austria's social partnership system.

Austria's geographical location and its historical relationships with Eastern Europe have created close economic ties to the East, while at the same time it is well-integrated in the West European economy. In 1999, 62.6% of Austrian exports were to EU Member States and 16.1% to East European countries (preliminary figures). In Austria, the share held by Eastern Europe in foreign trade is two to three times higher than that of other Western industrialised countries.

Austria's attractiveness as a business location has improved substantially as a result of the political transformation of Eastern Europe, which started in the autumn of 1989. From its marginalised situation as a country at the border between the East and West, Austria moved to the centre of a continent undergoing a gradual integration process. Eastern Europe's transition to democracy and market economy not only eliminated the latent threat along Austria's long Eastern border (1,300 km), but also provided significant economic stimulus. Between 1989 and 1999, Austrian exports to the more successful transition countries of Eastern Central Europe (Hungary, Czech Republic, Slovakia, Poland) rose to 4.6 times their previous volume and the export share of these countries increased from 4.5% to nearly 11%. Exports to Southeast Europe (especially to Slovenia and Croatia) have also developed very dynamically, the only recent disappointment being exports to Russia. In 1998 and in the first half of 1999, Eastern trade lost momentum as a result of the Russian crisis and the cyclical downturn in Western and Eastern Europe, but a recovery set in already in the second half of 1999. Austria's most important Eastern trade partner in 1999 was Hungary, which is one of Austria's major export markets, representing a share of 5% of exports. Foreign trade with the Czech Republic and Slovakia also soared in the years following 1989.

According to WIFO figures, the reform and liberalisation process in Eastern Europe, in particular the strong expansion of exports to the East, resulted in the creation of 57,300 jobs (net) between 1989 and 1997; real GDP increased by an additional 3.3%, and the current account balance improved by 0.7% of GDP[1]).

Austria's relations with Eastern Europe are not based solely on trade relations, but also involve the intensive cooperation between companies on the basis of direct investments. Through acquisitions and takeovers of Eastern enterprises, Austrian companies have secured market shares in the region. The relocation of wage-intensive production sites has helped to improve the international competitive position of Austrian firms.

Austrian direct investment flows to the East doubled from USD 0.5 bn (ATS 6 bn/€ 0.4 bn) in 1996 to USD 1.1bn (ATS 13 bn/€ 0.9 bn) in 1997 and 1998, respectively, and a further increase to USD 1.5 bn or more is expected for 1999. The stock of Austrian direct investment in the East increased more than tenfold, from USD 0.5 bn in 1990 to USD 5.6 bn in 1998. Hungary and the Czech Republic account for nearly 60% of Austrian direct investment in the East[2]).

In mid-1999, Austria accounted for 5% of aggregate direct foreign investment in the East; the Austrian market share in Central Europe is just below 8%. About half of Austrian direct investment in the East is in manufacturing, the other half in the service industry. Austria's strong position in the banking sector has most recently advanced even further.

According to statistics produced by the Austrian Federal Economic Chamber, 14,590 East European enterprises had Austrian stakeholders or were otherwise under Austrian influence in 1998; out of this number, 5,500 were in Hungary and 3,000 in the Czech Republic.

Austria joined the European Union in 1995. This move helped to secure the country's economic interests in this important market. On 1 January 1999, European Monetary Union (EMU) took effect with the participation of Austria. EMU represents a milestone in the European integration process.

The fact that nearly 56% of Austrian exports are to the euro zone underlines the great importance of Economic and Monetary Union for Austria.

As a consequence of Austria's accession to the European Union, economic relationships with Eastern Europe are no longer autonomously regulated, but are subject to common EU trade policies. EU membership has had no adverse effect on Austria's trade relations with Eastern Europe, on the contrary, Austrian exports to the region have seen above-average growth since the accession.

All in all, ten Eastern European countries have applied for membership to the European Union. These countries have concluded Europe Agreements with the Union, which aim at the establishment of a free-trade zone for industrial products. Accession negotiations have already been taken up with all of the candidate countries and the first East European candidates might be joining the EU as early as 2004 or 2005.

The future eastward enlargement of the EU will remove the remaining obstacles to Austria's economic relationships with Eastern Europe (such as border checks), thus further improving Austria's attractiveness as a business location at the junction between Western and Eastern Europe. There is some concern, however, that given the above-described, substantial income disparities between Austria and the East, the EU enlargement will create adjustment difficulties in Austria, in particular on the labor market and in certain segments of the service industry. Austria will therefore call upon the European Union to provide transitional regulations and adjustment assistance in these areas.

For more detailed information please contact:
Austrian Institute of Economic Research
Attn.: Mr. Jan Stankovsky
P.O. Box 91
A-1103 Vienna
Phone: +43-1-798 26 01-218
Fax: +43-1-798 93 86
e-mail: jan@wifo.ac.at
http://www.wifo.ac.at

1 *See also: J. Stankovsky, G. Palme, Auswirkungen der Ostöffnung auf die österreichische Wirtschaft, WIFO, study conducted on behalf of the Federal Ministry of Foreign Affairs, 1999.*

2 *See also: G. Hunya, J. Stankovsky, Foreign direct investment in Central and East European countries and the former Soviet Union, WIIW-WIFO, February 2000.*

3

The Economy

3.1 Economic Structure and Selected Indicators

Introduction

Austria has a favorable economic performance which is a key asset in the eyes of potential investors. What is more, Austria as a business location offers a number of other factors which prove advantageous for international corporations. The achievement of the economy was founded on continuous improvement of the country's infrastructure, modernization and a sound economic policy. Together with the rapid integration of Austria's small open economy into Europe's economic fabric, it has given Austria's population a high standard of living. The access to the EU in 1995 improved the country's economic position, in 1999 Austria became a member of the Economic and Monetary Union (EMU).

Austria as an attractive Business Location

Apart from its geographical location at the heart of Europe, Austria's stable social climate is its biggest plus. A high standard of living and social, legal and political stability are very important factors that influence investment decisions. The superior standard of living is reflected e. g. by a safe living environment, manifold cultural and recreational activities, and high environmental standards. Political stability has remained solidly unaffected even by the great political and economic changes entailed by the opening up of Eastern Europe, EU membership and the establishment of EMU. Legal security and consensus-based resolution of labor conflict in Austria's system of social partnership between the two sides of industry safeguard the stability of the social system. Austria's workforce has an important advantage – its high professional qualifications and its willingness to adjust to new situations and to work to high standards. Moreover, Austria benefits from economically integrating with both western and eastern Europe, above all because most Austrian companies are small, so that they are able to respond flexibly to changes and to communicate efficiently. Moreover, corporate taxes are low by international comparison, and the traditional stability of the currency has been given a European dimension through Austria's participation in EMU and the introduction of the euro.

Industry

Austria is a highly industrialized country with efficient and diversified industrial and services sectors. Austria's industries – which include heavy industry, mining, manufacturing, construction and power generation – accounted for about 29% of its GDP in 1999. In terms of output, the country's most important industrial sectors are metals (machinery and tools, iron and steel, motor vehicles, non-ferrous metals), chemicals, electrical equipment and electronics, food and beverages, forestry products (production and processing of paper and wood), oil, textiles and clothing.

The construction sector

The construction industry employed in 1999 about 263,000 people, or 8% of Austria's jobholders, and accounted for 8% of Austria's GDP.

Services, tourism

Services have become the biggest single contributor to the Austrian economy. The country's services sector comprises high-performance transport and telecommunications industries, banking and insurance, commerce and a wide variety of production-related services. Tourism is an important service industry that makes a major contribution to Austria's current account. The natural attractions of Austria's mountains, lakes and

Table 1

Gross Domestic Product

Sector	1995	1996	1997	1998	1999	1999
	ATS in billion					*% of GDP*
Agriculture, hunting and forestry	56.7	57.7	56.9	56.8	56.5	2.1
Manufacturing						
Mining and quarrying	8.1	8.5	8.7	8.8	8.8	0.3
Manufacturing	444.4	451	472.4	492.5	500.7	18.7
Electricity, gas and water supply	63.3	66.0	62.6	63.9	63.4	2.4
Construction	177.3	187.1	190.9	205.6	210.8	7.9
Total manufacturing	693.1	712.6	734.6	770.8	783.7	29.2
Trade and services						
Wholesale and retail trade[1])	288.7	294.8	301.2	308.2	315.9	11.8
Hotels and restaurants	87.6	89.2	91.7	96.8	101.2	3.8
Transport, storage and communication	166.0	169.0	177.3	184.0	191.1	7.1
Financial intermediation	160.8	164.5	173.8	173.2	172.2	6.4
Real estate, renting and business activities	307.0	327.8	352.8	367.0	387.3	14.4
Public administration and defence; compulsory social security	153.7	158.8	160.9	164.0	168.3	6.3
Other services	340.3	348.8	326.2	335.5	347.3	12.9
Total trade and services	1,504.1	1,552.9	1,583.9	1,628.7	1,683.3	62.7
Less financial intermediation services indirectly measured	115.4	117.6	127.3	127.6	127.4	4.7
taxes less subsidies on products	236.8	247.8	274.0	282.3	287.5	10.7
GDP at current prices	2,375.2	2,453.2	2,522.2	2,610.9	2,683.6	100.0
GDP at 1995 prices	2,375.2	2,422.2	2,451.0	2,521.5	2,576.0	×
% change in GDP vs. previous year						
at current prices	×	3.3	2.8	3.5	2.8	×
at 1995 prices	×	2.0	1.2	2.9	2.2	×

Source: Statistics Austria.

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

resorts and its strong tradition in the fields of music, theatre, literature and other arts attract many visitors each year.

Agriculture and forestry

Almost half of Austria's land area is used for agriculture and animal farming. Domestic agricultural production satisfies 80% to 100% (varies by products) of the country's food needs. 42% of Austria's land area (35,200 square miles) is afforested. Lumber and forest products – including paper cardboard and pulp – account for about 2% of the country's exports. In 1999, an average of almost 234,500 people were employed in agriculture and forestry, representing 6.0% of Austria's work force (EU Labor Force Survey, June 1999).

GDP

The GDP (according to the ESA 95-definitions, which made necessary a lot of revisions) generated by all these sectors in 1999 totalled ATS 2,684 billion (about € 195 billion) at current prices. This represented a 2.8% increase on 1998. Allowing for inflation, Austria's GDP increased by 2.2% after 2.9% in 1998. It is expected, that real GDP-growth will accelerate to around 3% in 2000 and 2001.

International comparisons

An international comparison of key economic indicators shows that Austria performs very well across the board. Over the long term its economy has grown in line with most European countries. Austria also has an extremely good record when it comes to employment and inflation.

Per-capita income

Gross unadjusted per-capita monthly income per employee came to ATS 29,360 (€ 2,134) in 1998. After deducting payroll tax, social insurance contributions, etc., jobholders had an average monthly take-home pay of ATS 20,340 (€ 1,478).

Table 2

The Austrian Economy in an International Context

	Austria			Euro Area			European Union		
	1997	1998	1999	1997	1998	1999	1997	1998	1999
	absolute or % vs. previous year								
GDP at constant prices	1.2	2.9	2.2	2.2	2.7	2.1	2.4	2.7	2.1
Consumer prices	1.3	0.9	0.6	×	×	×	×	×	×
Harmonized consumer prices	1.2	0.8	0.5	1.6	1.1	1.1	1.7	1.3	1.2
Unemployment rate (EUROSTAT–Definition)	4.4	4.5	3.7	11.5	10.9	10.0	10.6	9.9	9.2
Budget deficit (general government) as % of GDP	1.9	2.5	2.0	– 2.6	– 2.0	– 1.6	– 2.4	–1.5	–1.0
Gross fixed capital formation at constant prices	0.8	6.8	2.8	2.2	4.4	4.3	3.0	5.3	4.4
Exports at constant prices	10.1	8.7	4.7	10.1	6.6	3.6	9.9	6.0	3.6
Imports at constant prices	9.4	6.9	3.5	8.7	8.9	5.6	8.9	8.8	5.7
Current account deficit/ surplus as % of GDP	– 2.5	–2.3	–2.8	1.6	1.3	1.5	1.4	1.0	1.0

Sources: Austrian Institute of Economic Research, EUROSTAT.

Table 3

The Austrian Productivity, Wage and Price Indices

Year	Productivity 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*
1996	102.6	2.6	150.6	2.4	100.0	0.0	100.0	1.8
1997	103.2	0.6	153.2	1.8	100.4	0.4	101.2	1.2
1998	105.2	1.9	156.7	2.2	99.8	–0.5	102.0	0.8
1999	106.0	0.8	160.6	2.5	99.0	–0.8	102.5	0.5

Source: Statistics Austria.

Table 4

Harmonized Index of Consumer Prices – International Comparison

	1996	1997	1998	1999
Belgium	1.8	1.5	0.9	1.1
Germany	1.2	1.5	0.6	0.6
Spain	3.6	1.9	1.8	2.2
France	2.1	1.3	0.7	0.6
Ireland	2.2	1.2	2.1	2.5
Italy	4.0	1.9	2.0	1.7
Luxembourg	1.2	1.4	1.0	1.0
Netherlands	1.4	1.9	1.8	2.0
Austria	1.8	1.2	0.8	0.5
Portugal	2.9	1.9	2.2	2.2
Finland	1.1	1.2	1.4	1.3
EU-11	2.2	1.6	1.1	1.1
Denmark	1.9	2.0	1.3	2.1
Greece	7.9	5.4	4.5	2.3
Sweden	0.8	1.9	1.0	0.6
United Kingdom	2.5	1.8	1.5	1.3
EU-15	2.4	1.7	1.3	1.2
Switzerland[1])	0.8	0.5	0.0	0.8
Norway[1])	1.3	2.6	2.3	2.3
USA[1])	2.9	2.3	1.6	2.2
Japan[1])	–0.3	–0.1	1.7	–0.3
Canada[1])	1.6	1.6	1.0	1.7
Total OECD[1])	5.1	4.4	3.8	3.2

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

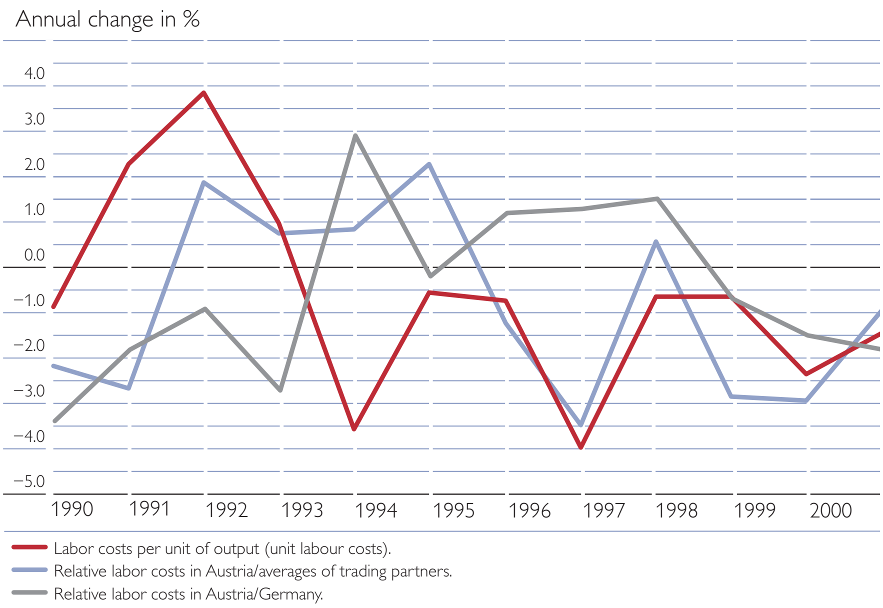
Productivity

The per-capita productivity of employees in overall economy has grown rapidly in recent years. In 1999, productivity in the Austrian whole economy grew by around 1%. In the manufacturing sector productivity rose by 3%.

Prices

Over the longer term, Austria has a good inflation record. In 1999, inflation (measured as the increase of the harmonized consumer price index) totalled 0.5%, which was the lowest within the EMU (1.1%). Stagnant unit labor costs and shift competition especially in the service sector (liberalization, deregulation) have brought down Austria's inflation 1999 to a level unheard of in the past four decades.

Labor Costs in Manufacturing



Source: Austrian Institute of Economic Research.

Unit labor costs

Unit labor costs are an important criterion of international competitiveness. Austria has been performing well in this respect for many years.

Over recent years, the single most important factor contributing to the Austrian economy's good performance on foreign trade and growth has been a marked increase in the competitive position of the Austrian industry. After Austria's entry into the EU, this exposed sector was the first to come under pressure to carry out structural reform, to rationalize and to become cost-efficient. Gradually, this need spread to formerly protected segments of the economy and to the service industry as well. In manufacturing, unit labor costs declined by almost 6% between 1997 and 1999, enabling exports to win extra market share. Relative unit labor costs (weighted on the basis of share in foreign trade) improved by around 6% vis-à-vis Austria's main trading partners. The moderate and productivity-led wage policies and relative price stability were the most important elements for improving competitiveness.

Domestic Expenditure

During 1999 Austrians spent 56.4% of income earned within Austria on private consumption. However, the level of investment expenditure on industrial modernization and the infrastructure was also high. Austria's investment ratio (gross fixed investment as a percentage of GDP) reached 25.0%, which was ahead of the EU-11 average.

Table 5

Relative Labor Costs in Manufacturing

	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	+1.8	−0.9
1993	+0.9	+0.7	−2.7
1994	−3.6	+0.8	+2.9
1995	−0.6	+2.2	−0.2
1996	−0.8	−1.3	+1.2
1997	−4.0	−3.5	+1.3
1998	−0.7	+0.5	+1.5
1999	−0.7	−2.9	−0.7
2000[2])	−2.4	−3.0	−1.5
2001[2])	−1.5	−1.0	−1.8

Sources: Statistics Austria, Austrian Institute of Economic Research.
[1]) Negative values indicate an increase in competitiveness.
[2]) Forecast (WIFO – April 2000).

Table 6

Domestic Expenditure

	1995	1996	1997	1998	1999	1999
	ATS in million					*% of GDP*
Private consumption	1,332.55	1,406.86	1,433.70	1,465.76	1,511.36	56.35
Public consumption	484.03	496.68	499.10	516.48	528.69	19.71
Total consumption	1,816.58	1,903.54	1,932.80	1,982.25	2,040.05	76.06
Gross fixed investment	551.41	570.01	582.48	630.95	653.00	24.35
Changes in inventories and acquisitions less disposals of valuables	24.14	11.23	17.84	14.82	12.76	0.48
Gross capital formation	575.54	581.24	600.32	645.77	665.76	24.82
Errors and omissions	2.02	– 5.25	25.54	– 3.12	– 23.75	– 0.89
Total domestic expenditure	2,394.14	2,479.53	2,558.66	2,624.90	2,682.06	100.00

Source: Statistics Austria.

3.2 Foreign Trade and the Balance of Payments

Because of its extensive foreign trade, Austria's economy is strongly intertwined with those of other countries. Foreign trade (goods and services) accounts for about 46% of Austria's GDP. Table 7 shows the development of its goods exports and imports from 1989 through 1999.

The make-up of Austria's foreign trade from the point of view of product groups 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 the import side.

The geographical distribution of Austria's foreign trade displays a marked concentration on Western Europe, but the countries of Eastern Europe have recently been gaining in importance.

Table 7

Foreign Trade

Year	Exports	Imports	Balance of trade	Exports as a percentage of imports
	ATS in million			
1989	429,310	514,686	− 85,376	83.41
1990	466,067	556,234	− 90,167	83.79
1991	479,029	591,899	−112,870	80.93
1992	487,556	593,924	−106,368	82.09
1993	467,171	564,910	− 97,739	82.70
1994	512,515	628,878	−116,363	81.50
1995	580,014	668,031	− 88,017	86.82
1996	612,190	712,760	−100,570	85.89
1997	715,016	790,251	− 75,235	90.48
1998	774,737	842,128	− 67,391	92.00
1999	819,703	888,102	− 68,399	92.30

Source: Statistics Austria.

Table 8

Exports and Imports According to Product Group[1])

	1993	1994	1995	1996	1997	1998	1999	1999
	ATS in million							*% of total*
Exports (f.o.b):								
Food and live animals	13,347	14,974	19,198	22,928	27,082	29,010	31,246	3.81
Beverages and tobacco	2,551	3,546	3,968	3,894	4,928	5,928	8,367	1.02
Raw materials, inedible, other than fuels	18,399	21,977	24,066	22,240	25,713	26,190	29,240	3.57
Fossil fuels, lubricants and related substances	5,234	6,654	5,816	7,523	8,572	7,723	7,850	0.96
Animal and vegetable oils, fats	271	350	488	389	541	622	736	0.09
Chemical products	42,065	46,884	53,347	57,187	69,319	72,128	77,153	9.41
Processed goods[2])	134,716	147,945	168,900	166,295	185,321	204,586	196,280	23.95
Machinery and vehicles	182,388	199,671	226,317	248,834	293,110	321,215	354,298	43.22
Miscellaneous manufactured goods	67,781	70,205	77,419	81,148	99,379	106,257	112,962	13.78
Goods not classed by kind	420	310	495	1,752	1,051	1,079	1,572	0.19
Total exports[3])	467,171	512,515	580,014	612,190	715,016	774,738	819,703	100.00
Imports (c.i.f):								
Food and live animals	27,085	30,362	35,250	38,611	44,286	45,556	46,109	5.19
Beverages and tobacco	2,176	2,467	2,687	2,769	3,714	4,396	4,411	0.50
Raw materials, inedible, other than fuels	21,994	26,569	31,042	26,791	32,417	32,717	38,745	3.80
Fossil fuels, lubricants and related substances	28,467	27,711	29,604	38,080	41,691	35,293	37,659	4.24
Animal and vegetable oils, fats	1,012	1,143	1,212	1,389	1,748	1,829	1,603	0.18
Chemical products	58,784	65,247	71,405	73,742	83,792	90,082	91,812	10.34
Processed goods	104,683	120,323	129,145	129,508	144,583	152,127	152,367	17.16
Machinery and vehicles	213,036	238,950	246,255	269,884	301,564	334,651	365,346	41.14
Miscellaneous manufactured goods	107,312	115,788	117,168	126,792	133,825	140,751	152,036	17.12
Goods not classed by kind	360	319	4,264	5,194	2,631	4,725	3,015	0.34
Total imports[3])	564,910	628,878	668,031	712,760	790,251	842,128	888,102	100.00

Source: Statistics Austria.

[1]) *Based on movements of goods.*

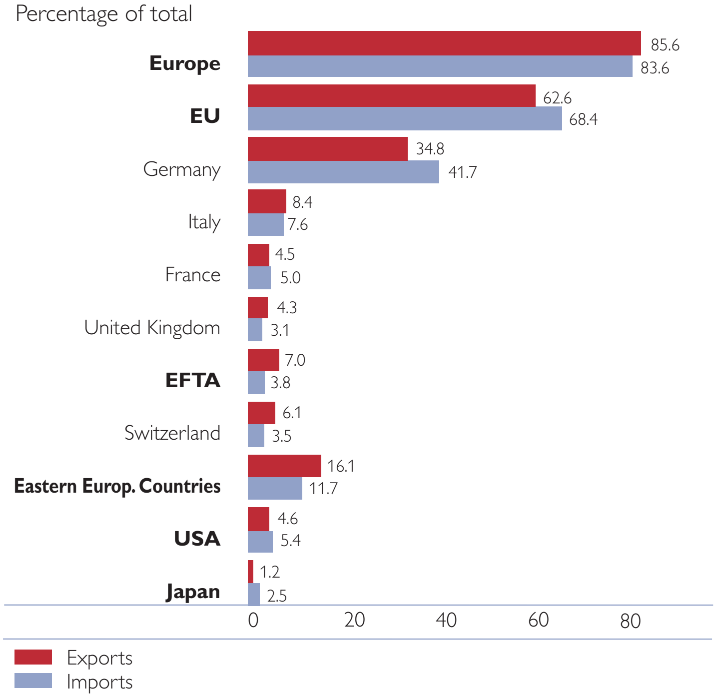
[2]) *Semi-finished and finished products.*

[3]) *Amounts may not add up due to rounding.*

Austria's Foreign Trade in 1999

According to Geographical Area

Percentage of total



Source: Statistics Austria.

Austria's net surplus on services does much to offset its deficit in merchandise trade. As 1999 balance of payments data show, the current account posted a deficit of ATS 74.6 billion (2.8% of GDP) or € 5.4 billion, significantly up from the corresponding 1998 figure. While a further deterioration of the balance of traded goods was more than offset by an improvement in the services balance, as the tourist industry generated a higher surplus, the balances on factor income and transfer payments worsened significantly.

Table 9

Balance of Payments[1])

	1993	1994	1995	1996	1997	1998	1999
	ATS in million						
Current account	− 11,675	− 33,102	− 54,021	− 50,759	− 64,151	− 59,748	− 74,559
Goods	− 75,298	− 90,223	− 67,064	− 77,035	− 51,979	− 45,259	− 45,561
Exports – f.o.b.	+468,430	+513,812	+581,420	+613,909	+716,062	+776,264	+822,964
Imports – c.i.f.	+543,728	+604,035	+648,484	+690,943	+768,041	+821,523	+868,525
Services	+ 87,776	+ 84,045	+ 46,492	+ 48,172	+ 12,033	+ 29,194	+ 31,469
of which travel	+ 58,086	+ 39,535	+ 26,483	+ 18,631	+ 10,842	+ 20,670	+ 24,001
Income	− 12,449	− 14,596	− 16,191	− 3,079	− 3,489	− 19,769	− 34,901
Current transfers	− 11,704	− 12,329	− 17,258	− 18,817	− 20,717	− 23,914	− 25,566
Financial account	− 5,242	− 1,002	− 635	+ 816	+ 264	− 2,474	− 1,843
Capital account	+ 20,330	+ 36,815	+ 59,526	+ 43,842	+ 56,862	+ 68,958	+ 91,771
Foreign direct investment abroad	− 13,849	− 14,356	− 11,399	− 20,472	− 24,248	− 36,497	− 34,869
Foreign direct investment in Austria	+ 13,221	+ 24,013	+ 19,200	+ 46,854	+ 32,385	+ 60,691	+ 38,074
Portfolio investment assets	− 21,959	− 51,525	− 28,520	− 88,006	−122,325	−139,713	−355,472
Portfolio investment liabilities	+ 92,555	+ 49,651	+123,930	+ 59,106	+134,055	+220,414	+338,595
Other investment assets	− 59,072	− 31,801	−102,016	+ 8,956	− 62,277	− 13,352	−155,726
Other investment liabilities	+ 36,206	+ 72,381	+ 73,424	+ 46,355	+ 62,910	+ 21,555	+236,484
Change in official reserves	− 26,539	− 10,565	− 13,768	− 11,131	+ 35,885	− 40,102	+ 27.012
Errors and omissions	− 3,413	− 2,711	− 4,870	+ 6,101	+ 7,024	− 6,736	− 15,368

Source: Oesterreichische Nationalbank.

[1]) *Amounts may not add up due to rounding.*

3.3 Labor, Education and Social Services

The work force and employment

During 1999 Austria's total work force (jobholders, the self-employed and the unemployed) was estimated at an average of 3.9 million. The number of jobholders averaged 3.1 million, 30% of whom worked in industry and construction, 67% in commerce and other service sectors and 1% in agriculture and forestry.

Unemployment better than OECD average

Unemployment has been increasing in recent years. In 1999 it averaged 222,000, compared with 238,000 in 1998. Job vacancies averaged 31,200 during 1999. The unemployment ratio was 3.7%, which was well below the EMU average of 10.0%.

Foreign workers

The past few years have also seen the employment of a substantial number of low paid employees. Their number reached an average of 188,800 in 1999, compared to 1998 an increase of 11%.

Table 10

Employment and Unemployment

	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*
1990	2,928.7	+2.3	165.8	5.4	3.2	55.6
1991	2,997.4	+2.3	185.0	5.8	3.4	49.4
1992	3,055.8	+2.0	193.1	6.0	3.4	44.1
1993	3,054.9	−0.0	222.3	6.8	4.0	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	4.3	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	3.7	31.2

Sources: AMS (Austrian Public Employment Service), EUROSTAT, WIFO (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.

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 1998, the budget of the *Bundesministerium für Bildung, Wissenschaft und Kultur* (Federal Ministry for Education, Science and Culture) amounted to ATS 71 billion (€ 5.2 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 1998/99 school year, 1,221,000 pupils attended 6,800 schools.

Research and development

Austria spends 1.6% of its GDP on research and development. This ranks it in a medium position in the OECD and puts it ahead of countries like Italy, Ireland and Spain. Considerable effort is being made to earmark even more funds for this important area, the government's plan is to raise the R&D-ratio to 2.5% in 2005 and to 2.0% in 2002 as an intermediate target.

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 social security benefits) or by allocations from the federal budget.

3.4 Stability

A democratic and federal republic

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

Legislature

The federal government's legislative power is vested in a two-house legislature comprising the *Nationalrat* (National Council) and the *Bundesrat* (Federal Council). The members of the *Nationalrat* are elected for a term of four years by direct, secret, popular suffrage under a system of proportional representation.

Austria's "social partnership", wage discipline and consensus

Austria's tradition of "social partnership" between employers, trade unions and representatives of various other social groups, all of whom are organized in a whole range of official and semi-official bodies and committees, has engendered a spirit of cooperation in every important area of economic and public interest. The outstanding feature of Austria's social partnership is the fact that both employers and employees are represented by functionaries who have a sound grounding in economics. Both sides have shown willingness to accept well-founded arguments if they are for the good of the country as a whole. The social partnership with its emphasis on consensus and self-discipline during wage negotiations has been and still is a major contributor to Austria's economic prosperity.

During recent years, there have been very few stoppages caused by industrial action, and virtually no working time has been lost. Major wage and price settlements are generally negotiated by the *Lohn- und Preiskommission* (Wage and Price Commission), in which both employer and employee unions are represented. Following ILO-figures 41% of Austria's jobholders are unionized.

Table 11

Strikes: Working Time Lost

Country	1993	1994	1995	1996	1997
	Per jobholder (minutes/year)				
Austria	2.0	0.0	0.0	0.0	0.3
Germany	8.8	3.4	3.7	1.5	0.0
Denmark	12.4	7.8	40.8	15.5	. .
USA	17.6	21.5	23.6	19.6	17.6
United Kingdom	14.1	6.0	8.9	27.6	4.9
Sweden	25.8	7.2	85.0	8.3	3.2

Source: Austrian Federal Chamber of Labor.

3.5 The Role of Government in the Economy

The Verstaatlichungsgesetze (Nationalization Act) of 1946 and 1947

Under the two nationalization acts of 1946 and 1947, the ownership of a number of major Austrian companies passed to the Republic of Austria. They included the three largest commercial banks, virtually the entirety of the coal, iron ore and iron and steel industries, a large part of the non-ferrous-metal, oil and natural gas industries, a number of manufacturers of machinery, vehicles, electrical equipment, chemicals and chemical products, and the electric power industry. The latter was reorganized by the second Nationalization Act passed in 1947, which also established the state-owned *Österreichische Elektrizitätswirtschaft AG (Verbundgesellschaft)* as the owner and operator of Austria's highvoltage grid.

Privatization of state owned shares

The government has been pursuing a policy of privatization since 1987. It sold state-owned shares worth more than ATS 24 billion (€ 1.7 billion) during the first round of privatization (1987–1994). Following the sale of share capital of the *Verbundgesellschaft* beginning with 1987 and the transition of the national mint to the *Oesterreichische Nationalbank* in 1989, active privatization slowed, with little action being taken since 1991. However, the federal government has been allowing its interest in major companies to fall below what used to be the critical limit of 51% by floating additional equity in the private market. Concerning the federal budget the *Bundesminister für Finanzen* (Federal Minister for Finance) realised privatization revenues to the amount of ATS 5.9 billion (€ 429 million) in 1995, ATS 4.7 billion (€ 342 million) in 1996, ATS 17.8 billion (€ 1.3 billion) in 1997, ATS 2.6 billion (€ 189 million) in 1998, in 1999 no receipts from privatizations could be realized. For further details on privatization, see section 5.6.

3.6 Federal Budget, Public Deficit and Public Debt

The federal budget

The public fiscal year is the calendar year. Before the start of each new year, the federal government submits an annual budget with the planned revenues and expenditures to the *Nationalrat* for settlement. Any change in expenditures and revenues requires the *Nationalrat's* approval by a special budget law. Table 12 surveys the structure and development of Austria's federal budget over the last years.

Net borrowing and public debt

The federal government dominates the development of the public deficit. The economic weakness of 1993 has been a serious burden on Austria's fiscal households. Net borrowing of all public entities (general government) increased to 4.2% of GDP. In 1994 and 1995, the budget deficit amounted to 5.0 and 5.2% of GDP, respectively.

In April 1996, a fiscal consolidation programme for 1996 and 1997 was started in order to bring public budget deficits in line with the Maastricht criteria. The decrease in the general public deficit by 1.2 percentage points to 3.8% of GDP in 1996 and by 1.9% points in 1997 can be traced to the impact of the consolidation package. The federal budget plans for 1998 and 1999 were aimed at stabilizing budget consolidation without taking any sweeping measures. In 1998 an increase to 2.5% could be observed, while in 1999 the public deficit ratio stood at 2.0% of GDP.

Table 12

Summary of Revenues and Expenditures of Federal Government[1])

	1994	1995	1996	1997	1998	1999
	ATS in million					
I. General Account						
Revenue:						
Total taxes and levies, gross	524,537	521,180	585,660	623,927	670,247	669,786
Less transfers to EU, provinces, municipalities and others	166,135	175,407	202,189	210,738	210,027	220,123
Total taxes and levies, net	358,402	345,773	383,470	413,189	460,220	449,663
Federal enterprises and other sources	268,227	300,905	281,952	269,430[5])	251,353	269,752
Total revenues	626,629	646,678	665.422	682,619[5])	711,573	719,415
Expenditure:						
Government expenditure	674,625	706,029	728,193	746,828	774,507	785,466
Federal enterprises	56,822[3])	58,552	26,595[4])	3,010[5])	3,093	2,144
Total expenditure	731,447	764,581	754,788	749,838[5])	777,600	787,610
Budget deficit, net of public debt redemptions	104,818	117,903	89,366	67,219	66,027	68,194
Budget deficit, net as a percentage of GDP[2])	4.68%	4.96%	3.64%	2.67%	2.53%	2.54%
II. Financing Account:						
Servicing costs	121,092	204,840	130,231	167,334	342,448[6])	421,820
Debt accrual	225,910	322,743	219,596	234,553	408,475[6])	490,014
Surplus	104,818	117,903	89,366	67,219	66,027	68,194

Source: Bundesministerium für Finanzen (Federal Ministry for Finance).

[1]) Amounts may not add up due to rounding.

[2]) GDP: until 1994 according to the ESA 79, second edition, as of 1995 according to the ESA 1995.

[3]) In 1994 the Österreichische Bundesbahnen (Austrian Federal Railways) were separated from the federal budget.

[4]) In May 1996 the Österreichische Post- und Telegraphenverwaltung (Austrian Postal Services) were separated from the federal budget.

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

[6]) Including debt issuing for other public entities (ATS 95,686 million) – no effect on the deficit of the federal government.

Table 13

Direct Debt

	1992	1993[2])	1994[2])	1995[2])[3])	1996[2])[3])	1997[2])	1998[2])[3])[4])	1999[2])[3])[4])[5])
	ATS in million							
ATS/EUR debt	819,853	895,134	964,656	1,051,281	1,100,840	1,171,000	1,152,202	1,392,485
Foreign currency debt[1])	172,141	212,857	260,941	291,114	296,017	304,926	383,484	230,876
Total debt	991,993	1,107,991	1,225,597	1,342,395	1,396,857	1,475,926	1,535,687	1,623,361

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).

[1]) *Converted into schillings at the exchange rate on 31 December of the particular year.*

[2]) *Ownholdings of federal government securities to the amount of ATS 1,055 million (1993), ATS 2,778 million (1994), of ATS 2,446 million (1995), of ATS 19,815 million (1996), of ATS 19,760 million (1997), of ATS 27,328 million (1998) and of ATS 66,352 million (1999) respectively were subtracted from total ATS/EUR debt.*

[3]) *Own holdings of federal government securities to the amount of ATS 5,516 million (1995), of ATS 457 million (1996), of ATS 0 million (1997), of ATS 9,880 million (1998) and of ATS 547 million (1999) respectively were subtracted from foreign currency debt.*

[4]) *The strong increase of the foreign currency debt has to be seen with regard to Austria's access to the Monetary Union. From the direct foreign currency debt ATS 188,432 million, are denominated in non-EMU participating foreign currency debt.*

[5]) *Break in the time series: 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.*

Table 14

Debt Service Requirements for the ATS/EURO debt

	1997	1998	1999[1])[2])
	ATS in billion		
Interest	72.7	74.6	83.0
Principal	77.3	127.3	153.1
Total	150.0	201.9	236.1

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).

[1]) *Provisional outcome.*

[2]) *Since 1999: debt service requirements for the ATS and EURO debt.*

Since 1993 the public debt quota was above the 60% level of the Maastricht treaty. In 1996 the debt ratio reached 68.3%, but the quota fell to 63.9% in 1997 and to 63.5% at the end of 1998. Mainly caused by foreign exchange holding losses (Japanese Yen) the debt ratio increased to 64.9% of GDP in 1999.

Table 15

Debt Service Requirements for the foreign currency debt[1])

	1997	1998	1999[2])[3])
	ATS in billion		
Interest	15.1	15.5	8.4
Principal	18.7	24.0	6.0
Total	33.8	39.5	14.4

Source: Österreichische Bundesfinanzierungsagentur (Austrian Federal Financing Agency).

[1]) *Based on rates of exchange used by the Bundesministerium für Finanzen (Federal Ministry for Finance) for uniform valuation purposes, as on December 31, 1998.*

[2]) *Provisional outcome.*

[3]) *Since 1999: debt service requirements only for non-euro currencies.*

For further information please contact:
Oesterreichische Nationalbank
Economic Analysis and Research Division
Otto-Wagner-Platz 3
A-1090 Vienna
Phone: +43-1-404 20-7400

4

Monetary Policy

4.1 The Oesterreichische Nationalbank

Austria's Central Bank

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 in 1998 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 operation 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.

As from 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 will 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 for 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 primary goal of the ESCB is price stability. In this context, the Governing Council of the ECB has adopted the following definition: "Price stability shall be defined as a year-on-year increase in the Harmonized Consumer Price Index for the euro area of below 2%".

An important indicator is the development of monetary growth: In December 1999 the ECB has decided to confirm the reference value of 4.5% p.a. for the increase of the broad monetary aggregate M3, against which the ESCB monitors on the basis of three-month moving averages of the monthly twelve-month growth rates for M3. This decision was taken on the grounds that the Eurosystem's definition of price stability and estimates for trend real GDP growth and the trend decline in M3 income velocity have basically remained unchanged.

Thus, in parallel with the analysis of monetary growth in relation to the reference value, a broadly-based assessment of the outlook for price developments and the risks to price stability in the euro area play a major role in the ESCB's strategy. This assessment is made by using a wide range of economic and financial variables as indicators for future price developments.

Instruments

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

Open market operations

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

The most important instrument are the main refinancing operations, which are regular liquidity-providing reverse transactions with a weekly frequency and a maturity of two weeks. These operations provide the bulk of refinancing to the financial sector.

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 ESCB 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 may 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 overnight market interest rates.

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

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

Collaterals

All ESCB 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 ESCB. 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.

Minimum reserve requirements

Concerning the minimum reserve system the ECB decided to apply a reserve ratio on deposits and debt security issues with a maturity up to 2 years and money market paper.

Liabilities vis-à-vis other institutions subject to ESCB'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 € 100.000 is allowed to be deducted from an institution's reserve requirement. The minimum reserves are remunerated at the average, over the maintenance periode of one month (weighted according to the number of calendar days), of the ESCB's rates of the main refinancing operations.

The system of monetary policy instruments of the ESCB is described in detail in the "General documentation on ESCB monetary policy instruments and procedures", ECB, September 1998.

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.

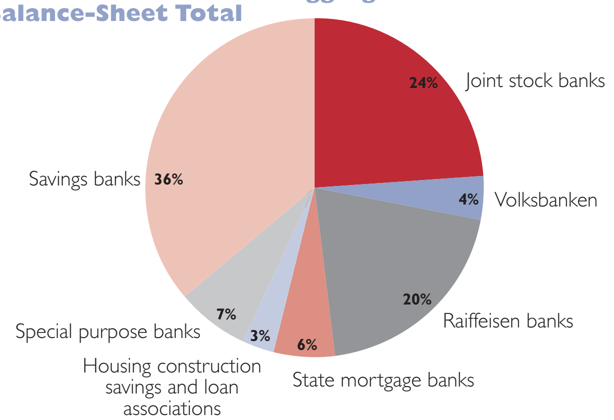
Sectors

The Austrian banking system is organized by category or "sector". Austria's 951 independent banks (December 1999) are divided into seven sectors, including the so-called special purpose banks established for special financing purposes (which do not have full banking licenses):

64 joint stock banks;
71 savings banks;
9 state mortgage banks;
648 *Raiffeisen* banks;
70 *Volksbanken;*
5 housing construction savings and loan associations;
84 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



Source: Oesterreichische Nationalbank.

Each sector has its own association to represent its interests. 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 64 credit institutions with 746 branch offices (as per December 1999). 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:

- *Creditanstalt AG,* total assets of ATS 446 billion (€ 32.4 billion) and third largest bank in Austria,
- *Bank für Arbeit und Wirtschaft* AG – *BAWAG,* with a balance sheet of almost ATS 293 billion (€ 21.3 billion) taking sixth place and
- *Postsparkasse – P.S.K.* (Postal Savings Bank) with total assets of ATS 290 billion (€ 21.1 billion), the seventh largest bank.

Creditanstalt was taken over at the beginning of 1997 by *Bank Austria,* which belongs to the savings banks sector (see below, savings banks). *Creditanstalt*

The owners of *BAWAG* are *Österreichischer Gewerkschaftsbund* (Austrian Federation of Trade Unions), which holds 53%, and *Bayerische Landesbank,* which holds 46%. *BAWAG*

Until 1997, the *Postsparkasse* was an independent legal entity created by the Postal Savings Bank Act of 1969. Its liabilities were fully guaranteed by the state, but it was not allowed to grant commercial loans. The funds deposited with the bank were primarily made available to the public sector and the banking system. *Postsparkasse*

In May 1997, the *Postsparkasse* was transformed into a joint stock corporation, which is currently 100% owned by the holding company *PTBG (Post und Telekom Beteiligungsverwaltungsgesellschaft),* which is in turn 100% owned by the Republic of Austria. However, there are plans to privatize the *Postsparkasse* in the year 2000.

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 *(Anteils-verwaltungssparkasse, 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

The best example of a savings bank joint stock corporation is the country's largest bank, *Bank Austria* (total assets ATS 1,477 billion, € 107.3 billion), which was created in 1990 as a result of the merger between the *Länderbank* and the *Zentralsparkasse.*

The 9.1% share held by the Republic of Austria has since been sold and the state no longer has any influence over the bank. Approximately 23% are owned by *Anteilsverwaltung Zentralsparkasse* and 8% by *Westlandesbank.* 55% of the shares are held publicly.

At the beginning of 1997, *Bank Austria* bought the second-largest bank in the country, *Creditanstalt AG.* In 1998, a comprehensive organizational overhaul of the two banks was undertaken. This led in 1998 to the creation of *BA-CA International* and the transfer of the foreign branch offices and international business of *CA* and *BA* to the new company. Following the restructuring, *CA* has become a purely domestic bank.

Erste Bank

Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) is now the second-largest credit institution in Austria (total assets ATS 601 billion, € 43.6 billion). 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 648 *Raiffeisen* banks with 1737 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 70 *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, 65% of whose shares are held by the *Volksbanken* (local cooperatives) and 23% by the *Deutsche 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 acted as guarantors (deficiency guarantors), for which these banks pay a fee. 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.

All eight state mortgage banks have the option of transforming themselves into joint stock corporations. This will pave the way for strategic alliances.

Special Purpose Banks

Apart from these five sectors, there are 84 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* (the Austrian Stock Exchange) and as central securities depository and settlement agency.

Investkredit provides financing and financial assistance for long-term investments by granting fixed-interest loans in close cooperation with corporates' "house banks". It raises its funds mainly by issuing medium-term and long-term bonds, especially corporate bonds.

Furthermore, Austria also has five housing construction savings and loan associations with 37 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.

Biggest Banks in Austria

Institution	total assets in ATS billion	Percentage share on balance sheet total: per bank	aggregated
Bank Austria	1,477	20.5	20.5
Erste Bank	601	8.3	28.8
Creditanstalt	446	6.2	35.0
RZB	341	4.7	39.7
OeKB	300	4.2	43.9
BAWAG	293	4.1	48.0
PSK	290	4.0	52.0
RLB NÖ-Wien	119	1.6	53.6
ÖVAG	112	1.6	55.2
Oberbank	108	1.5	56.7

Source: Oesterreichische Nationalbank.

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	December 1999 *total assets in ATS million*	December 1999 *% share in aggregate total assets*	December 1998 *total assets in ATS million*	December 1998 *% share in aggregate total assets*	December 1988 *total assets in ATS million*	December 1988 *% share in aggregate total assets*
Savings banks	2,614,860	36.2	2,381,858	36.0	897,639	24.8
Joint stock banks	1,721,505	23.8	1,622,710	24.5	1,314,892	36.4
Raiffeisen banks	1,425,230	19.7	1,289,453	19.5	639,957	17.7
Special purpose banks	508,703	7.0	454,975	6.9	282,919	7.8
State mortgage banks	394,699	5.5	352,247	5.3	196,406	5.4
Volksbanken	310,284	4.3	285,158	4.3	154,327	4.3
Housing construction savings and loan associations	243,848	3.4	231,367	3.5	131,190	3.6

Source: Oesterreichische Nationalbank.

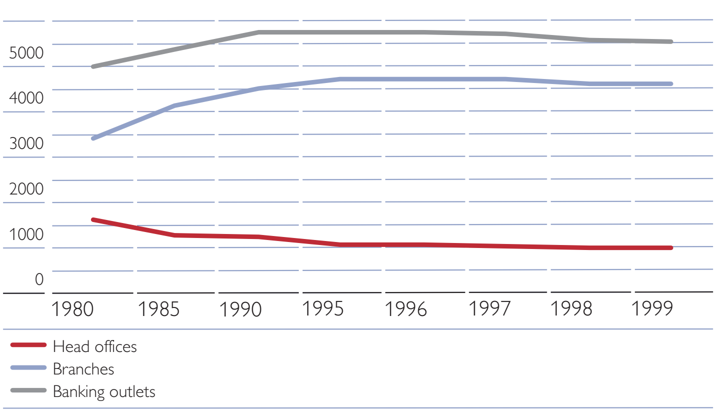
As is the case in other countries, the Austrian banking system is currently undergoing structural change. Although this is taking place predominantly in the "big bank" sector, small and medium-sized credit institutions are also involved in a continual process of concentration and cooperation.

Consolidation

After the major mergers of the year 1997, consolidation in the Austrian banking sector focused on continued restructuring in the newly created groups *Bank Austria-Creditanstalt* and the *Erste Bank,* and on further consolidation in the multi-tier sectors.

Austria's banking system comprises 5,527 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, overshadowing the comparably minor – but now steadily increasing – role of other financial intermediaries (capital market, institutional investors) in Austria.

Number of Austrian credit Institutions 1980–1999



Banking outlets

From 1980 to 1999, the total number of Austrian credit institutions considerably decreased from 1,595 to 951, i.e. a reduction of more than 40% or 644 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 556 institutions or more than 11%. The most important trend is the absolute reduction both in the number of head offices and branches since 1996.

The density of banking outlets improved from 1,457 to 1,462 inhabitants per banking outlet as of end-1999.

In 1999, the number of branch offices did not change but the number of head offices decreased by 20, i.e. by 2.1%. Thus the total number of bank outlets was also reduced by 20. The strongest decrease in the number of banking outlets could be observed within the joint stock banks sector, followed by savings banks, *Raiffeisen* banks and special purpose banks.

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.

Owing to M&A activities in the last two years, an increased degree of concentration within the Austrian banking sector is to be observed. As regards the concentration of the five largest banks (in terms of total assets), Austria's 1997 ratio of 50.4%[1]) indicates an average position in comparison to other EU banking systems.

The high degree of competitiveness, the current striving for market share and the high number of offices mean that Austrian banks are not amongst the most profitable in EU. However, the relatively slim return on equity is also attributable to the institutions' excellent capital resources. The weighted equity ratio of Austrian banks currently comes to roughly 14% and therefore clearly exceeds the 8% target stipulated in the EU Capital Adequacy Directive. It goes without saying that Austrian banks are well prepared to stand up to more intense competition.

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. The traditionally large stake held by the Republic of Austria in Austria's banks has been steadily trimmed over recent years. A number of strategic alliances was also forged, most notably with partners from Germany.

Current bank profitability trends

Compared to 1998, the aggregate operating result of the Austrian banking sector has diminished in 1999 by ATS 4 billion (€ 296 million) or 7.7% to ATS 48.8 billion (€ 3.5 billion).

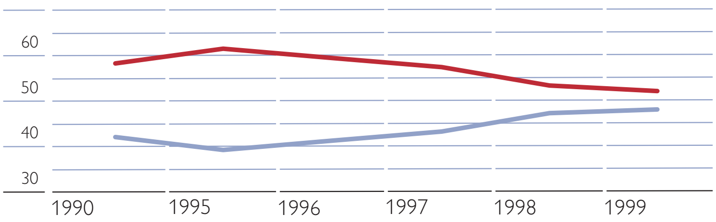
Austrian Banks' Earning Indicators

	1994	1995	1996	1997	1998	1999
	as percentage of balance sheet total					
Net interest income	1.25	1.68	1.63	1.49	1.32	1.20
Net commission	0.33	0.46	0.49	0.49	0.50	0.51
Operating income	2.02	2.74	2.75	2.62	2.50	2.30
Operating expenditure	1.40	1.90	1.89	1.81	1.71	1.63
Net operating income	0.62	0.84	0.86	0.81	0.80	0.68

Source: Oesterreichische Nationalbank.

Relative Importance of Interest and Non-interest Income

% of total income



Source: Oesterreichische Nationalbank.

Both operating income and operating expenses (especially staff cost) slightly decreased in relation to total assets. In absolute terms the operating income rose by ATS 586 million or € 43 million (+0.4%) and the operating expenses increased by ATS 4.7 billion or € 339 million (+4.1%).

The overall increase in operating income was achieved despite the declining trend in net interest income due to the comparatively higher growth rates in non-interest related income sources, such as in income from securities and from fees and commissions.

Since 1995, an acceleration of the shift from net interest income towards non-interest income (measured in relation to operating income) was to be noted (see also chart above).

The recent financial crises constituted major challenges particularly for the larger banks. However, no difficulties of systemic relevance have been encountered due to the loan losses incurred nor were banks' aggregated own funds affected.

Banking Supervision and Regulation

The Bundesministerium für Finanzen (Federal Ministry for Finance)

Banking supervision is the responsibility of the *Bundesministerium für Finanzen* (Federal Ministry for Finance). Banking supervisors have access to a number of instruments that facilitate early risk detection and timely counter-measures. They range from banks' comprehensive duty to publish reports (monthly asset and liability summaries, quarterly income statements, special audit reports) to the supervisors' rights of inspection.

The Oesterreichische Nationalbank

The *Oesterreichische Nationalbank* has been charged with a number of supervisory tasks. Most important of all, Austrian banks must provide the *Oesterreichische Nationalbank* with copies of all their declarations and reports.

The *Oesterreichische Nationalbank* uses them to check adherence to banking regulations and as a basis for the preparation of expert opinions for the Federal Minister of Finance.

Adoption of EU standards

The new *Bankwesengesetz* (Banking Act) came into effect on 1 January 1994. It constitutes the legislative basis for banking in Austria.

In its new Banking Act, Austria has fulfilled its obligation under the EEA agreements to incorporate the EU banking directives and recommendations into its own legislation. 11 EU directives were worked into Austrian law. The most important are the two banking co-ordination directives and the directives on own funds, solvency ratios and banks' annual accounts and the supervision of credit institutions on a consolidated basis.

The amendment to the Bankwesengesetz (Banking Act)

The First Amendment to the *Bankwesengesetz* enacted in 1996 implemented other European Union directives (e.g. consolidated supervision, monitoring of big loan exposures, deposit guarantees).

The system of deposit guarantees was revamped to improve protection for investors (now also including legal entities) and to evenly distribute the fund accrual costs incurred by credit institutions in the implementation of the deposit-guarantees directive. As a result, the guaranteed deposit per credit institution and investor is therefore € 20,000. However, the amount receivable under deposit-guarantee scheme by investors other than private individuals is limited to 90% of the guaranteed deposit.

Implementation of the Capital Adequacy Directive

In addition, the European Union's Directives on Investment Services and on Capital Adequacy were implemented in the subsequent Second Amendment to the *Bankwesengesetz*, effective 1 January 1997.

The purpose of this directive is to lay down capital resources requirements, in particular with a view to covering risks that arise as a result of securities trading and any foreign currency transactions. The act has introduced a *Wertpapier-Handelsbuch* (securities trading book) to implement the provisions of the Capital Adequacy Directive.

Collaboration between Federal Ministry for Finance and Oesterreichische Nationalbank

The *Bankwesengesetz* has also led to closer collaboration between the Federal Ministry for Finance and the *Oesterreichische Nationalbank*. The Federal Minister for Finance is now empowered to commission the *Oesterreichische Nationalbank* to carry out on-site audits in specific cases. It should also be mentioned in this context that the *Oesterreichische Nationalbank* can be called in to prepare expert opinions for the Federal Ministry for Finance and the Securities Supervisory Authority to a greater extent than was previously the case.

For instance, the *Oesterreichische Nationalbank's* new responsibilities will include the preparation of expert opinions regarding market risk models used within banks to measure the incurred market risk. On the basis of the incurred market risk banks have to hold an adequate amount of own funds, which is specified by the Banking Act.

1 *Bank Austria (20.5%), Creditanstalt (6.2%) and Bank Austria Creditanstalt International (BACAI 2.5%) are calculated as one institution (unconsolidated).*

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 *Bundesministerium für Finanzen* (Federal Ministry for Finance) 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

Future capital regulation

Both the Basle Committee and the European Commission have produced consultative documents. These papers follow a so-called three-columns approach. The first column focuses on credit risk, including credit risk mitigation techniques, and covers a range of other topics e.g. "other risks" and consolidation. The second column deals with the supervisory review process. The third column tackles the role of market discipline. The content of each column is outlined briefly below.

Scope of Consolidation

It is crucial that the scope of consolidation is appropriately defined as group structures containing credit institutions and investment firms continue to become more complex. It is also very important that convergence is achieved between the Basle and EU frameworks. Other important issues include the treatment of minority interests and of groups where consolidation is not possible for whatever reason (e.g. a third country parent company with a credit institution subsidiary in the EU).

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 consultation papers as the Internal Ratings-Based Approach, a meaningful supplement to 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, both consultative documents 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 should also be included.

The current framework covers interest rate risk for trading book items only. Basel and Brussels have therefore devised proposals to cover the interest rate risk in the banking book. Discussion continues as to whether the banking book/ trading book boundary should be lifted.

Other 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 "other risks" category includes for example, operational, legal and reputational risk, which are not currently subject to a specific, identifiable capital charge. As operational risk models are still being developed and therefore not yet suitable for supervisory recognition, the consultative papers suggest the introduction of a simple charge that could also provide a challenge for banks to develop sound risk management techniques to measure and control these risks.

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.

For further information please contact:
Oesterreichische Nationalbank
Financial Markets Analysis and Surveillance Division
Otto-Wagner-Platz 3
A-1090 Vienna
Phone: +43-1-404 20-3100

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.*

5

The Capital Markets

5.1 A Market in Flux – the European Dimension

Integration into the EU

Austria was quick to embrace the European option. The cornerstones of this development were its entry into the European Economic Area (EEA) at the beginning of 1994 and its subsequent full integration into the European Union at the beginning of 1995.

Central European financial center

Even before the pertinent formal decisions were made, the European dimension represented a challenge that could realistically be addressed by Austria's capital markets. Growing competition between financial centers – competition that involves intensive communication, deregulation and globalization – has substantially altered market structures that used to be highly segmented. Europeanization represents Vienna's opportunity to establish itself as *the* Central European financial center. Austria's social and economic stability will allow it to regain the standing as the cultural and business center and kingpin in the heart of Europe that it enjoyed for many centuries of European history.

Modern framework for the capital markets

Austrian legislation has created a modern framework for the country's capital markets that conforms to European law, directives and recommendations. This framework is based on the European Union's standards. As an example, the new *Börsegesetz* (Stock Exchange Act) introduced in 1989 fundamentally reformed the organization of the stock market and stock-exchange supervision by bestowing greater autonomy on the Vienna Stock Exchange. It also introduced new standards for the admission of securities and more detailed and precise duties of disclosure (listing particulars and reports) as well as tightening up regulations to protect investors, bringing them into line with the contents of EU directives. In addition, the act contained provisions to regulate modern forms of trading (such as computerized stock-exchange processes) and a forward market.

Amendment to the Stock Exchange Act

An amendment to the *Börsegesetz* followed in 1993. It made the misuse of insider information a criminal offence and required participants in the market to take effective steps to hinder insider dealing. The amendment also altered the make-up of the stock-exchange committees (by including representatives of issuers and investors), improved trading supervision and extended legal liability for statements in listing particulars (prospectuses).

The entry into force of the new *Wertpapieraufsichtsgesetz* (Securities Supervision Act) and a further amendment to the *Börsegesetz* on 1 January 1997 took into account the Investment Services Directive and put securities supervision on a more solid basis.

One of the key provisions of the *Wertpapieraufsichtsgesetz* is the establishment of a special *Bundeswertpapieraufsicht* (*BWA:* Austrian Securities Authority) that is responsible for securities supervision within Austria. Efficient capital markets supervision should help safeguard Vienna's international competitiveness as a financial marketplace.

The salient changes in the amendment to the *Börsegesetz* include the following:

- The demarcation of the responsibilities of the Federal Ministry for Finance and the Austrian Securities Authority with regard to securities supervision. The Minister for Finance remains responsible for legal supervision, while the Austrian Securities Authority monitors the correctness of trading on the stock exchange and thus exercise market supervision.

- The redefinition of the circle of members of the stock exchange.
- Authorization of the Austrian Securities Authority to make use of the trading supervision system of the Vienna Stock Exchange in the carrying out of investigations and to charge the Vienna Stock Exchange with the task of carrying out such investigations.
- The duty of the Vienna Stock Exchange to publish price and turnover data.

Following the creation of conditions that are consistent with the Single Market, a number of additions to product lines and the start-up of the fully computerized EQOS trading system ("Electronic Quote and Order Driven System"), the founding of the new *Wiener Börse AG* (the Vienna Stock Exchange in the legal form of a stock corporation) in 1997 has been another step forward in making the Vienna Stock Exchange internationally competitive. The spot and forward markets are amalgamated under its aegis. It is hoped that alterations to the structure of charges and efficient mobilization of risk capital in the small and medium-sized companies segment will provide a main-stay for the organizational reform that is currently being planned.

Xetra®

Furthermore, a cooperation agreement was signed with the *Deutsche Börse AG,* under which Frankfurt's trading system – Xetra® – was introduced at the *Wiener Börse* by November 1999. Linking the Vienna cash market to Xetra® attracts additional market participants and helps to significantly cut transactions costs. Agreements were also signed on the joint establishment of an exchange for Central and Eastern European securities in Vienna, to which all CEE securities currently listed in Frankfurt will be transferred. The target date for the establishment of new exchange NEWEX is the year 2000.

Takeover Act

1 January 1999 marked the entry into force of the Takeover Act, which protects minority shareholders by granting them specific privileges in takeovers of stakes of more than 50% and putting them on a better footing when between 25% and 50% of the shares change hands. To this effect, a Takeover Panel has been set up, which is to investigate to what extent acquires of a controlling stake have in fact taken control.

Standard Compliance Code

The Austrian banks' agreement of a Standard Compliance Code also helped tighten up insider dealing rules. Its objective is to guarantee fair treatment for every participant in the market. The code is based on the principle of strict separation between banks' analysis and investment departments with regard to confidential information that pertains to or could affect investments and prices (the creation of so-called "Chinese Walls" within banks).

Capital Markets Act

The *Kapitalmarktgesetz* (Capital Markets Act) that took effect in 1992 constituted an important step towards deregulating Austria's capital markets. It enacted EU directives, introducing comprehensive disclosure standards to protect investors (the duty to publish listing particulars, scrutiny of listing particulars and legal liability for statements in listing particulars) and at the same time abolishing approval procedures for new issues.

Deregulation of capital movements

Formal requirements for international capital movement transactions had already been abolished in 1991. By comprehensively deregulating capital movements in this way, Austria met in full its international obligations regarding the free movement of capital. The data on capital movements needed to prepare balance-of-payments statistics are now collected with the help of a reporting system introduced by the amendment to the *Devisengesetz* (Foreign Exchange Act) that took effect in January 1992. Such data can only be used for statistical purposes.

Money laundering provisions

A whole range of activities and agreements pertaining to banks' behavioural standards have also benefited Austria's capital-markets environment. Besides guidelines for financial analysts, insurers, investment trusts, pension funds and issuers, 1994 saw the drafting of a code of practice that prohibits Austrian banks from actively abetting any illegal capital transfer. This code supplements the money laundering provisions contained in the *Bankwesengesetz* as well as rules under criminal law. Austria has thus already incorporated into national law the EU directive on prevention of the use of the financial system for the purpose of money laundering, underlining Austria's determination not to become a refuge for "hot" money. In addition, a reporting office at the Austrian Federal Ministry for Interior (EDOK – the organized crime task force) has been set up within the scope of these provisions.

Code of practice for investment consultants

In 1994, the Austrian banking industry also published recommendations for a code of practice for investment consultants. It is conceived as a dependable source of information for clients during securities transactions. The recommendations have already anticipated some of the intentions that are to be incorporated into Austrian law within the scope of the Investment Services Directive.

Consolidated Accounts Act

At the beginning of 1999, the Consolidated Accounts Act was passed, which enables Austrian groups and thus Austrian credit institutions to draw up consolidated accounts according to internationally recognized accounting principles. The provisions of the Consolidated Accounts Act may be applied to business years commencing after December 31, 1997.

Amendment to the Savings Bank Act

On 1 January 1999, the Amendment of the Savings Bank Act came into force. Savings banks that have transferred their entire business or their banking operations into a savings bank stock corporation (so-called savings bank holding companies) may now, under the provisions of the Savings Bank Act, take on the new form of a private foundation as defined in the Private Foundation Act. Private foundations established by means of transformation are subject to the provisions of the Private Foundation Act. Transforming a savings bank holding company into a private foundation provides this with an internationally recognized legal structure similar to foundations, trusts etc. under Anglo-Saxon law. In this way, a comparative disadvantage of the Austrian banking sector was eliminated.

Implementation of EU Directives

In 1999, Austria's Parliament transposed a number of banking-related EU directives into national law.

1999 Amendment to the Banking Act

The 1999 Amendment to the Banking Act serves to transpose the Directive 97/9 EC on investor compensation schemes into Austrian law. Under the Amendment, determining and raising the sums of compensation is primarily the task of the existing sectoral deposit guarantee facilities. Investors' claims are guaranteed up to a total amount of € 20,000 or the equivalent in foreign currency.

Act on Cross-Border Credit Transfers

In implementing the EU Directive on cross-border credit transfers, Austria's Parliament passed the Federal Act on cross-border transfers in July 1999. This applies to transactions in currencies of the contracting parties of the EEA Agreement up to an amount of € 50,000 (or the equivalent in foreign currency). It contains provisions on the time limit for the execution of transfers, on the information duties as regards fees, charges and exchange rates, and on the compensation to be paid by institutions in the event of non-performance.

Finality Act

In implementing the EU Directive 98/26/EC, Austria's Parliament passed the Finality Act in December 1999. Similar to the procedure in most other EU countries, the Austrian central bank is entrusted with the task of designating payment systems and with the notification function in the event of insolvency proceedings.

Regulatory standards of European calibre

Austria's financial markets can boast regulatory standards of European calibre. Integration into the European Union will allow Vienna to become a Central European financial center with a powerful influence on neighboring regions. Fifty years after their virtual annihilation as a consequence of World War II, Austria's capital markets are undergoing impressive development. Now that they have successfully been reconstructed, the challenge to be faced in the future will be that of carrying out the transformation and expansion that are needed if they are to take on a truly European dimension.

For further information please contact:
Oesterreichische Nationalbank
Financial Markets Analysis and Surveillance Division
Otto-Wagner-Platz 3
A-1090 Vienna
Phone: +43-1-404 20-3100

5.2 Wiener Börse AG

In December 1997 the former Vienna Stock Exchange and *ÖTOB* (Austrian Futures and Options Exchange) merged to *Wiener Börse AG.* This was a big step forward in positioning Vienna as an independent market for Austrian and Central European securities and their corresponding derivatives instruments.

In June 1999 the Republic of Austria sold its 50% stake in *Wiener Börse AG* to thirty listed companies. The new ownership structure now includes major Austrian banks and listed companies.

Xetra® – The New Trading System at Wiener Börse

Xetra®

On 5 October 1999, in cooperation with *Deutsche Börse AG,* the trading system Xetra® has been introduced on *Wiener Börse's* cash and bond markets, replacing the EQOS system by *Oesterreichische Kontrollbank AG.*

Xetra®, which stands for e**x**change **e**lectronic **tra**ding, is a screen-based trading system for shares and other securities.

More detailed information on Xetra® you will find in the chapter "Trading System – Xetra®" or on our Web site www.wbag.at.

www.xetrawien.at

www.xetrawien.at

Compared to other international stock exchanges, *Wiener Börse* is a rather small market. However, the introduction of international capital market standards, a wide range of listed companies and a linkup with Xetra® have made Vienna more attractive for potential international investors.

The public relations initiative **www.xetrawien.at** makes it possible to obtain the latest information on listed companies, the Austrian capital market calendar, and various links to almost any desired type of information quickly and efficiently.

NEWEX® – New Europe Exchange

NEWEX®

NEWEX®, a subsidiary of *Deutsche Börse AG* and *Wiener Börse AG,* will be an exchange dedicated exclusively to Central and Eastern Europe. It will offer international investors easy access to the highly dynamic economic region of CEE. Located in the euro-zone, NEWEX will function as the ideal link between the international supply of capital and demand for capital in the CEE countries. As a regulated high quality market for securities from the entire region NEWEX will bundle liquidity, making it the central trading and financing platform for international market participants and issuers. Among the success factors of NEWEX are the high quality and efficiency of trading and settlement it guarantees, as well as the modern surveillance methods applied. NEWEX will operate on the proven trading platform, Xetra®. Clearing and settlement will be by Clearstream. Ensuring transparency, high corporate reporting standards are a key mark of quality, as NEWEX enforces stringent admission criteria on the basis of private law contracts with listed companies, as well as regular disclosures of corporate information. NEWEX is also open to further cooperation projects and partnerships with the exchanges of Central and Eastern Europe with the aim of fully exploiting synergy potential. For more information please visit: **www.newex.com**

The Market Segmentation of Wiener Börse

Market Segmentation

The market segmentation at *Wiener Börse* subdivides the markets according to liquidity and type of market making. The statutory listing criteria applicable to the Official Market, Semi-Official Market and Unregulated Market is also the basis for the classification and allocation of the securities to the different trading segments.

The Market Segmentation of Wiener Börse

Austrian Equity Market (AEM)	Austrian Growth Market (AGM)	ÖTOB Market (ÖTOB)	Other Securities Market (OSM)	Unregulated Securities Market (USM)
Shares (Xetra)	Shares (Xetra)	Futures and options (OM)	Bonds and other securities (OM/*Xetra)	Bonds and warrants
ATX Market		Austrian Derivatives		Warrants Market (OM)
Specialist Market		CECE Derivatives		Unregulated Securities Market (Xetra)
Auction Market				

Source: Wiener Börse AG.
* *currently 3 warrants via OM-Systems.*

A. Austrian Equity Market (AEM)

ATX Market

22 ATX blue chip shares are currently listed on the ATX Market. Companies listed in this segment are obliged to prepare their annual accounts according to IASC standards, U.S. GAAP, or to use reconciliation from Austrian standards to one of these. In addition, they are obliged to set up a link to an electronic medium (ad hoc disclosure), to produce quarterly reports and a corporate calendar. One specialist and at least two market makers are required.

Specialist Market

Admission to listing on the Official Market is required for the Specialist Market. Companies are obliged to set up a link to an electronic medium (ad hoc disclosure) and to produce a corporate calendar. Furthermore, one specialist is required; additional market makers are possible, but not obligatory.

Auction Market

The Auction Market contains all remaining shares and participation certificates admitted to the Official Market and to the Semi-Official Market. This segment does not have any further requirements.
All equities on the AEM are traded via Xetra®.

B. Austrian Growth Market (AGM)

The AGM is a special market segment for medium-sized growth companies. It has been modeled largely after the *Neuer Markt* on *Deutsche Börse*. This segment lists companies with a market capitalization of at least ATS 500 million (€ 36 million) (reference value) and realistic growth prospects. In addition, they must issue a minimum volume of € 5 million, have at least € 1.5 million in stockholders' equity and a free float of 25% or more.

One specialist shall be required; additional market makers are possible, but not obligatory. All equities on the AGM are traded via Xetra®.

C. ÖTOB Market (ÖTOB)

Austrian Derivatives
Austrian Stock Options
ATX futures and options

CECE Derivatives
CECE (CTX, HTX, PTX) futures and options
RTX futures and options
RDX futures and options

All derivatives are traded via the fully electronic trading system by OM Systems.

Detailed information on the *ÖTOB* Market you will find in 5.5 *ÖTOB – Wiener Börse's* Derivatives Market.

D. Other Securities Market (OSM)

The OSM contains securities belonging to neither of the market segments mentioned above, such as all bonds admitted to the Official Market, and warrants, dividend rights certificates and investment certificates admitted to the Official Market or Semi-Official Market. All these securities are traded via Xetra®.

E. Unregulated Securities Market (USM)

The Unregulated Securities Market contains all securities admitted to the Unregulated Market. Warrants are traded via the fully electronic trading system by OM Systems. All other securities are traded via Xetra®.

Listing on Wiener Börse

Listing on Wiener Börse

All securities traded on *Wiener Börse* must apply for admission to one of the market segments stipulated by law, regardless of the introduction of the new segmentation oriented on the needs of a modern financial marketplace. These three segments are the Official Market *(Amtlicher Handel),* the Semi-Official Market *(Geregelter Freiverkehr)* and the Unregulated Market *(Sonstiger Handel).*

The listing criteria are based on the following:

1. Council Directive of 5 March 1979; coordinating the provisions governing the admission of securities to official stock exchange listing on a securities exchange as stated in the Directive adopted on 3 March 1982.
2. Council Directive of 17 March 1980; coordinating the requirements for the drawing up, scrutiny and distribution of the listing particulars to be published for the admission of securities to official stock exchange listing as stated in the Directive adopted on 3 March 1982 and 22 June 1982 by the EC.
3. Council Directive of 15 February 1982 on information to be published on a regular basis by companies whose shares have been admitted to official stock exchange listing.

The Application for Admission to Listing

Application for admission to listing

Applications for admission to listing to the Official Market and to the Semi-Official Market shall be submitted in writing by the issuer to *Wiener Börse*. They must be signed by a bank that is a member of the exchange.

The application shall contain the following information:

- name of the issuer
- registered seat of the issuer
- type of security
- denomination
- total nominal value
- the projected total market value and number of securities for no-par stock
- a list of any other exchanges on which an application for admission to listing has been submitted or will be in the future

The application shall be accompanied by the following documents:

- an excerpt from the commercial register
- the company's by-laws
- if applicable, any official authorization certificates certifying the founding of the issuers company, permits to carry on business or to issue securities
- if applicable, proof of the legal status giving the company the right to issue securities
- if applicable, proof that the securities have been registered
- the annual accounts and financial statements of the last business year (Semi-Official Market) or of the most recent three years (Official Market)
- two copies of the signed prospectus
- two sample prints of the security documents or the declaration of the issuer to deposit a global certificate in the custody of the central depository for securities

The Stock Exchange Act of 1989, as amended, empowers *Wiener Börse* to grant or to deny admission of securities to listing. An appeal against a decision may be lodged with the independent Appellate Committee of the Ministry of Finance. Appeals against decisions of the Appellate Committee may be lodged with the Administrative Court.

Listing Requirements for the Official Market

Listing requirements for the official market

The main requirements for listing are:

- If being admitted for the first time, a total nominal value of a minimum of ATS 40 million (€ 2.91 million) for shares and a minimum of ATS 10 million (€ 0.73 million) for other securities is required. If being admitted for the first time, Austrian companies' preferred shares without voting rights whose ordinary shares are not listed shall have a total nominal value of at least ATS 15 million (€ 1.09 million).
- A company whose shares are being admitted for the first time must have existed for at least three years and have published annual accounts for these three complete financial years. In cases of universal succession and continuous accounting, the period of existence of the preceding company shall be taken into account. An exception may be granted

regarding the three year period of existence if it is in the interest of the issuer and of the investing public and documents are provided that contain information equivalent to the annual accounts of the past three years. However, the company must have published annual accounts for a complete business year.

- The securities must be freely negotiable instruments. Trading on the stock exchange shall not be hindered by any restrictions regarding their acquisition. The securities' denominations must be commensurate with trading requirements.
- Securities must fulfill the corresponding requirements regarding the number of free shares or if this is to be achieved by going public, an adequate amount must be placed through the exchange. Shares must have a free float of at least ATS 10 million (€ 0.73 million) nominal share capital. In the case of no-par shares, the number of free shares shall be at least 10,000 securities.

There are special provisions for continuous issues, for debt securities issued by international organizations which are public entities under public law as well as for certificates representing shares. Debt securities issued by the federal government, the provinces and other countries belonging to the EEA do not need to fulfill any requirements for admission to official listing.

In the case of foreign issues, the admission to listing on the stock exchange of the company's home country is a prerequisite. Under no circumstances shall this be waived, a measure to protect investors' interests. For the same reasons, the admission to listing may also have special conditions attached to it.

Listing Requirements for the Semi-Official Market

Listing requirements for the semi-official market

The main requirements for listing are:

- If being admitted for the first time a total nominal value of a minimum of ATS 10 million (€ 0.73 million) for any type of security shall be required. If being admitted for the first time, the projected market value of no-par stock shall be at least ATS 5 million (€ 0.36 million) and the total number of securities shall be at least 10,000 units.
- The company being admitted for the first time must have existed for at least one year and have published annual accounts for at least one financial year. In cases of universal succession and continuous accounting, the period of existence of the preceding company shall be taken into account. Exceptions valid for the Official Market do not apply.
- The securities must be freely negotiable instruments. Trading on the stock exchange shall not be hindered by any restrictions regarding their purchase. The securities' denominations must be commensurate with trading requirements.
- The application shall be made for all shares of the same type or for all securities of the same offering.
- Securities must fulfill the corresponding requirements regarding the number of free shares or if this is to be achieved by going public, an adequate amount must be placed through the exchange. Shares must have

a free float of at least ATS 2.5 million (€ 0.18 million) nominal share capital. In the case of no-par shares the number of free shares shall be at least 2,500 securities.

In addition, there are special provisions similar to those for listing on the Official Market.

Trading on the Unregulated Market

Unregulated market

Shares that do not fulfill the listing requirements for admission to official listing or to semi-official listing may be traded on the Unregulated Market of *Wiener Börse*. The only requirement for these securities is that the quality of the documents' print conform to the standards set by *Wiener Börse*. The intention to trade these securities must merely be reported to *Wiener Börse*. There are no formal listing procedures. The interests of the investing public may not be impaired by the economic or legal position of the issuer.

For more information, please contact:
Wiener Börse AG
Surveillance
Attn.: Mr. Robert Sumann
Strauchgasse 1–3
A-1010 Vienna
Phone: +43-1-531 65-258
Fax: +43-1-531 65-271
e-mail: sumann@wbag.at

Trading System – Xetra®

Trading system – Xetra®

Xetra® (e**x**change **e**lectronic **tra**ding), created by *Deutsche Börse AG,* was introduced on 5 November 1999 and is a screen-based trading system.

The following types of securities are traded via Xetra®:

- Austrian shares
- Austrian participation certificates
- Austrian investment certificates
- international shares
- international investment fund certificates
- profit-sharing certificates and profit-sharing rights
- subscription rights
- debt securities

The electronic trading system Xetra® offers the following advantages:

- a trading platform that provides all market participants with equal access to the market, regardless of where they are located
- longer trading hours:
  Shares: 9:15 a.m. to 5:30 p.m.
  Bonds: 11:30 a.m. to 2:20 p.m.
- concentration of liquidity in one central order book
- increased market transparency through the open order book
- low transaction costs guaranteed by the electronic matching of orders

- avoidance of extreme price jumps through volatility interruptions
- a more customer-oriented set of order placement rules allowing individualized order specifications for validity and type of execution
- additional liquidity provided by special intermediaries (market makers, specialists)

Types of Orders and Order Specifications

Types of orders

Basically, orders of any size may be traded through Xetra®, as the minimum trading lot is one. All orders are anonymous, so that trading participants cannot see who placed an order or a quote into the order book.

Xetra® offers a wide range of options for individualized order specification. The system accepts market and limit orders. Market orders are orders executed immediately at the next available price. Limit orders, by contrast, are executed when prices reach or surpass the limit set by the investor. Private investors are recommended to use limit orders because they guarantee a purchase or sale at the desired price or better.

Xetra® also allows the entry of two types of stop orders, which are executed as soon as a price limit (stop limit) is reached: stop market orders and stop limit orders. A stop market order is entered into the order book automatically as a market order once the specified stop limit is reached. The same applies to the stop limit order, which is placed into the order book automatically when the specified stop limit is reached.

In Xetra®, restrictions may be placed on the execution of orders as well. The order attribute "fill-or-kill" means that the order is either executed completely or not at all. Orders marked "immediate-or-cancel" are executed immediately to the extent possible. Any unfilled portion of this type of order is deleted. The validity of an order may also be limited to a certain trading phase (e.g. opening auction or closing auction only).

Trading Procedure and Types of Trading

The Xetra® market model for *Wiener Börse* supports continuous trading with several auctions as well as trading with only one auction per trading session.

Austrian Equity Market

ATX Market
- Opening auction
- Continuous trading
- Intraday auction
- Continuous trading
- Closing auction

Specialist Market
- Opening auction
- Continuous trading
- Closing auction

Auction Market
- One auction per trading session

Austrian Growth Market (AGM)
- Opening auction
- Continuous trading
- Closing auction

Other Securities Market (OSM)
- One auction per trading day

Unregulated Securities Market (USM)
- One auction per trading day or
- Opening auction
- Continuous trading
- Closing auction

Source: Wiener Börse AG.

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. 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.

Routing Orders via Xetra®

Xetra® trading at *Wiener Börse* is open only to institutions admitted to trading on the exchange, such as banks, and their representatives (dealers). The responsible dealer enters all investors' orders into the electronic order book. 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).

Transaction and Adjustment Fees

Transaction fees

Transaction Fees Cash Market

Segment	Participant	Variable	Minimum	Maximum
ATX Market, Specialist Market, AGM	Agent	4.00 bp	EUR 1.80	EUR 90.00
	Principal	4.00 bp	EUR 1.80	EUR 90.00
	Market Maker	2.00 bp	EUR 1.80	EUR 36.00
	Specialist	0.00 bp	EUR 0.00	EUR 0.00
Auction Market (on the Austrian Equity Market)		6.00 bp	EUR 3.60	..
Bonds (on the Other Securities Market or Unregulated Securities Market)		1.00 bp	EUR 5.50	EUR 55.00
Other Securities (on the Other Securities Market or Unregulated Securities Market)		7.00 bp	EUR 3.60	..
Warrants (on the Other Securities Market or Unregulated Securities Market)	Agent	EUR 3.00	..	..
	Principal	EUR 3.00	..	..
	Liquidity Provider	0.50%	EUR 1.00	EUR 6.00

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

Adjustment fees

Adjustment Fees Cash Market

Adjustment	Fee in EUR	Calculation Basis
Changes in cash market trades via Xetra	5.00	per change and trade
Cancellation of cash market trades via Xetra by WB AG	100.00	per order triggering cancellation
Changes in warrants trades via OM	5.00	per change
Cancellation of warrants trades via OM by WB AG	10.00	per trade
Manual entry of a warrants trade via OM by WB AG	5.00	per trade
Manual order entry by WB AG	5.00	per order
Manual order deletion by WB AG	0.00	per order
Give Up Trades	2.50	per trade

The Clearing and Settlement System (Arrangement)

SICS

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

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 OM on the basis of the orders placed. SICS uses the transaction data delivered by Xetra® and OM 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 the most modern system 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 now 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 99.7% of transactions are settled punctually, the international benchmark being clearly lower.

The Arrangement settlement system

Under the Austrian clearing and settlement system, which is called *Arrangement,* 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.

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 as security for clearing transactions and a securities depository account for crediting and debiting the units traded.

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.

Non-clearing members

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.

SICS provides an interface for clearing participants that allows exchange members to retrieve data electronically as follows:

Technical link-up

- screen display on standard clients PCs and printout on local printer;
- dialogue and download via SNA/TCP-IP;
- batchdata via ftp-Server.

Settlement of OTC Transactions

Over-the-counter transactions account for a large proportion of Austrian securities turnover (95% of bond turnover, approximately 40% of stock turnover). Participants in the central securities depository system used to settle them with the help of securities cheques, but their relative importance prompted the development of *Oesterreichische Kontrollbank AG's* Direct Settlement System (DS).

OTC settlements

DS supports the following:

- Standard on-screen inquiries: Subscribers can call up information about their securities on deposit with *Oesterreichische Kontrollbank AG's* central securities depository system (see below). They can also see how the securities transfers that would result from planned DS or stock exchange transactions might affect their securities balance. The system is capable of calculating fictitious securities balances for any specified value date.
- Securities transfers and direct transactions: The introduction of the DS system has made it unnecessary to issue securities cheques. Data entry and authorization by the subscriber suffice to trigger the pertinent book entry in *WSB's* central depository system and make the credit entry in the recipient's account.

The Depository System

The Austrian Central Securities Depository (WSB)

WSB stands for *Wertpapiersammelbank,* the Austrian central securities depository. It is operated by *Oesterreichische Kontrollbank AG. WSB* takes care of the safekeeping and transfer of securities – usually by way of computerized book entries in *WSB* accounts – together with the necessary financial clearing procedures and the day-to-day administration of securities and deposits. SICS settlement data can be fed directly into the *WSB* system to update account balances.

The Austrian Central Securities Depository

The following have deposit and cash accounts with *Oesterreichische Kontrollbank AG's WSB* depository:

- Austrian banks and Austrian subsidiaries of foreign banks;
- brokers;
- foreign central securities depositories;
- international clearing agencies;
- EU financial institutions.

Delivery Against Payment

Delivery against payment

WSB settles transfers between accounts on a simultaneous, final and irrevocable delivery against payment basis in same day funds. When a customer places an order, *WSB* guarantees to the seller that the securities being sold will only be debited on the seller's account against simultaneous payment by the buyer (through a current account held with *Oesterreichische Kontrollbank AG). WSB* also offers this service for cross-border transactions. Electronic support is provided by *Oesterreichische Kontrollbank AG's* Direct Settlement System.

Securities Lending

The securities lending scheme

The securities lending facility was initiated to improve liquidity in a number of market segments. Any Austrian bank that has a deposit account with the *WSB* depository can borrow securities through the mediation of *Oesterreichische Kontrollbank AG* for a period of between three days and six months. This allows rapid access to securities that are not available in one′s own portfolios.

WSB selects a suitable lender from among the Austrian banks that have agreed to act as lenders, acting in a fiduciary capacity and normally without disclosing the identities of the parties to a contract.

The borrower has to pledge collateral in the form of securities. The collateral must represent at least 120% of the market value of the securities on loan if it consists of bonds, or 150% if it comprises equities. The collateral is credited to a collateral account administered by *WSB* as fiduciary for the lender.

Securities lending used to attract stock exchange turnover tax discouraging the widespread use of the instrument, but it has been exempt from this tax since 1 January 1994.

Cross-Border Links

Global certificates for foreign securities traded in Vienna

Since 1989, *Oesterreichische Kontrollbank AG* has been issuing global certificates called "Austrian Depository Certificates" (ADC) for foreign registered securities. This has facilitated their trade and enabled a listing on *Wiener Börse*.

The securities underlying the ADCs are held in custody by a foreign depository agent for the account of the Austrian *WSB* client. *Oesterreichische Kontrollbank AG* selects the depository agent in accordance with the bank arranging the stock exchange listing. The securities are registered in the name of *Oesterreichische Kontrollbank AG* or a bank designated by *Oesterreichische Kontrollbank AG. Oesterreichische Kontrollbank AG* then issues a global certificate for the securities and holds it in the *WSB* vaults.

WSB depositors can acquire a share of the global certificate. It will correspond to the face value of the registered securities that they have had placed in *WSB's* account with the foreign depository agent.

Settlements of cross-border securities transactions

WSB offers account holders a variety of clearing and depository services that facilitate their international securities business. The International Clearing and Depository Service helps settle cross-border securities transactions both rapidly and cost-effectively. The service is based on agreements between *Oesterreichische Kontrollbank AG* and securities depositories in other countries.

Settlement via CBL and Euroclear

WSB has established links with Clearstream Banking Frankfurt (CBF), *NECIGEF* in Amsterdam, *SICOVAM* in Paris, SIS Sega Inter Settle in Zurich, *Monte Titoli* in Milan and with *Keler* in Budapest. Additional depository services were established for Hungarian, Czech, Slovak and Croatian securities. In addition to bilateral arrangements, closer links with international clearing agents such as Clearstream Banking Luxembourg (CBL) and Euroclear are also playing an increasingly important role in the settlement of cross-border securities transactions. Both, Euroclear and CBL have opened securities accounts with *Oesterreichische Kontrollbank AG.*

Foreign depository service

WSB is currently developing an extended foreign depository and general clearing service for clearing and settlement of transactions on foreign stock exchanges as well as custody services for foreign securities deposited with *WSB's* custodians.

WSB will be responsible for carrying out subscribers' transfer orders, and purchased securities will be recorded as credit entries in *WSB* clearing accounts. In the first phase of the project, *Oesterreichische Kontrollbank AG* installs a fully electronic link with *Deutsche Börse AG,* so as to cover all German securities listed on the stock exchange trading system, Xetra®.

Furthermore *Oesterreichische Kontrollbank AG* is a member of the European Central Securities Depositories Association (ECSDA). This association was established in 1997 in order to intensify the cooperation between central securities depositories of the EU and to promote the development of intra-EU securities transactions. In this context *Oesterreichische Kontrollbank AG* is planning to establish custody links with most of the European CSDs.

Membership at Wiener Börse

Membership

In order for an institution to participate in trading on *Wiener Börse* in the cash and derivatives markets, it must become a member of *Wiener Börse* and have the required technical and staff recourses. 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

Prerequisites for companies wishing to become members of *Wiener Börse* are:

- a confirmation stating that the applicant is authorized to carry on the business of providing investment services in its home country
- admission as a member to a regulated market there
- supervision by the competent authority

For companies domiciled in third countries, fulfillment of the admission requirements is examined individually.

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

Participation in:

- trading in securities, specifically for
  – trading in shares 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,* 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)

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.

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. On the cash market, it is also possible for a trading participant to indirectly take part in the settlement system as the client of a Clearing Agent. Such Clearing Agent obliges itself to fulfil all transactions concluded by its client (indirect clearing member) under the condition that it is placed in a position to do so by the client.

Membership Fees

There is no admission fee for trading membership on the cash and derivatives market

Membership fees

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
Unregulated Securities Market[2])	EUR 72.50	EUR 72.50	EUR 72.50	EUR 545	EUR 2,725

[1]) *The variable fees are calculated from the annual turnover using basis points (bp), each bp equals 1/10,000 per year.*
[2]) *EUR 72.50 for each security, which has been traded by the member during the 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 € 7,250 for the first 12 calendar months as of the time they become members.

Annual Participation Fee ÖTOB Market	Trading Participant NCM/DCM/GCM[1])	
Participation fee	EUR 14,500	
Market Maker for at least two underlyings	50% of EUR 14,500	
Clearing Membership ÖTOB Market	**DCM**	**GCM**
Clearing admission fee	EUR 29,000	EUR 43,500
Annual clearing participation fee	EUR 21,750	EUR 29,000

[1]) *NCM – Non-clearing Members. DCM – Direct Clearing Members. GCM – General Clearing Members.*

For further information on fees please visit www.wbag.at under info wbag – fees.

List of Members of Wiener Börse AG

Banks

Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft
A-4020 Linz/Donau, Promenade 11–13
Phone: +43-732-73 91-0
Fax: +43-732-73 91-31 31

Allianz Investmentbank AG
A-1015 Vienna, Kärntner Ring 12
Phone: +43-1-505 54 80-0
Fax: +43-1-505 54 81

Anglo Irish Bank (Austria) AG
A-1010 Vienna, Rathausstraße 20
Phone: +43-1-406 61 61-0
Fax: +43-1-405 81 42

Bank Austria AG
A-1030 Vienna, Vordere Zollamtsstraße 13
Phone: +43-1-711 91-0
Fax: +43-1-711 91-52123

Bank für Arbeit und Wirtschaft AG
A-1011 Vienna, Seitzergasse 2–4
Phone: +43-1-534 53-0
Fax: +43-1-534 53-2840

Bank für Kärnten und Steiermark AG
A-9020 Klagenfurt, St.-Veiter-Ring 43
Phone: +43-463-58 58-0
Fax: +43-463-58 58-843

Bank für Tirol und Vorarlberg AG
A-6021 Innsbruck, Erler Straße 5–9
Phone: +43-512-53 33-0
Fax: +43-512-53 33-182

Bank Gutmann AG
A-1010 Vienna, Schwarzenbergplatz 16
Phone: +43-1-502 20-0
Fax: +43-1-502 20-249

Bankhaus Carl Spängler & Co AG
A-5024 Salzburg, Schwarzstraße 1
Phone: +43-662-86 86-0
Fax: +43-662-86 86-89

Bankhaus Krentschker & Co AG
A-8020 Graz, Am Eisernen Tor 3
Phone: +43-316-80 30-0
Fax: +43-316-80 30-879 (Security Dept.)

Bankhaus Schelhammer & Schattera AG
A-1010 Vienna, Goldschmiedgasse 3
Phone: +43-1-534 34-0
Fax: +43-1-534 34-64

CA IB Investmentbank AG
A-1011 Vienna, Nibelungengasse 15
Phone: +43-1-588 84-0
Fax: +43-1-588 84-65812

Centro Internationale Handelsbank AG
A-1015 Vienna, Tegetthoffstraße 1
Phone: +43-1-515 20-0
Fax: +43-1-513 43 96

Constantia Privatbank AG
A-1010 Vienna, Opernring 17
Phone: +43-1-588 75-0
Fax: +43-1-588 75-290 (Security Dept.)

Creditanstalt AG
A-1010 Vienna, Schottengasse 6–8
Phone: +43-1-531 31-0
Fax: +43-1-531 31-44699

Deutsche Bank AG Filiale Wien
A-1013 Vienna, Hohenstaufengasse 4
Phone: +43-1-531 81-0
Fax: +43-1-531 81-14

EB und Hypo–Bank Burgenland AG
A-7000 Eisenstadt, Neusiedler Straße 33
Phone: +43-2682-605-0
Fax: +43-2682-605-279

Erste Bank der oesterreichischen Sparkassen AG
A-1010 Vienna, Graben 21
Phone: +43-1-531 00-0
Fax: +43-1-531 00-2272

Hypo Alpe-Adria-Bank AG
A-9020 Klagenfurt, Alpen-Adria-Platz 1
Phone: +43-463-58 60-0
Fax: +43-463-58 60-50

Imperial Bank AG
A-4020 Linz, Goethestraße 1a
Phone: +43-732-69 65-0
Fax: +43-732-66 67 67

Investkredit Bank AG
A-1013 Vienna, Renngasse 10
Phone: +43-1-531 35-0
Fax: +43-1-531 35-990

Kommunalkredit Austria AG
A-1092 Vienna, Türkenstraße 9
Phone: +43-1-316 31-0
Fax: +43-1-316 31-505

Landes-Hypothekenbank Steiermark AG
A-8010 Graz, Radetzkystraße 15–17
Phone: +43-316-80 51-0
Fax: +43-316-80 51-354

Landes-Hypothekenbank Tirol AG
A-6021 Innsbruck, Meraner Straße 8
Phone: +43-512-59 11-0
Fax: +43-512-59 11-2121

Meinl Bank AG
A-1014 Vienna, Bauernmarkt 2
Phone: +43-1-531 88-0
Fax: +43-1-531 88-44

Oberbank AG
A-4020 Linz/Donau, Hauptplatz 11
Phone: +43-732-78 02-0
Fax: +43-732-78 58 14 (Security Dept.)

Oesterreichische Kontrollbank AG
A-1010 Vienna, Am Hof 4
Phone: +43-1-531 27-0
Fax: +43-1-531 27-407

Österreichische Postsparkasse AG
A-1018 Vienna, Georg-Coch-Platz 2
Phone: +43-1-514 00-0
Fax: +43-1-514 00-1700

Österreichische Volksbanken-AG
A-1090 Vienna, Peregringasse 3
Phone: +43-1-313 40-0
Fax: +43-1-313 40-3683

Raiffeisen Zentralbank Österreich AG
A-1030 Vienna, Am Stadtpark 9
Phone: +43-1-717 07-0
Fax: +43-1-717 07-1273

Raiffeisen-Landesbank Tirol regGenmbH
A-6021 Innsbruck, Adamgasse 1–7
Phone: +43-512-5305-0
Fax: +43-512-5305-1629

Raiffeisenbank Reutte regGenmbH
A-6600 Reutte, Untermarkt 3
Phone: +43-5672-6900-0
Fax: +43-5672-6900-2598

Raiffeisenlandesbank Niederösterreich-Wien regGenmbH
A-1020 Vienna, Friedrich-Wilhelm-Raiffeisen-Platz 1
Phone: +43-1-211 36-0
Fax: +43-1-211 36-2274

Raiffeisenlandesbank Kärnten regGenmbH
Rechenzentrum und Revisionsverband,
A-9010 Klagenfurt, St. Veiter Ring 53
Phone: +43-463-5815-0
Fax: +43-463-5815-36

Raiffeisenlandesbank Oberösterreich regGenmbH
A-4021 Linz, Raiffeisenplatz 1
Phone: +43-732-65 96-0
Fax: +43-732-65 96-2739

Raiffeisenlandesbank Steiermark regGenmbH
A-8011 Graz, Kaiserfeldgasse 5–7
Phone: +43-316-40 02-0
Fax: +43-316-40 02-900

Raiffeisenverband Salzburg regGenmbH
A-5020 Salzburg, Schwarzstraße 13–15
Phone: +43-662-88 86-0
Fax: +43-662-88 86-525

RBB Bank AG
A-9400 Wolfsberg, Herrengasse 1
Phone: +43-4352-2892-0
Fax: +43-4352-2892-256

SKWB-Schoellerbank AG
A-1010 Vienna, Renngasse 1–3
Phone: +43-1-534 71-0
Fax: +43-1-533 43 90

Steiermärkische Bank und Sparkassen AG
A-8010 Graz, Sparkassenplatz 4
Phone: +43-316-80 33-0
Fax: +43-316-80 33-14369

Tiroler Sparkasse Bankaktiengesellschaft Innsbruck
A-6021 Innsbruck, Sparkassenplatz 1
Phone: +43-512-59 10-0
Fax: +43-512-59 10-720

Volksbank Kufstein regGenmbH
A-6330 Kufstein, Unterer Stadtplatz 21
Phone: +43-5372-69 22-0
Fax: +43-5372-69 22-250

Volkskreditbank AG
A-4020 Linz, Rudigierstraße 5–7
Phone: +43-732-76 37-0
Fax: +43-732-76 37-400

Vontobel Bank AG
A-5024 Salzburg, Rathausplatz 4
Phone: +43-662-84 15 51-0
Fax: +43-662-84 15 51-9

Vorarlberger Landes- und Hypothekenbank AG
A-6900 Bregenz, Hypo-Passage 1
Phone: +43-5574-414-0
Fax: +43-5574-414-457

Vorarlberger Volksbank regGenmbH
A-6830 Rankweil, Ringstraße 27
Phone: +43-5522-404-0
Fax: +43-5522-455 53

Welser Volksbank regGenmbH
A-4601 Wels, Eisenhowerstraße 32
Phone: +43-7242-495-0
Fax: +43-7242-495-97

Remote Members

AOT(Nederland) B.V.
NL-1012 GL Amsterdam, Oudezijds Voorburgwal 282
Phone: +31-20-5220310
Fax: +31-20-6238014

Bank J. Vontobel & Co. AG
CH-8022 Zürich, Bahnhofstrasse 3
Phone: +41-1-283 71 11
Fax: +41-1-283 76 50

Barclays Bank plc.
GB-London E14 4BB, 5, North Colonnade
Phone: +44-20-773 9909
Fax: +44-20-774 4883

Bayerische Hypo- und Vereinsbank AG
D-80133 München, Am Eisbach 3
Phone: +49-89-378-0
Fax: +49-89-378-25341

Citibank AG
D-60311 Frankfurt/Main, Neue Mainzer Straße 75

Credit Suisse First Boston (Europe) Limited
GB-London E14 4QJ, One Cabot Square
Phone: +44-20-888-8888
Fax: +44-20-888-1600

Credit Suisse First Boston AG
D-60308 Frankfurt/Main, Messeturm
Phone: +49-69-7538-0
Fax: +49-69-7538-2834

Greenwich Europe Securities Ltd.
GB-London SW1X 7HH, 16 Grosvenor Place
Phone: +44-20-235-3535
Fax: +44-20-235-2115

ICE Securities Limited
GB-London EC4N 7AD, 20 Abchurch Lane
Phone: +44-20-626 3232
Fax: +44-20-626 2993

Sal. Oppenheim jr. & Cie.
D-60323 Frankfurt, Bockenheimer Landstraße 20
Phone: +49-69-7134-0
Fax: +49-69-7134-5211

Société Générale S.A.
F-75009 Paris, 29 Blvd. Haussmann
Phone: +33-1-4213-0
Fax: +33-1-4213-8720

Timber Hill (Europe) AG
CH-6300 Zug, Gotthard Strasse 3
Phone: +41-21-641 46 46
Fax: +41-21-641 46 40

Official Brokers for the Semi-Official Market

Euro Invest Bank AG
A-1130 Vienna, Amalienstraße 48/4
Phone: +43-1-879 39 57
Fax: +43-1-879 30 40

WMP Bank AG
A-1090 Vienna, Schlickgasse 1
Phone: +43-1-317 27 00-0
Fax: +43-1-317 27 00-73

Official Brokers for the Official Market

Dr.Werner Lang
A-1040 Vienna, Prinz-Eugen-Straße 6/10
Phone: +43-1-505 78 59

Franz Erwin Bauer
A-1090 Vienna, Porzellangasse 10/18
Phone: +43-1-31 83 36

Georg Zimmermann
A-2380 Perchtoldsdorf, Hablegasse 10
Phone: +43-1-869 91 42

Gerhard Mittlböck
A-1190 Vienna, Pyrkergasse 33/15
Phone: +43-1-364 71 45

Karl Glashüttner
A-1130 Vienna, Pacassistraße 70/8
Phone: +43-1-804 97 62

For more information on membership, please contact:
Wiener Börse AG
International Sales
Attn.: Mr. Peter Böhmwalder
Strauchgasse 1–3
A-1010 Vienna
Phone: +43-1-531 65-203
Fax: +43-1-531 65-140
e-mail: boehmwalder@wbag.at

5.3 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 ATS 182 billion (€ 13 billion) in January 1990 to ATS 1,071 billion (€ 78 billion) in December 1999. The substantial increase in standard issue size – from ATS 2–4 billion (€ 0.14–0.29 billion) per bond before the introduction of the auction procedure to ATS 20–76 billion (€ 1.45–7.5 billion) since the beginning of 1997 – 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.

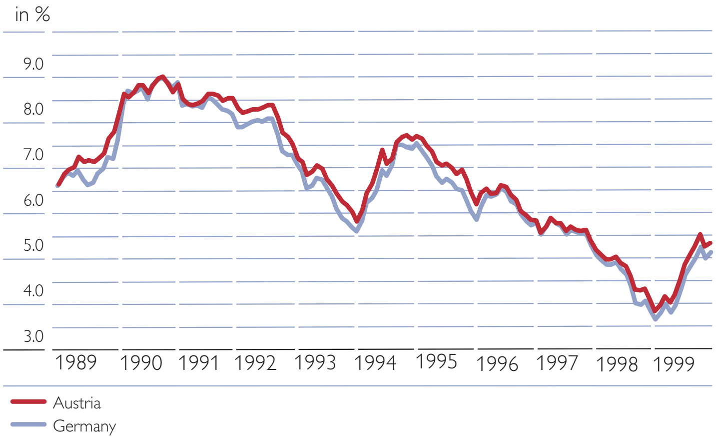
1989 saw the introduction of a 10% withholding tax. It was raised to 22% at the end of 1992 and to 25% in mid-1996 but did not cause major capital outflows.

Structural reforms

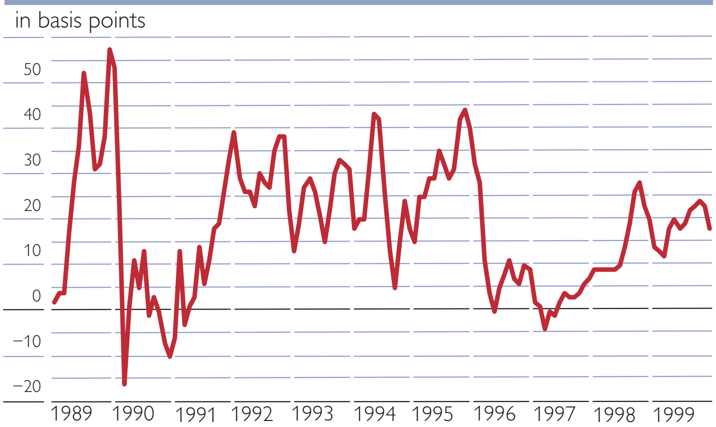
1989 also saw the start of concrete measures to deregulate the primary and secondary markets, increase trading volumes and reduce investors' transaction costs. The reforms included the introduction of a market-maker system and a bond lending scheme. In preparation for the single European currency further steps were taken to increase the market's attractiveness, e.g. the harmonisation of market conventions with international standards and the inclusion of additional non-Austrian

Secondary Market Yields of Austria and Germany

10 Year Government Bonds
January 1989–December 1999



Austria minus Germany



Benchmark Yields, Monthly Averages.
Sources: AREMOS, Handelsblatt (Germany); Vienna Stock Exchange (Austria).

primary dealers in the auction group to further broaden the international investor base.

The scale of the market

By the end of 1999, the outstanding volume of debentures came to ATS 1,989 billion (€ 145 billion), 41% of it issued by banks and 59% by non-banks. As in previous years, the Republic of Austria was the biggest single bond issuer in 1999. Outstanding Government Debt Issues totalled ATS 1,088 billion (€ 79 billion) and accounted for 55% of the outstanding volume of bonds. The remaining 4% comprised outstanding debt of foreign issuers, special financing agencies, power companies and others.

The Market's Structure

Domestic issuers

The market's biggest issuer is the Republic of Austria itself. *Bundesanleihen* (government bonds) account for 54% and *Bundesobligationen* (federal debentures) account for 1% 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*.

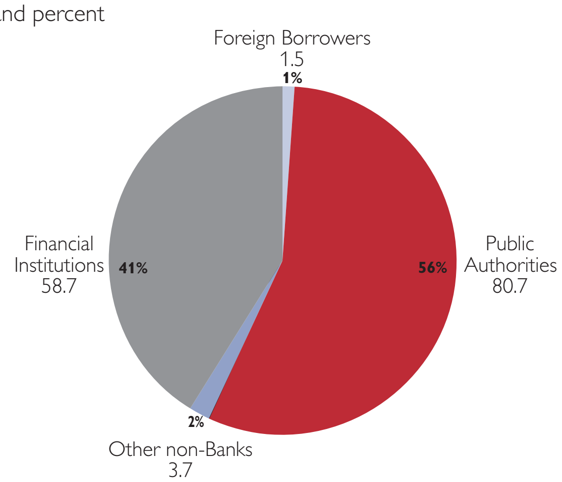
Like the central government, public authorities such as *Länder* (provincial governments) and municipalities also used to raise funds in the capital markets, but their share of the bond market has declined considerably. Special financing agencies (such as *Asfinag*) and power companies are regular issuers.

Bank debentures account for 41% 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 4% of the market. Despite continuing deregulation, the corporate segment is rather small.

Outstanding Volume in the Austrian Bond Market (December 1999)

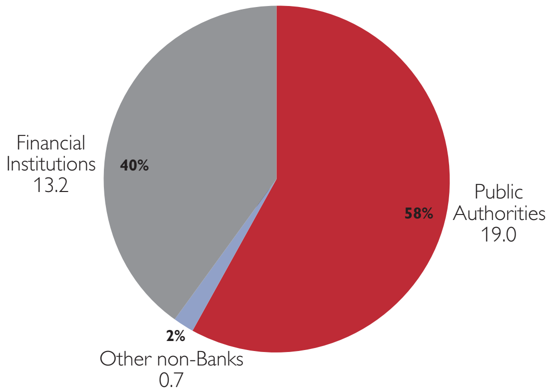
in EUR billion and percent



Sources: Oesterreichische Nationalbank, Oesterreichische Kontrollbank AG.

New Issues January–December 1999

in EUR billion and percent



Source: Oesterreichische Nationalbank.

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])

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.

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 euro 1,000. Denominations in the private placement sector are usually many times higher.

Secondary market and trading system

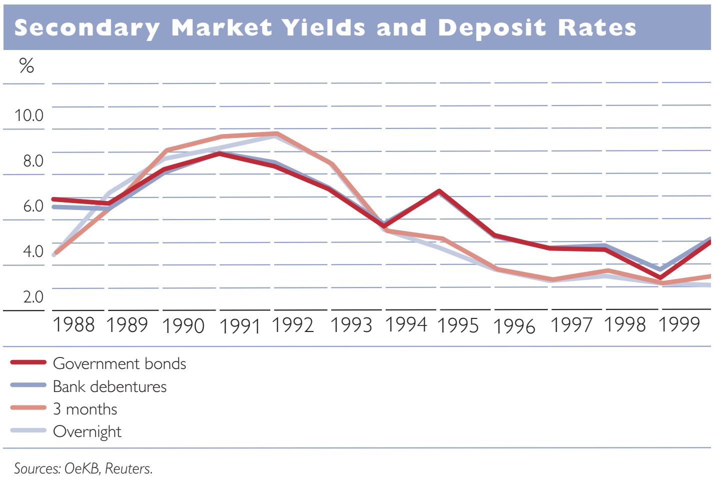
Most bond trading takes place in the interbank market or involves institutional investors. Government bonds are usually traded over the counter. Daily prices are also quoted on banks' Reuters and Bloomberg pages. Only a smaller proportion is traded on the Vienna Stock Exchange.

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 Reuters.



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 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. 26 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 euro 1 billion unless the announced minimum annual volume has already been reached. Volumes below euro 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 26 participating banks must submit a bid for at least one 26th 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 € 1 billion and above. Bids must be made on a yield basis and must be submitted to *Oesterreichische Kontrollbank AG* by 11:00 a.m. on tender day. By tradition, *Oesterreichische Kontrollbank AG* acts as the fiscal agent for government bonds.

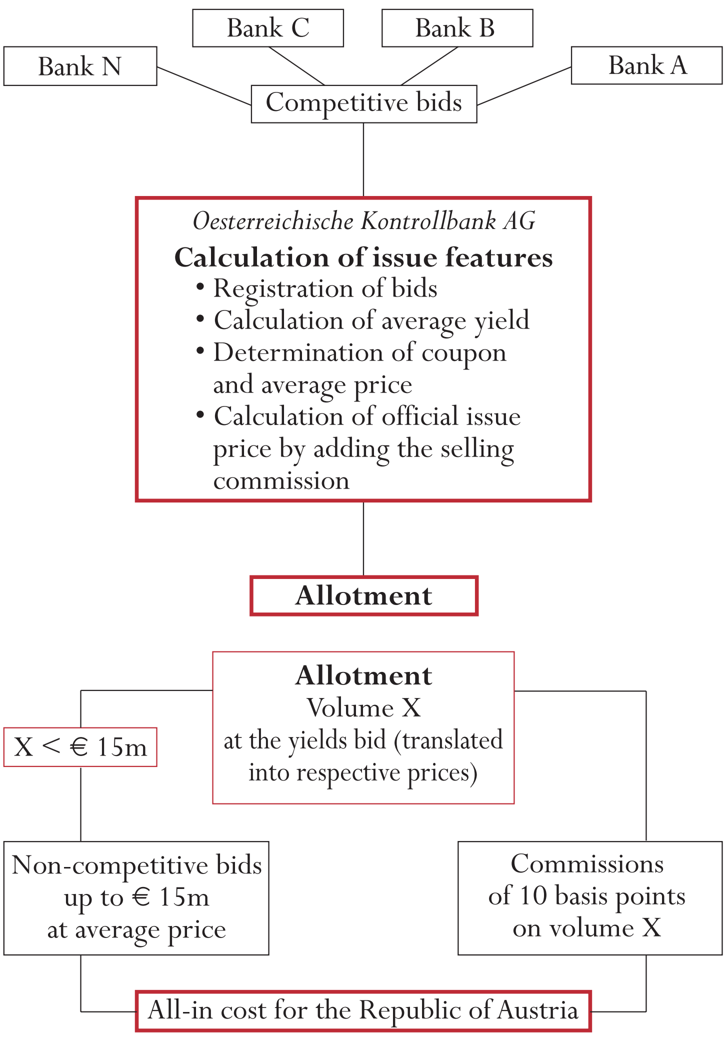
Calculating the coupon and average price

Bids are ranked in ascending order according to yield. Once the announced volume of the bond has been matched by bids, *Oesterreichische Kontrollbank AG* calculates the average yield of all the bids below the volume ceiling in their order of ranking. The average yield is translated into a coupon plus average price. The aim is to set a coupon that represents the nearest possible approximation to par.

Allotments, commissions and the official issue price

Banks that receive an allotment of either zero or less than euro 15 million can submit non-competitive bids for up to euro 15 million (which includes any allotment they may have as a result of competitive bidding). If non-competitive bids exceed a total of 10% of the volume of competitive bids, they are marked down pro-rata to a total of exactly 10% thereof. If non competitive bids exceed a total of euro 100 million and the competitive volume is smaller than euro 1 billion, they are marked down pro-rata to a total of euro 100 million.

Issuing Method



Sources: The European Bond Markets, Stuart Mclean (ed), 1993 and OeKB.

The allotment of accepted competitive bids takes place at the yields as bid after computation of the respective prices at the calculated coupon. Bids of the lowest acceptable price may be subject to pro-rata curtailments. Allotments on non-competitive bids are made at the average price of accepted competitive bids.

The official issue price of a 5-year bond is its average price plus a maturity-dependent selling commission. This selling commission awards to 1.05% for maturities of 5 years, 1.50% for maturities of 10 years and 2.00% for maturities of more than 15 years.

Electronic auction

Since May 1998, all auction participants submit their bids electronically via the Austrian Direct Auction System software (ADAS). *Oesterreichische Kontrollbank AG* computes the result of the auction and relays it to the *Bundesfinanzierungsagentur* via the ADAS software. Upon final confirmation by the *Bundesfinanzierungsagentur* the overall auction results and the individual allotments are disseminated to the auction participants via ADAS. This information is normally released ten minutes after the auction deadline.

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.

For further information please contact:
Oesterreichische Kontrollbank AG
Mr. Erich Weiss or Ms. Maria Kucera
Am Hof 4, A-1010 Vienna
Phone: +43-1- 531 27-305 or 498
Fax: +43-1- 531 27-233
e-mail: erich.weiss@oekb.co.at or maria.kucera@oekb.co.at

1 *See 5.7: The Capital Markets Act for further details.*

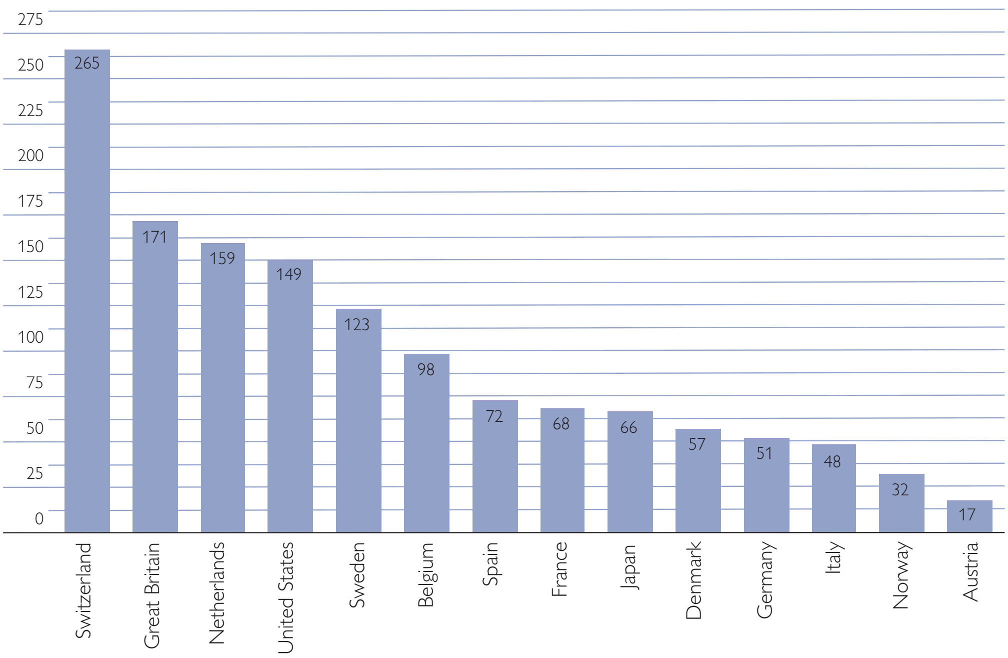
5.4 The Austrian Equity Market

Recent Performance and Trends

After the ATX had reached an all-year low by end of January (1,000.52) it recovered to its all-year high in May at 1,326.28 index points and closed the year at 1,197.82 index points with a moderate plus of 6.87% against 1998. *Wiener Börse's* domestic shares index WBI reached 493.32 points (+6.25% against 1998). The domestic turnover of shares amounted to € 21.85 billion, a minus of 27.55% against 1998 (€ 29.79 billion). Market capitalization in domestic shares by year-end 1999 was € 32.10 billion, a plus of 10.49% against 1998 (€ 29.05 billion).

Stock Market Capitalization in Relation to GDP in 1998

in percentage of GDP



Source: FIBV Statistics 1999.

The Structure and Scale of the Equity Market

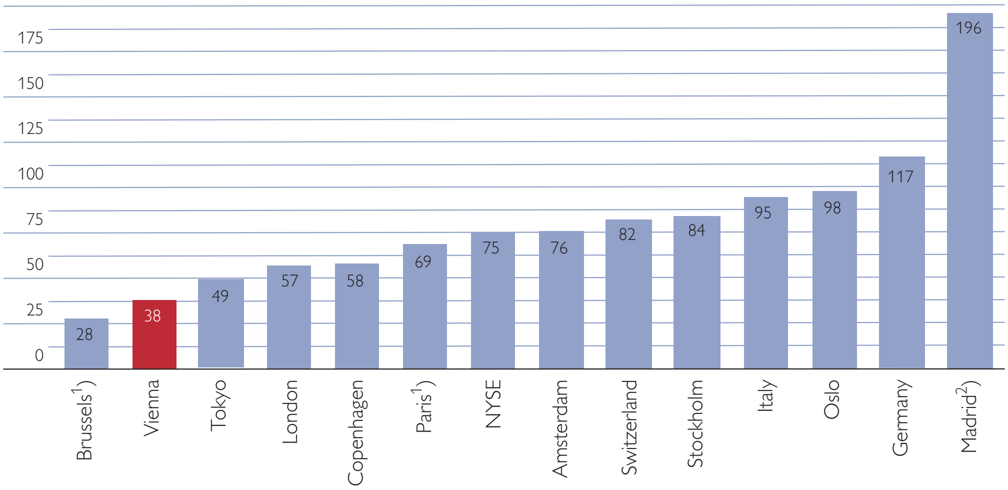
The Structure and Scale of the Equity Market

Market segment	Capitalization in EUR	Turnover volume in EUR	Listings	Issuers
ATX	23,768,953,454	1,557,880,056	22	21
Specialist	3,438,646,272	173,715,120	23	21
Auction	1,169,439,290,088	47,948,169	88	65
AGM	52,794,000	1,219,817	2	2
Other Securities	3,542,040,264	6,918,318	21	13
Unregulated Securities	1,457,820,797	3,814,981	33	32

Source: Wiener Börse AG.

Stock Market Turnover Velocity of Domestic Shares 1999

in percent



Source: FIBV Statistics 1999.

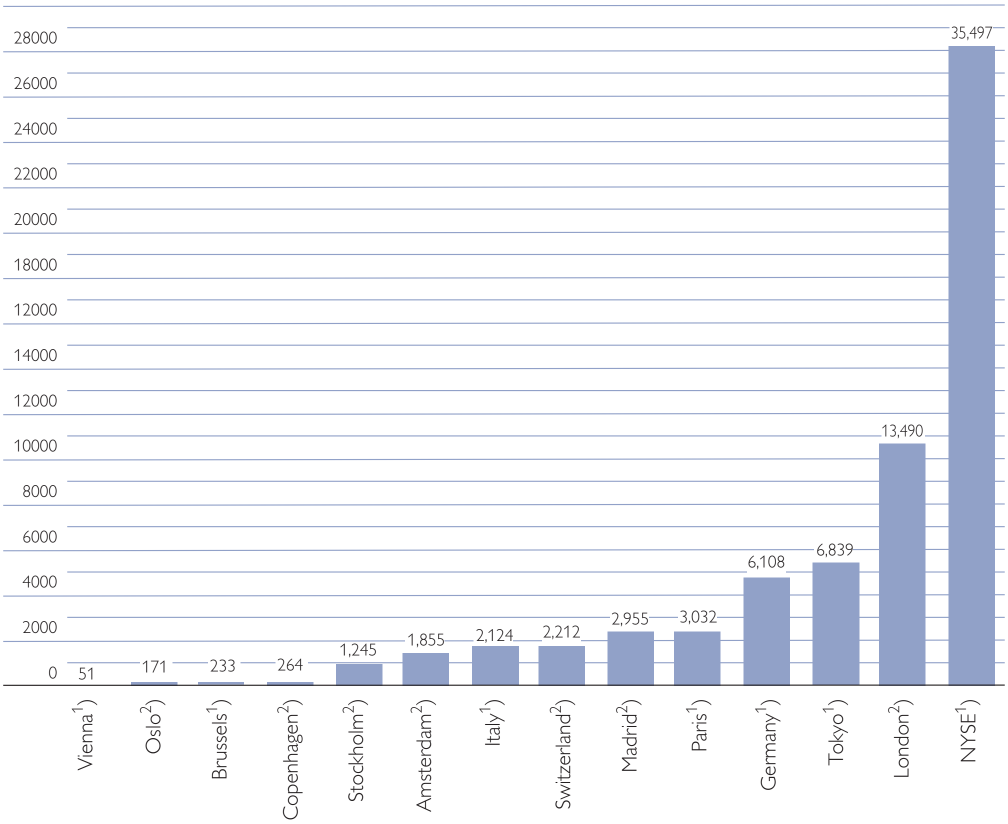
Turnover velocity has been calculated with monthly figures.

1) Trading System View (TSV) – exchanges adopting this view will see exchange business as that which passes through their own trading system and will not include securities .business transacted by their members away from the exchange system.

2) Regulated Environment View (Rev) – exchanges adopting this view will see exchange business as those trades over which they have a regulatory oversight. In practice this encompasses almost all of the securities business of their members including trades made on foreign markets.

Daily Average Volumes Traded on the World's Stock Markets in 1999

USD million



Source: FIBV Statistics 1999.

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New Listings of Domestic Shares at Wiener Börse

ATX Market

Libro AG

Libro is known as the "Tainment" Company, providing all kinds of media in the entertainment, education and lifstyle&trend sectors.

Specialist Market

Palfinger

The Palfinger group is one of the world's largest manufacturers of hydraulic lifting, loading and handling systems. It is world leader in hydraulic knuckle boom crane technology.

AvW Invest

The financial services provider AvW Invest AG is specialized on strategic participation, investment business, asset management and real estate.

CyberTron Telekom AG

CyberTron Telekom AG, a private independent telecommunications company providing, among others, diverse Internet, carrier and direct telephone services.

Unregulated Securities Market

L.A.I. Beteiligungs-Invest AG

L.A.I. Beteiligungs-Invest AG is an investment company for private equities.

YLine

YLine is a service provider in the information technology field on a global basis. The main focus is on e-commerce and the Internet.

New Listings of Domestic Shares on the Official Market in 1999

Company	Date of first listing	Number of listed shares	Issue price in EUR	First listed price in EUR	Market value in EUR
Palfinger	4. 6.	8,370,000	21.00	21.39	179,034,300
AvW Invest com.[1])	30. 8.	2,095,793		16.40	34,371,005
AvW Invest pref.[1])	30. 8.	910,000	16.40	9.60	8,736,000
Libro	10. 11.	9,429,000	29.00	29.49	278,061,210
CyberTron	1. 12.	3,543,000	33.00	40.00	141,720,000

Source: Wiener Börse AG.

[1]) *Transfer from the Unregulated Market.*

New Listings of Domestic Shares on the Unregulated Securities Market in 1999

Company	First trading day	Denomination in ATS	First trading price in EUR
YLine	1. 6.	ATS 100	EUR 83.57
L.A.I. Beteilig. Invest	10. 12.	ATS 1,000	EUR 80.00

Source: Wiener Börse AG.

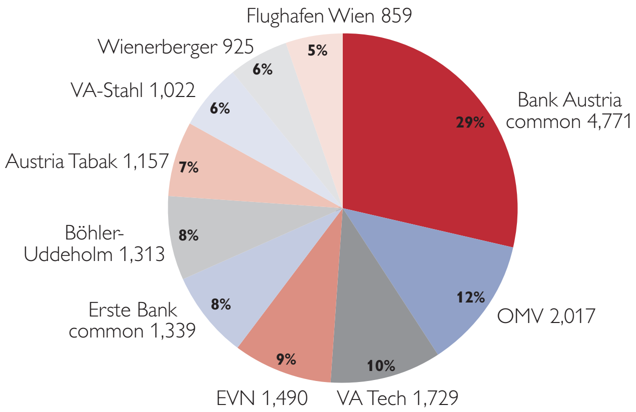
Delisting or Transfer of Domestic Shares

Company	Last listing day	Last price in EUR	Trading segment
Strabag	31. 3.	55.02	Semi-Official Market
Generali Holding pref.	18. 6.	177.00	Conversion into common shares
Pengg	30. 6.	19.00	Official Market
KTM	31. 8.	65.00	Official Market
Bundesländer pref.	2. 11.	76.80	Conversion into common shares of UNIQA
Rath	12. 11.	6.14	Transfer from Official to Semi-Official Market

Source: Wiener Börse AG.

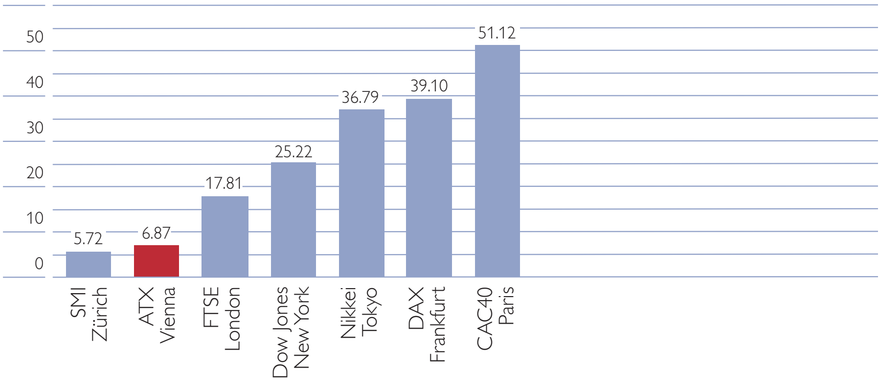
The 10 Most Heavily Traded Shares in 1999

Stock exchange turnover (€ million)



Performance International Stock Exchange 1999

Index change against 1998



Source: Wiener Börse AG.

The Different Types of Shares Traded on Wiener Börse

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.

Market Capitalization of Shares by Branches of Industry[1])

ultimo 1999

Branch	Capitalization in EUR
Banks	8,814,225,858
Construction	2,344,158,904
Breweries	1,047,665,210
Chemicals	425,374,977
Energy	6,838,434,300
Refractories	559,923,915
Trade & services	455,862,084
Real estate	1,521,033,045
Conglomerates	208,860,000
Mechanical engineering & metal processing	3,894,284,243
Foods	1,488,364,218
Pulp & paper	977,908,175
Others	179,358,520
Telecommunications	272,811,000
Textiles	262,061,046
Transport	1,195,864,750
Insurances	2,460,523,975
TOTAL	32,946,714,219

Source: Wiener Börse AG.
[1]) *Listed on the Official Market.*

Turnover of Shares by Branches of Industry[1])

ultimo 1999

Branch	Turnover in EUR
Banks	6,225,681,392
Construction	1,059,697,913
Breweries	251,254,614
Chemicals	264,255,960
Energy	4,336,113,522
Refractories	431,014,770
Trade & services	137,004,032
Real estate	206,587,660
Conglomerates	25,599,700
Mechanical engineering & metal processing	4,712,344,630
Foods	1,237,313,396
Pulp & paper	814,033,988
Others	12,744,260
Telecommunications	93,668,918
Textiles	294,847,867
Transport	1,158,094,692
Insurances	389,464,442
TOTAL	21,649,721,755

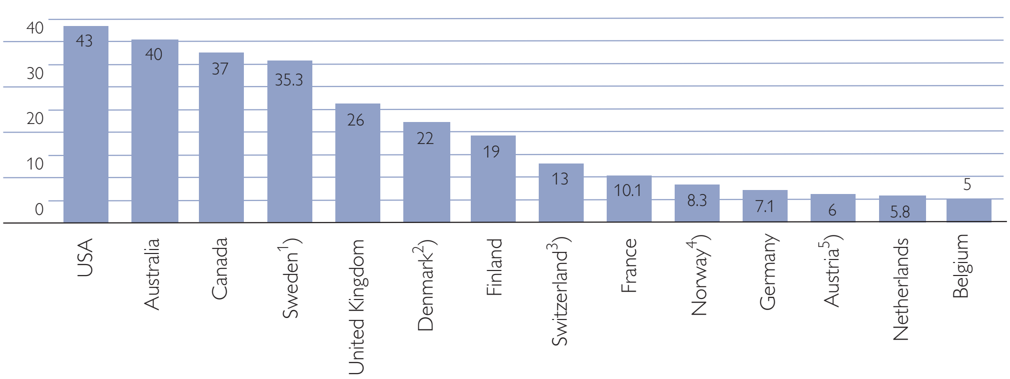
Source: Wiener Börse AG.
[1]) *Listed on the Official Market.*

Preferred 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

Percentage of Population Owning Shares

at year-end 1999



Source: Aktienforum.

1) Direct shareholders only; including indirect shareholders: more than 50%.
2) Direct shareholders only; including indirect shareholders: 31%.
3) Direct shareholders only; including indirect shareholders: 58%.
4) Direct shareholders only; including indirect shareholders: 23%.
5) Direct shareholders only; including indirect shareholders: app. 11%.

with a bonus. This means that dividends paid to preferred shareholders may not be lower than dividends paid to holders of ordinary shares.

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 13.4% of the Austrian population owned securities in 1999 (11.7% in 1998). 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 1999 was 6.5% (4.6% in 1998).

The Indices Traded at Wiener Börse

The Austrian Traded Index (ATX)

The ATX is a real-time share index that tracks the price performance of currently 22 blue chip shares (as of March 2000), and therefore constitutes the most important market segment of *Wiener Börse*. All shares in the ATX must be listed in the continuous trading segment and

The Composition of the ATX

(as of March 2000)

Stock	Weighting in %
AMS	0.73
Austrian Airlines	2.38
Austria Tabak	4.22
Bank Austria com.	21.66
Böhler-Uddeholm	2.18
Brau-Union	2.20
BWT	2.65
Erste Bank com.	9.35
EVN	3.04
Flughafen Wien	2.72
Generali Holding Vienna com.	3.01
Libro	2.65
Mayr-Melnhof	3.36
OMV	11.07
RHI	1.85
RHI Emission 1999	0.80
Semperit	1.14
VA Stahl	4.97
VA Technologie	4.11
Verbund	8.05
Wienerberger	6.98
Wolford	0.81
ATX	100.00

Source: Wiener Börse AG.

achieve a certain stock exchange turnover volume. The composition of the ATX is reviewed annually every December. With every review, no more than two shares may be changed in the composition of the index.

The ATX has been designed as underlying reference for futures and options. Since its launch on 2 January 1991 at 1,000 index points it has served as the major average reflecting *Wiener Börse's* cash market.

The **ATX50** price index and the **ATX50P** performance index currently comprise the 54 most active domestic shares. Both indices comprise 84% of the capitalization of all Austrian shares.

The **ATXMC** (MidCap) includes second-tier shares and is defined as ATX50 minus ATX stocks. As the index has been designed for stocks with a lower market capitalization, a ceiling has been set for shares in the index at € 545 million market capitalization. The ATXMC currently comprises 31 shares (as of March 2000).

The Wiener Börse Index – WBI

WBI

The index contains all shares listed on the Official Market. The WBI as overall index reflects movements on the Austrian stock market as a whole.

The individual shares are weighted according to their share in market capitalization (number of shares issued/price). Shares with high market capitalization therefore have a stronger influence on the WBI than shares with lower market capitalization.

The index is calculated once a day after the closing of the trading session. It is not updated regularly, but only as the necessity arises. Adjustments are made in cases of capital changes of a company and when new shares are admitted to listing. Adjustments are not made for price markdowns due to dividend distributions.

Since its launch in 1968 the WBI has been calculated in its present form. This date was chosen as base date because at the time, legislation promoting economic growth *("Wachstumsgesetze")* became effective which brought numerous improvements to the capital market. The WBI has been calculated on a daily basis at every trading session since 2 September 1985.

For securities traded in consecutive trading, the closing prices are used, and for those for which only one price is fixed per trading session, the day's prices are used. If no price or estimated price has been fixed at a trading session, the last available price or estimated price is used for the index calculation.

The Paasche formula guarantees that each individual share price influences the overall index in proportion to the company's listed capital. Currently the WBI comprises 99 shares.

The MSCI World Index

MSCI World Index

Morgan Stanley Capital International's World Index is weighted according to the market values of around 1,356 companies in 22 countries. Austria's share in the World Index is currently at 0.10%. MSCI indices reflect the movements of world stock markets by following the evolution of an unmanaged portfolio of a broad selection of domestically listed companies within each market. An independent group of country specialists employed by Capital International Perspective S.A. in Geneva, Switzerland, regularly monitors the constituents of the indices to ensure that they remain representative.

The Economist Magazine has been acting as an independent advisor to the MSCI indices since January 1990.

The following guidelines govern the selection of individual stocks:

- MSCI indices aim to cover 60% of total market capital in each market.
- Companies covered by the indices should mirror the industrial make-up of each local market.
- The stock mix should include a representative selection of companies with big, medium-sized and small volumes of market capitalization in each local market. The indices are weighted according to market capitalization.
- Stocks of non-domiciled companies and investment funds are not eligible for inclusion in country indices.
- Companies are excluded if their float is restricted because they have dominant shareholders or are subject to cross-ownership.

MSCI index construction methodology is consistent across all markets and is unchanged since inception.

The five steps are as follows:

- Define the local market by collecting data on all listed securities in that market. Country specialists track the evolution of both listed and unlisted shares of domestically listed companies in nearly every country in the world.
- Capture 60% of the capitalization of each group by selecting the most investable stocks in each industry. This ensures that the index reflects the industry characteristics of the overall market, and permits the construction of accurate regional and global industry indices.
- Select the most liquid securities with the largest free float.
- Avoid cross-ownership. In situations where cross-ownership is substantial, including both companies in an index can skew industry weights, distort country-level valuations and overstate a country’s true market size.
- Apply full market capitalization weight to each stock. In March 1996, MSCI introduced the “partial inclusion amendment” to address the growing trend of the privatization of large government holdings. The continuing privatization trend world wide has created a growing number of large companies coming to market with low initial floats. In order to allow the MSCI indices to capture these core investment opportunities, the index construction methodology has been amended to allow, in exceptional cases, the inclusion of companies at partial market capitalization. In all cases, a company’s weight in its domestic MSCI index must still be at least 2.5% after the inclusion factor is applied, except in the U.S. and Japan where the minimum weight is 1% due to the size of those markets.

5.5 ÖTOB – Wiener Börse's Derivatives Market

The product range traded on *Wiener Börse's ÖTOB* Market includes:

A. Austrian Derivatives

- **Futures and options on the Austrian Traded Index (ATX)**
- **ATX stock options:**
  Austrian Airlines (AUA)
  Austria Tabak (ATA)
  Bank Austria Common (BAS)
  Böhler-Uddeholm (BUD)
  Brau Union (BRA)
  BWT (BWT)
  Erste Bank Common (EBS)
  EVN (EVN)
  Flughafen Wien (FLU)
  Libro (LIB)
  Mayr-Melnhof (MMK)
  ÖMV (OMV)
  RHI (RHI)
  VA Stahl (VAS)
  VA Technologie (VAT)
  Verbundgesellschaft Kat. A (VER)
  Wienerberger (WIE)
  Wolford (WOL)

A more detailed description of the ATX you will find in chapter 5.4 The Austrian Equity Market.

B. The CECE index family

- **Futures and options on the CTX, HTX, PTX, RTX and RDX**

The CECE index family comprises traded indices of the major blue chips in the Czech Republic (Czech Traded Index, CTX), Hungary (Hungarian Traded Index, HTX), Poland (Polish Traded Index, PTX), Russia (Russian Traded Index, RTX) and the Russian Depositary Receipts Index (RDX).

The indices serve as underlyings for futures and options traded on *Wiener Börse* since spring 1997. They have been published since 15 July 1996. The five indices are calculated as capital-weighted price indices, according to the method of calculation applied to the ATX indices.

One of the main targets for the establishment of the CECE indices is the opportunity to trade four different markets on a single trading platform in one single currency. All indices are calculated in USD, which is the predominant currency for the valuation of international portfolios. The HTX, CTX, PTX and STX are also available on a local currency basis.

The RDX (Russian Depositary Receipts Index) tracks in real time the price movements of depositary receipts on Russian shares traded at *Deutsche Börse AG*. The RDX is a capital-weighted index and is calculated in Euro only.

The ÖTOB Market in 1999

- ATX performance: +6.87% against 1998.
- Trading volume on the *ÖTOB* market was € 19.47 billion in 1999, a minus of 1.3% against 1998 (€ 19.69 billion).

Trading and Clearing on the ÖTOB Market

Types of Orders

Orders for futures and options can be specified according to position (long, short), option series (underlying), exercise price, option type (call or put), expiry date, price limits and number of contracts.

The various types of orders can be differentiated on the basis of their composition (and size), the prices quoted and their treatment in the order book. On the basis of the price quoted, a distinction is made between limit orders and market orders. Market orders have to be specified based on their execution type (fill-or-kill, immediate-or-cancel). Limit orders can also be specified based on the time of validity (rest-of-day, good-till-expiration, good-till-date).

Price spreads, time spreads, straddles and strangles can be keyed in as standardized combination orders. Up to ten individual orders may be entered as non-standardized combination orders. Combination orders will only be executed if every leg can be matched. While non-standardized combinations can only be specified as fill-or-kill or immediate-or-cancel orders, standardized combination orders can be stored in the central order book according to their specific time of validity. The limit can be set on an aggregate basis. As soon as the system finds other orders/quotes which correspond in total to the aggregate limit, the standard combination order will be matched.

Trading System

Trading in futures and options on *Wiener Börse* is conducted via a fully electronic trading system developed by OM Systems that permits the immediate and swift execution of transactions. For each listed derivative instrument, at least three market participants have committed themselves to act as market makers and to quote binding bid and ask prices. Permanent quotes are entered for all major futures maturities and options series; bid and ask quotes are entered for the remainder upon quote request. The orders entered into the trading system are ranked by time and price priority and are executed if matched.

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), accounts for USD-denominated instruments are run by Euroclear.

Info Providers

- Reuters: pages OETOB01 - OETOB30
- Dow Jones: pages 36555 ff
- Telekurs: page 85, OETOB ff
- APA: page F285

Taxation

Except when underlying securities are actually delivered, financial futures and options are exempt from stock-exchange turnover tax. This means that expired and closed positions are also exempt from turnover tax. Corporate earnings from trading in options are subject to income and corporation tax. Companies report their gains and losses in their routine statements of income and are taxed accordingly. Private investors' earnings from options are subject to personal income tax if accrued within a year.

For further information please contact:
Wiener Börse AG
Marketplace and Product Management
Attn.: Mr. Karl Brauneis
Strauchgasse 1–3, A-1014 Vienna
Phone: +43-1-531 65-132
Fax: +43-1-532 97-40
e-mail: brauneis@wbag.at

1 *Currently no futures traded on the STX and CECE Index.*

5.6 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 programme of privatization. Even though this, 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 ATS 440 (€ 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* has become one of the Vienna Stock Exchange's most traded securities.

Because *OMV'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 ATS 900 (€ 65.41) at issue to ATS 1,016 (€ 73.84) at the end of 1998, furnishing convincing proof of the company's acceptability to Austrian and foreign investors. *ÖIAG* currently holds 24% of its shares.

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 ATS 336 (€ 24.42) to ATS 441 (€ 32.05) at the end of 1998. *VAE* rose from ATS 915 (€ 66.50) at issue to ATS 1,690 (€ 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 ATS 550 (€ 39.97). By year-end 1995, the share was already trading at ATS 770 (€ 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 ATS 285 (€ 20.71).

ÖIAG Share Performance

Since 1987, some 50 new issues have been listed on Vienna Stock Exchange, 7 of them by ÖIAG.

		Issue price in ATS	Price as of December 1999	Appreciation since IPO
OMV	1987	440	1,328	+201.8%
VAE	1992	915	1,677	+ 83.3%
AMS	1993	336	435	+ 29.5%
VA Tech	1994	900	901	+ 0.1%
BUAG	1995	550	630	+ 14.5%
VA Stahl	1995	285	533	+ 87.0%
AT	1997	505	660	+ 30.7%

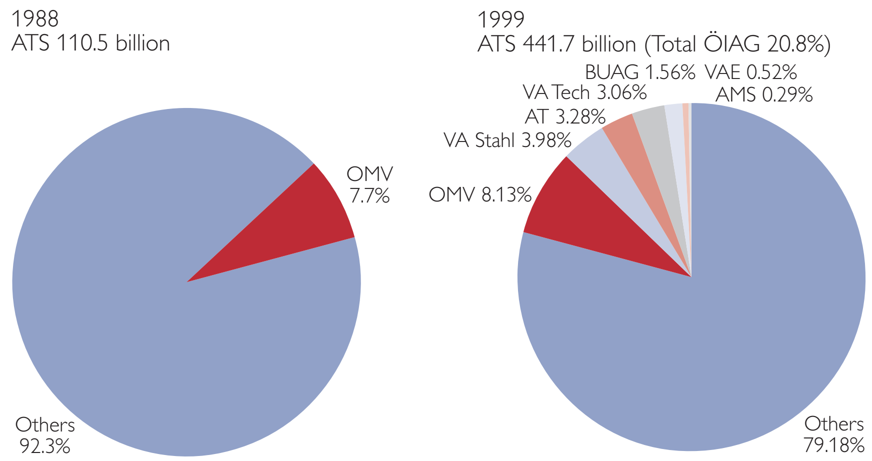
At the beginning of 1996, *ÖIAG* carried out a private placement that reduced its 43.3% interest in *VA Stahl AG* to 38.8%. Furthermore, in the first half of 1996 *ÖIAG* successfully floated 47.7% of the share capital of *Böhler Uddeholm AG* – that is a total of 5.25 million shares – during a secondary offering at a price of ATS 785 (€ 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 ATS 1,055 (€ 76.67) per share, reducing its interest to 35%. *ÖIAG* floated a total volume of ATS 8.37 billion (€ 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,* 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 ATS 31 billion (€ 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* shares during their first trading session was the highest ever recorded in the history of the Vienna Stock Exchange. They closed at ATS 516 (€ 37.50) on that day, which compared with an issue price of ATS 505 (€ 36.70), and gained almost 78% to end 1998 at ATS 899 (€ 65.33).

ÖIAG Issues Enhanced Liquidity on Vienna Stock Exchange

Market Capitalization (Austrian Shares)



Sources: Wiener Börse AG, Oesterreichische Nationalbank.

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 will continue to play the role of major Austrian shareholder in several listed companies (*Austria Tabak* 50.5%, *BUAG* 25%, *OMV* 35%, *VA Stahl* 38%, *VA Tech* 24%) and holds a portfolio that was worth ATS 29.4 billion (€ 2.14 billion) at year-end 1998. Adding the shares of two exchange-listed companies it was assigned in 1998 (AUA, *Flughafen),* results in a portfolio valued in total at ATS 37.3 billion (€ 2.7 billion) as per year-end 1998.

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 *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* 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 ATS 2.6 billion (€ 188.9 million) to ATS 3.4 billion (€ 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 %.

The inaugural statement of the government newly sworn in at the beginning of February 2000 also mentions further privatizations for which the legislation is currently being prepared.

ÖIAG, PTA (Post und Telekom AG) and *PTBG (Post- und Telekombeteiligungs-gesellschaft)* are to be merged. *ÖIAG* will conduct the privatization in the course of the year 2000 taking the market situation into account and in accordance with the mandate of the law. The procedures considered are both capital market transactions and direct sales to strategic buyers.

For further information please contact:
Österreichische Industrieholding AG (ÖIAG)
Attn.: Mr. Lutz Sperlich (Communication/Privatization)
Kantgasse 1
A-1015 Vienna
Phone: +43-1-711 14-274
Fax: +43-1-711 14-378

5.7 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 follows the prospectus directive of the EEC, Council Directive dated 17 April 1989, 89/298/EEC for non-listed securities (the "Directive"). The CMA repealed the Securities Issue Act of 1979 which provided for individual authorization by the Federal Ministry of Finance for any issue of securities. 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 involved the provisions of the CMA will apply.

Public Offer

Potential application of the CMA

The CMA applies only if there is a public offering. There is no simple definition of the public offer in the Act. It is the "declaration of the intent to sell securities" which is "not directed to specified persons". There is an element of quantity involved since the offering of securities to a great number of "specified persons" could mean that in reality the offering is public. This would especially be true if there are professional traders of securities among the offerees.

Prospectus (in the German Language)

Publication of a prospectus

If the CMA must be applied, the most important consequence is that of publishing a prospectus in the German language, the (minimum) contents of which are laid down in various schemes annexed to the CMA. The Act provides for the recognition of certain prospectuses published in member states of the EU. 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 ATS 600,000 [€ 43,604] 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 ATS 250 million (€ 18 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 before 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 everybody whether a prospectus has been handed in for a specific issue, where and when it was published and must provide 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

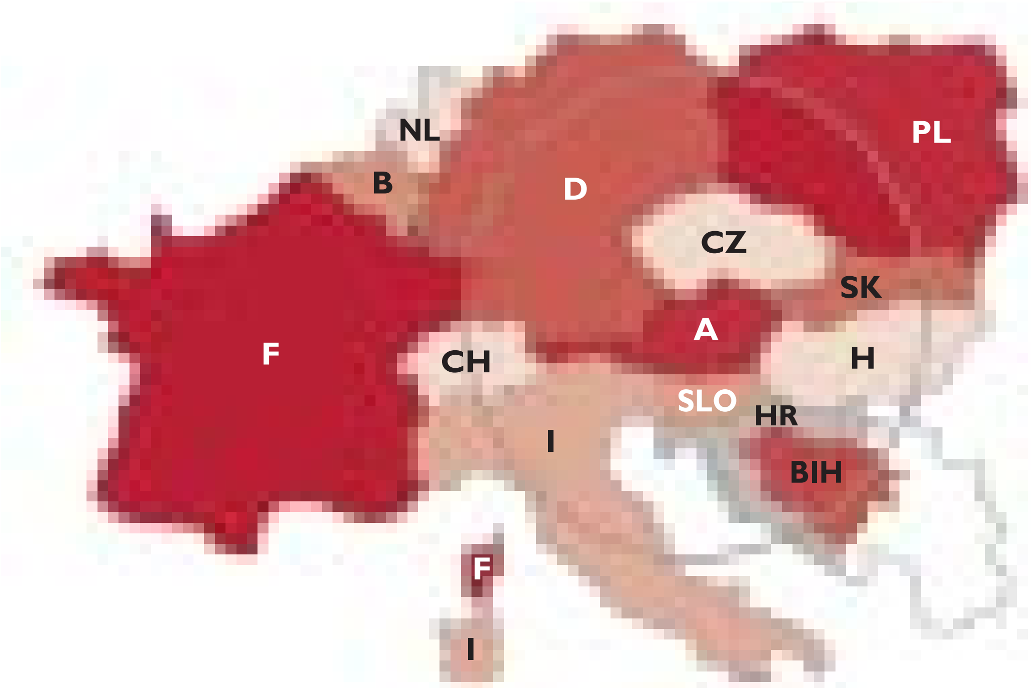
A Survey of Austria's Capital Markets

Facts and Figures

Annex

Revised Edition 2000

A. Key Facts on the Republic of Austria



The Country and its Population

Population (1999):	8,108,036
Language (1991):	German (92.3%)
Number of inhabitants/km^2(1998):	96.5
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:	83,871 km^2
Under agriculture:	26,550 km^2
Exploited forest area:	36,106 km^2
Climate:	Continental in the east, alpine in central Austria
Capital:	Vienna
Major business center:	Vienna
Populations of major cities (1999):	
Vienna:	1,608,144
Graz:	240,967
Linz:	189,073
Salzburg:	144,247
Innsbruck:	111,752
Jobholders (September 1999):	3,922,800
Foreign workers (1999):	306,401
Unemployment rate (1999):	4.4%

The Government

Bundespräsident (Federal President):	Thomas Klestil
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 for Finance):	Karl-Heinz Grasser *(FPÖ;)* Austrian Freedom Party)
Bundesminister für Wirtschaft und Arbeit (Federal Minister for Economy and Labor):	Martin Bartenstein *(ÖVP)*
Political system:	Parliamentary democracy
Political parties:	
Ruling parties:	*Österreichische Volkspartei (ÖVP;* Austrian People's Party) 52 seats *Freiheitliche Partei Österreichs (FPÖ;* Austrian Freedom Party) 52 seats
Opposition parties:	*Sozialdemokratische Partei Österreichs (SPÖ;* Social Democratic Party of Austria) 65 seats *Grünalternative Partei (Grüne;* Green Party) 14 seats
Next general election:	2003
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 (FAD),
- 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 October 1999. 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 2000. 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

	1990 Nationalrat	1990 Bundesrat	1994 Nationalrat	1994 Bundesrat	1995 Nationalrat	1995 Bundesrat	1997*) Nationalrat	1997*) Bundesrat	1999 Nationalrat	1999 Bundesrat
Social Democratic Party of Austria (SPÖ)	80	28	65	25	71	25	71	22	65	22
Austrian People's Party (ÖVP)	60	30	52	27	53	26	52	27	52	27
Austrian Freedom Party (FPÖ)	33	5	42	12	40	13	41	15	52	15
Liberal Forum (LIF)	–	–	11	–	10	–	9	–	–	–
Green Party (Grüne)	10	–	13	–	9	–	9	–	14	–
Independent	–	–	–	–	–	–	1	–	–	–

**) There have been changes to 1995 because of members of parliament crossing party lines and by-election.*

The Currency

Currency:	Austrian schilling (ATS) Average 1999 ATS/USD: 12,9151 ATS/€: 13,7603

Economic Output

Nominal GDP (1999, preliminary):	ATS 2,683.6 billion (€ 195.0 billion)
Per capita GDP (1999, preliminary):	ATS 331,855 (€ 24,117)

Foreign Trade

Exports of goods and services
as a percentage of GDP (1999, estimate): 46.0%

Imports of goods and services
as a percentage of GDP (1999, estimate): 46.0%

Major trading partners (1999, preliminary):

Exports:	Germany (34.84%), Italy (8.40%), Switzerland (6.11%), France (4.48%), United Kingdom (4.32%), United States (4.57%), Hungary (4.98%), Eastern Europe (14.95%)
Imports:	Germany (41.71%), Italy (7.62%), France (4.97%), Switzerland (3.46%), United States (5.40%), Eastern Europe (10.00%), Netherlands (3.19%), Hungary (3.36%), United Kingdom (3.08%)

Tourism in 1999

Foreign visitors:	17,456,700
Overnight stays (foreigners):	82,298,300
Total overnight stays:	112,697,700

Foreign-currency movements caused by tourism in 1999:

Receipts	ATS 161.0 billion (€ 11.7 billion)
Outflow	ATS 127.7 billion (€ 9.3 billion)
Net	ATS 33.3 billion (€ 2.4 billion)

B. Recent Economic Developments and Outlook

Strong Cyclical Upswing Leaves Budgetary Problems Unresolved

Accelerated export growth and solid expansion of domestic demand suggest the Austrian economy will grow by 3.1 percent in volume this year – an upward correction by 1/4 percentage point from last December's projections. In 2001, growth may decelerate somewhat (+2.7 percent) under the impact of slackening activity abroad and, more importantly, a stronger demand-restraining impact of domestic budgetary retrenchment. Fiscal policy action, while limiting government net borrowing at a ratio of 2 percent of GDP, will contribute to somewhat stronger inflation. The labour market will benefit from the favourable business cycle trend.

Gross Domestic Product (GDP) in the fourth quarter of 1999 rose by a price-adjusted 3.2 percent above the year-earlier level. The recovery was particularly strong with regard to manufacturing output and investment in machinery and equipment. For the whole of 1999, a rate of growth of 2.2 percent, as has been projected by WIFO since March of last year, has thereby been confirmed.

In 2000, the boom in export industries is set to continue, given the favourable external environment. In the EU, demand and output are expected to increase by 3.2 percent in real terms, interest rates are comparatively low, and exchange rates are beneficial for the euro-zone economies. Moreover, competitiveness of Austrian exporters is boosted by a lower cost burden. Under such framework conditions, volume exports may advance by some 8 percent, giving strong momentum also to manufacturing output (+5 percent) and to private investment (machinery and equipment +7 percent).

Domestic demand is proving very strong this year. Fiscal policy is still having an altogether expansionary effect which, together with sizeable employment gains, adds substantially to real net disposable income from earnings and social transfers (+2.5 percent), to private consumption (+2.7 percent) and to sales turnover (+3.3 percent). Next year, the trend of expansion should flatten somewhat. While higher wage increases and continued strong employment advances may boost disposable income, fiscal policy will probably restrain demand as measures designed to consolidate public finances over the medium term become effective. Growth of the construction sector will clearly lag behind the overall trend, as a result of falling demand for newly built homes and of cuts of public orders to civil engineering.

The current account should stabilize around a deficit of slightly above 2 percent of GDP. The negative balance in merchandise trade should be offset by a surplus on services, even if tourism net earnings may fall short of the more optimistic expectations of last December. The deficit in the income balance (high income of foreign investors from interest, dividends and profits) and in the transfer balance (including net payments to the EU) largely account for Austria's high external deficit.

A reduction in the Federal government's household deficit in the current year is mainly brought about by a number of oneoff measures. In addition, some indirect taxes and public charges will be raised significantly as from next June. It is only as from next year that the necessary consolidation will be supported by more sustained measures. While the targeted deficit reduction in the Federal budget seems feasible, the government's expectations for surpluses in the households of the Federal states, the municipalities and the social security bodies would appear optimistic in view of shortfalls in tax revenues and financing problems of the health insurance system. In 2001, the fiscal balance as defined by "Maastricht" requirements will be further weakened if the government proceeds as planned with cutting non-wage labor cost. Given such considerations, general government net borrowing is likely to amount to 2 percent of GDP throughout the projection period. The deficit targets laid down in the Stability Programme, i.e., 1.7 percent of GDP in 2000 and 1.5 percent in 2001, will only be met if additional consolidation efforts were undertaken.

Inflation has been accelerating in recent months, mainly as a result of higher energy prices. An upward trend also for other commodities, the effects of a stronger dollar and rising demand and capacity utilisation are increasingly being translated into higher prices for manufactures. In an effort to trim the budget deficit, hikes in indirect taxes and public charges will take effect by mid 2000, which will add 0.3 percentage points to the annual inflation rate, both this year and next. Consumer prices may thus move up by 1.6 percent in 2000 and 1.4 percent in 2001.

The situation on the labor market is set to improve further. Driven by stronger activity, employment is rising at an annual pace of about +35,000, with gains meanwhile extending to fulltime workers. Budgetary allocations for active labor market policy are not yet known which complicates projections for the number of unemployed. In case of no decline in the number of people in job training, the average jobless figure for 2001 may for the first time since 1992 fall below 200,000. This would correspond to an unemployment rate of 5.9 percent of the dependent labor force (national definition) or 4.1 percent of the total labor force (EU Labor Force Survey).

Economic growth in Austria is to no significant extent being constrained from the supply side. Lively private investment provides for a steady expansion of overall productive capacities. "Hidden reserves" in labor supply are still substantial, leaving normally a comfortable margin for additional demand to be met. However, an "active" approach to education as well as labor market policy appears crucial from an overall economic perspective, in order to support the process of structural adjustment.

At the present juncture, the balance of risks to the forecast would appear to be on the upside: recovery in Europe has gained momentum to such extent that growth of demand and output may well outpace the present projections. For 2001, however, the risk may rather be in overestimating worldwide cyclical strength, since notably a slump in the U.S. economy cannot be entirely ruled out. The latter would have negative repercussions also on the Austrian economy, as would have a more restrictive turn in European interest and exchange rate developments. Any impact of the political (and partly also economic) boycott measures recently imposed on Austria would be extremely difficult to assess at present, partly because this will obviously depend on for how long these measures were to be maintained.

Source: WIFO – Austrian Institute of Economic Research: Strong Cyclical Upswing Leaves Budgetary Problems Unresolved – Economic Outlook for 2000 and 2001, April 2000.

C. Capital Market Data

Wiener Börse

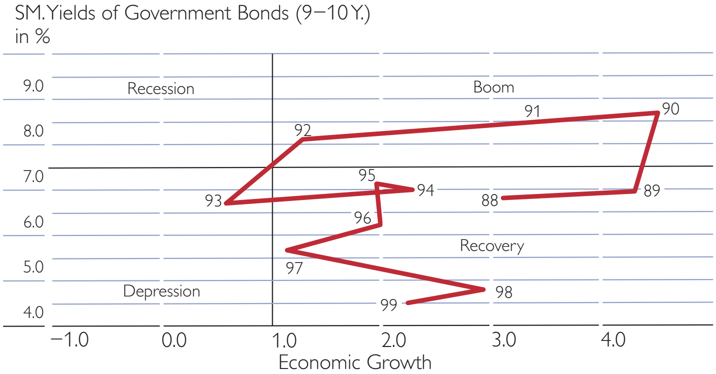
Key Figures 1999

SHARES	
Number of companies	
ATX Market	21
Specialist Market	21
Auction Market	65
AGM	2
Number of shares	
ATX Market	22
Specialist Market	23
Auction Market	88
AGM	2
New domestic listings	6
Total market capitalization[1])	EUR 1,201 billion
Stock exchange turnover[2])	EUR 21.58 billion
Average dividend payments shares total 1999	12.75%
Average dividend yields shares total 1999	2.14%
BONDS	
Number of bonds	2,172
Number of issuers	167
Stock exchange turnover	EUR 713 million
Average yields	
Bonds total	4.16%
Government bonds	4.13%

[1]) Inclusive all securities by year-end 1999.
[2]) Domestic shares by year-end 1999.

C.1 The Bond Market

Economic Growth – Secondary Market Yields (Government Bonds) 1988–1999



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 Austria Aktiengesellschaft*
- *Bank für Arbeit und Wirtschaft Aktiengesellschaft*

- *Banque Paribas*
- *Bayerische Hypo- und Vereinsbank Aktiengesellschaft*
- *CDC Marchés*
- *Commerzbank Aktiengesellschaft*
- *Crédit Agricole Indosuez*
- *Credit Suisse First Boston (Europe) Limited*
- *Deutsche Bank Aktiengesellschaft*
- *DG Bank Deutsche Genossenschaftsbank Aktiengesellschaft*
- *Dresdner Bank Aktiengesellschaft*
- *Erste Bank der oesterreichischen Sparkassen AG*
- *Goldman Sachs International*
- *HSBC Bank plc*
- *ING Bank N.V.*
- *Morgan Stanley & Co. International Limited*
- *Nomura International plc*
- *Oberbank AG*
- *Österreichische Postsparkasse AG*
- *Österreichische Volksbanken-Aktiengesellschaft*
- *Raiffeisenlandesbank Oberösterreich reg. Gen. m. b. H.*
- *Raiffeisen Zentralbank Österreich Aktiengesellschaft*
- *Salomon Brothers International Limited*
- *Société Générale*
- *UBS AG*

Bond Market Indices

Domestic indices

The Yield Index of Oesterreichische Kontrollbank AG

For all fixed income issues (excluding *Kassenobligationen & BOBL*) 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, BOBL* 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.co.at.

The PIA Bond Price Index

This index is based on actual prices and has been calculated by *OeKB* since 1985 and is published on *OeKB's* homepage www.oekb.co.at.

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

The EFFAS Indices

Gross, net and performance indices for government bonds (categorized according to term); published by Bloomberg. Datastream calculates similar indices following the EFFAS calculation rules.

The Goldman Sachs Austrian Government-Bond Liquid-Market Index (GS Austrian LMI)

A benchmark for foreign investors

This index was developed at the beginning of 1993 in response to investors' steadily growing interest in Austrian government bonds and the resulting need for a comprehensive international performance benchmark for them. It is computed daily and reflects the entirety of the Austrian government-bond market and its biggest sub-markets, covering the most liquid high-turnover bonds.

Most important features

The GS Austrian LMI is computed as follows:

It covers the market in Austrian government bonds. This market consists of every fixed-interest government bond with a remaining term of at least one year. Because of their lack of liquidity, non-liquid serial bonds and *Bundesobligationen* (federal debentures) are excluded. Only the most liquid and frequently traded bonds are selected for inclusion in the index. The most important criterion is the size of the issue, which means that government bonds with a volume of less than ATS 5 billion (€ 363 million) and other low-liquidity issues are also excluded from the index at the moment.

Index levels, returns, yield and durations (modified present value) are calculated daily and the index is re-balanced monthly. To calculate the returns for each maturity sector, each security included in the index is weighted such that the composite liquid index return for each sector will closely match the market capitalization-weighted return of all outstanding Austrian government bonds in that sector. In addition, the Goldman Sachs Index imposes the constraint that the sum of the market capitalization weights must equal the sum of the liquid weights in each sector. The index is published daily in Austrian schillings, U.S. dollars and hedged U.S. dollars.

Eligible securities:	fixed-rate schilling/euro government bonds without serial bonds
Subset of eligible instruments that are included in the index:	liquid issues (typically >ATS 5 billion [€ 363 million] outstanding)
Minimum term:	one year
Maturity categories:	term of 1–3 years, 3–7 years, more than 7 years; 5-year benchmark,

	10-year benchmark
Base date:	December 1987
Publication:	daily to Reuters (page GSBIATS) and Bloomberg (GSBI)
Portfolio re-balancing:	monthly
Reinvestment:	cash flows are reinvested in index as received
Pricing source:	Goldman, Sachs & Co. *(Oesterreichische Kontrollbank AG* prior to November 1992)
Currencies:	ATS, USD, USD hedged

The Salomon Smith Barney World Government-Bond Index

Global government-bond indices that also cover Austrian bonds

Stated Coupon:	Fixed rate
Minimum Maturity:	One year
Weighting:	Market capitalization updated once a month
Reinvestment of Cash Flow:	At local short-term interest rate. Calculated from actual scheduled payment date of cash flow through end of month.
Pricing:	Salomon Smith Barney is the source for all except New Zealand, Sweden and Switzerland, where significant market makers provide prices. All pricing is generally taken as of the local market close. Canada and

Salomon Smith Barney World Government Bond Index
as per February 2000

	Market weight	Average coupon	Modified duration
United States	27.43	6.82	5.30
Canada	2.92	7.60	5.40
Australia	0.56	8.61	4.44
Japan	26.55	3.01	5.64
EGBI	33.68	6.09	5.01
Austria	0.92	4.99	5.38
Belgium	2.50	6.94	4.94
Finland	0.65	7.30	4.03
France	7.34	6.02	5.14
Germany	7.84	5.65	4.88
Ireland	0.27	4.06	6.07
Italy	8.00	6.35	4.73
Netherlands	2.48	6.08	5.01
Portugal	0.45	5.89	5.22
Spain	3.23	6.36	4.73
Denmark	1.20	6.68	4.26
Sweden	1.27	7.53	4.25
Switzerland	0.43	4.60	5.98
United Kingdom	5.96	7.64	6.71
Additional Markets			
New Zealand	0.00	7.76	3.77
Norway	0.00	6.78	3.90
World	100.00	5.66	5.35

Source: Salomon Smith Barney.

	the U.S. are priced at 3 p.m. (New York time) for all calculations.
Calculation Frequency:	Daily
Composition:	Sovereign debt issued in the domestic market in the local currency
Redemption Features:	Bullet, sinking fund, putable, extendible, or callable
Inception Date:	31 December 1984 = 100

C.2 The Equity Market

Market Capitalization

of the Top 50 Companies Listed on Wiener Börse AG in 1999

Company	Capitalization in EUR
1. Bank Austria com.	4,957,881,208
2. OMV	2,605,500,000
3. Verbund Kat. A	2,106,701,100
4. Erste Bank com.	1,951,875,156
5. EVN	1,710,000,000
6. Wienerberger	1,499,540,186
7. Generali Holding Vienna com.	1,281,668,662
8. VA Stahl	1,277,100,000
9. Austria Tabak	1,056,000,000
10. VA Technologie	982,500,000
11. AUA	639,200,000
12. Mayr-Melnhof	552,000,000
13. Flughafen Wien	535,767,750
14. Boehler-Uddeholm	503,800,000
15. Oberbank Stamm	469,000,000
16. Brau Union	442,000,000
17. Interunfall	419,700,000
18. Allianz Elementar Versicherung	416,800,000
19. RHI	397,973,915
20. Libro	372,445,500
21. BBAG com.	345,600,000
22. Leykam	318,388,175
23. CyberTron	272,811,000
24. Immofinanz	268,015,329
25. ERSTE Immobilien	235,708,448
26. CA Immobilien Anlagen	232,499,938
27. Semperit	226,924,977
28. BWT	220,275,000
29. Investkredit	206,041,500
30. Steiermärkische Elektrizität	202,500,000
31. Bau Holding com.	198,750,000
32. Lenzing	198,450,000
33. Schwechat Brauerei	197,500,000
34. Wolford	196,000,000
35. UNIQA com.	188,427,463
36. VAE	170,632,000
37. Burgenland Holding	161,250,000
38. RHI, Emission 1999	159,000,000
39. Wiener Städtische pref.	151,740,000
40. Palfinger	150,660,000
41. Schindler	117,000,000
42. Porr com.	115,390,500
43. Readymix	111,480,128
44. Constantia-Verpackungen	107,520,000
45. Constantia-Iso	103,250,000
46. YLine	102,900,000
47. Julius Meinl International	100,907,520
48. Leipnik Lundenburger com.	99,750,000
49. Jenbacher	98,400,000
50. Unternehmens Invest	96,000,000

Source: Wiener Börse AG.

Turnover of the Top 50 Companies
Listed on Wiener Börse AG in 1999

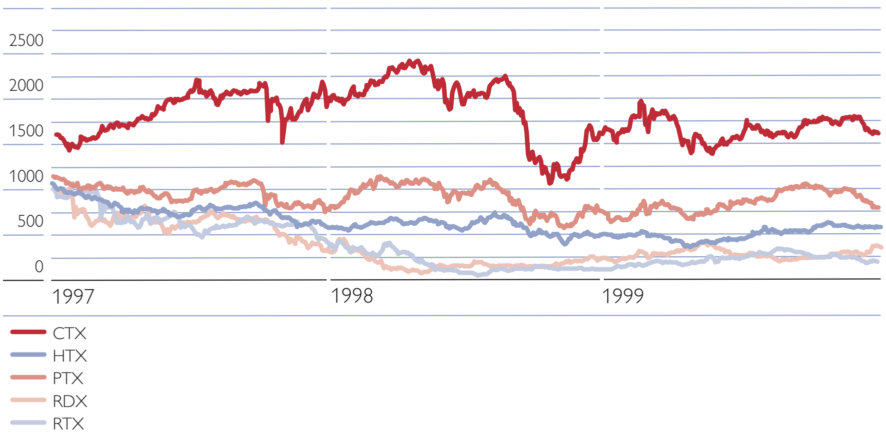
Company	Turnover in EUR
1. Bank Austria com.	4,770,633,459
2. OMV	2,016,870,925
3. VA Technologie	1,728,936,184
4. EVN	1,489,709,742
5. Erste Bank com.	1,339,335,042
6. Boehler-Uddeholm	1,312,904,982
7. Austria Tabak	1,157,078,675
8. VA Stahl	1,022,363,796
9. Wienerberger	925,350,931
10. Flughafen Wien	859,267,911
11. Verbund category A	799,380,133
12. Mayr-Melnhof	745,759,227
13. RHI	419,252,423
14. AUA	295,382,168
15. Wolford	292,688,216
16. Semperit	225,337,461
17. Generali Holding Vienna com.	189,808,317
18. AMS	159,810,549
19. BWT	158,935,707
20. Brau Union	131,637,932
21. Libro	127,048,931
22. BBAG common	111,907,675
23. KTM	96,159,561
24. CyberTron	93,668,918
25. Wiener Städtische pref.	79,490,487
26. Leykam	66,113,795
27. Austria Haustechnik	62,323,345
28. Immofinanz	78,685,803
29 Bundesländer pref.	58,932,066
30. DO & CO	56,552,152
31. Bau Holding pref.	53,928,677
32. Bau Holding com.	41,124,855
33. Lenzing	38,918,498
34. Palfinger	35,712,200
35. Erste Immobilien	33,313,756
36. Jenbacher	28,978,460
37. Burgenland Holding	25,186,741
38. Unternehmens Invest	24,212,001
39. Auricon	23,726,695
40. Generali Holding Vienna pref.	22,569,421
41. Porr pref.	21,257,198
42. CA Immobilien Anlagen	20,703,200
43. Investkredit	19,620,846
44. WMP	17,965,995
45. General Partners Immobilien	16,275,703
46. UNIQA com.	15,904,440
47. Oberbank com.	15,324,094
48. Hirsch Servo	13,964,766
49. Allianz Elementar Versicherungen	12,235,893
50. SW Umwelttechnik	11,981,999

C.3 ÖTOB – Derivatives Market

Performance of the ATX

Source: Wiener Börse AG.

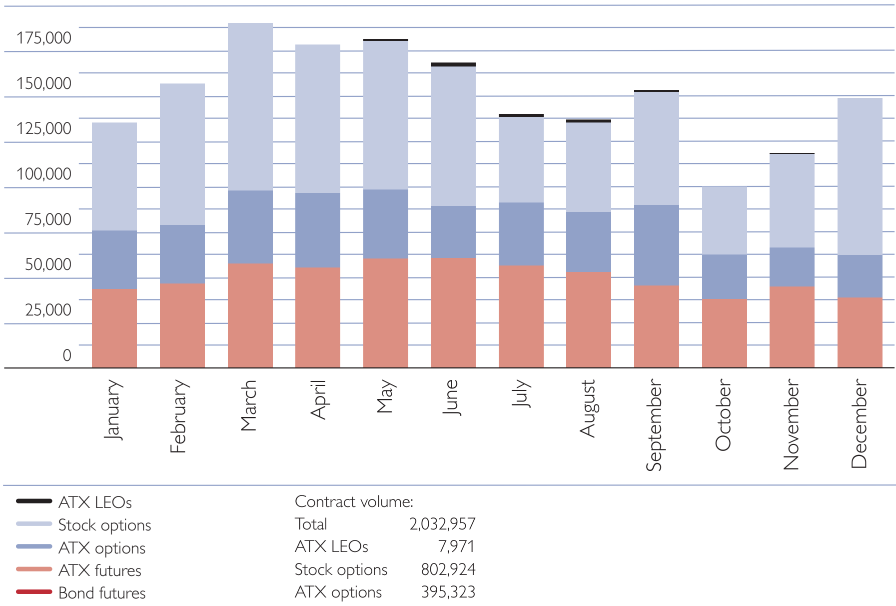
Performance of the CECE Index-Family



Source: Wiener Börse AG.

Contract Volume 1999

Number of traded contracts



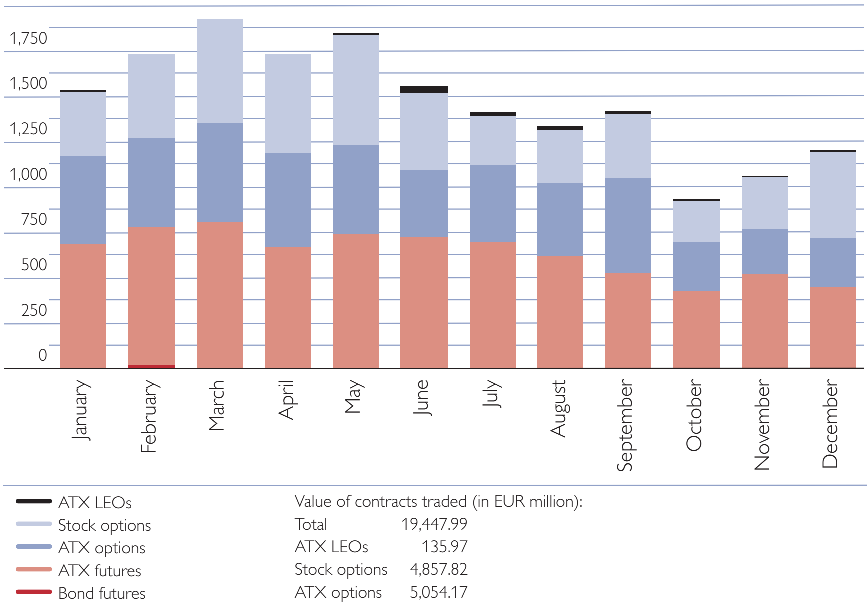
Contract volume:

Total	2,032,957
ATX LEOs	7,971
Stock options	802,924
ATX options	395,323
ATX futures	598,981
AGB futures	180

Source: Wiener Börse AG.

Contract Value 1999

in EUR million



Value of contracts traded (in EUR million):

Total	19,447.99
ATX LEOs	135.97
Stock options	4,857.82
ATX options	5,054.17
ATX futures	7,632.94
AGB futures	31.69

Source: Wiener Börse AG.

D. Securities Data

Provided by Oesterreichische Kontrollbank AG

D.1 Austrian Securities Data

Primary Stock Exchange Price, Turnover and Securities Data

- The *WDBO (Wertpapierdatenbank Österreich)* Database

Oesterreichische Kontrollbank AG's WDBO Database contains information about the fundamentals, key data and maturities of all Austrian Securities. Data can be ordered on a daily or weekly basis. Customized analyses are possible. For more detailed information please e-mail wdbo@oekb.co.at.

Historical Stock Exchange Prices and Turnovers

- Prices dating back as far as 1981 for all individual securities
- Adjusted prices for equities since 1987
- Stock turnover from 1988 for individual securities

PROFIT LINE™

PROFIT LINE™ is divided into three sections: shares, bonds and investment funds. It enables easy access to vital information in a user-friendly Windows™ environment. This rapid on-line connection via modern communication tools such as the internet ensures that data is always up-to-the-minute. As well as facilitating the work of financial analysts, investment consultants and fund and portfolio managers, it also cuts banks' costs by increasing their operational efficiency.

The shares section provides statistical data on quoted securities and companies (e. g. yields, performance and turnover figures, market indicators and indices and *ÖVFA* forecasts).

The investment funds section provides basic and analytical data about Austrian funds, including risk and return figures, performance analyses and prices.

Concerning bonds, this section provides collective data such as average secondary-market yields and yield curves and index reports that include the *Anleihen-Performance-Index* (*API*-bond performance index) and the *Preis-Index-Austria* (*PIA*-Austrian bond-price index).

D.2 Data on Foreign Securities

Oesterreichische Kontrollbank AG offers access to fundamentals and payment data for the majority of foreign securities as an intermediate to *WM* Data Service (Source: *Wertpapier-Mitteilungen*, Frankfurt.)

The prices of most foreign securities are available from *Telekurs AG,* Zurich, where *Oesterreichische Kontrollbank AG* also acts as an intermediate.

D.3 Internet Service ProfitWeb for Austrian Securities Data and Foreign Data

Professional investors appreciate sound data and precise analyses. *OeKB's* ProfitWeb (www.profitweb.at) is now online, offering the latest and most comprehensive pool of data on domestic securities available.

ProfitWeb provides master data and key historical figures on all foreign and domestic shares, bonds and funds, as well as performance indicators and price and data analysis on Austrian investment funds.

If you would like to take advantage of ProfitWeb to enhance your investment decisions please contact: profitweb@oekb.co.at

For prices and more detailed information about securities data, please contact:

Oesterreichische Kontrollbank AG
Gruppe Finanzdatenservice
Am Hof 4
A-1010 Wien
e-mail: profitline@oekb.co.at

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 system Xetra® including all indications and estimated prices on the Official Market, the Semi-Official Market and the Unregulated Market of *Wiener Börse*. The same data is available for *ÖTOB,* the derivatives market segment of *Wiener Börse.*

For more detailed information please contact:
Wiener Börse AG
Clearing and Compliance Systems
Attn.: Mr. Ludwig Nießen
Strauchgasse 1–3
A-1010 Wien
Phone: +43-1- 531 65-0
Fax: +43-1- 532 97 40
e-mail: niessen@wbag.at

F. Accounting Standards for Austrian Companies

The Austrian Financial Accounting and Reporting Act was prepared with a view to attaining international standards in accounting and adapting Austrian accounting and financial reporting to EC-directives. It applies to most business entities, only small businesses being excluded. The new code is the first codification of the Austrian principles of proper accounting. Double-entry bookkeeping now is the only legally acceptable booking method.

ÖVFA
(The Austrian Association of Financial Analysts and Investment Consultants)

Procedure for computing profits

When the *Rechnungslegungsgesetz* (Accounting Act) came into force, *ÖVFA* developed its own procedure for computing profits. It was designed to replace the existing procedure, which was based on the way in which taxable income is assessed.

ÖVFA's objective was to develop a unified method of calculating profits for the benefit of outside financial analysts that would be as free as possible from extraneous influences. *ÖVFA* hoped to create a viable basis for comparing price developments on the stock exchange by making corrective adjustments for major extraordinary and out-of-period processes and events and the effects of the different ways in which voting rights are exercised.

For want of any way of setting generally applicable depreciation standards, *ÖVFA* was forced to accept as a specifically Austrian phenomenon the fact that Austrian fiscal depreciation rates are too high by international standards, making comparisons with foreign companies unreliable.

The adjustments that are made to posted annual profits to obtain the *ÖVFA* profit estimate can be divided into three main categories:

Extraordinary items

Extraordinary items: In order to calculate comparable true-to-period profits, posted annual profits must be adjusted to allow for extraordinary and out-of-period expense and income. *ÖVFA's* calculations take a variety of extraordinary and out-of-period items into account above and beyond those included in the extraordinary result defined by the *Rechnungslegungsgesetz* (Accounting Act). They include income and expense associated with the sale of fixed assets, extraordinary write-downs, changes in a company's methods of balance-sheet accounting and methods of evaluation, issuing costs, out-of-period income and expense, and tax refunds and liabilities associated with earlier accounting periods.

Special cases, extraordinary and optional provisions: These can only be allowed for individual cases following approval by the *Methodenbeirat* (method committee). This may be the case, for instance, if a company's excessive caution has had too great an effect on its posted profits.

Latitude in balance-sheet accounting

The different ways in which companies apply Austrian evaluation standards – which allow considerable leeway – are allowed for under the heading of "latitude in balance-sheet accounting". Adjustments under this heading might for instance be necessary because of leeway in entries pertaining to a company's goodwill, interest paid or payable on borrowed funds, expenditure on setting up operations and extending or altering them, intangible assets acquired by affiliates, or accruals or supplementary allocations to provisions for pensions and severance payments.

In general, *ÖVFA* profit figures where taxes are paid are only adjusted by the amount of tax levied on the company's profit.

Corrections to allow for tax

The purpose of the third category of adjustments – "corrections to allow for tax" – is to neutralize changes in fiscal burdens caused by a company's exploitation of concrete tax concessions. This category covers the fiscal effects of increases and decreases in rent reserves, the revaluation of export receivables and global write-downs.

ÖVFA also subjects consolidated results to corrections that are specific to the particular group before publishing an *ÖVFA* group result. Following the deduction of minority interests, this result provides the basis for calculating the group's earnings per share.

During the changeover to a formula that conforms to the new *Rechnungslegungsgesetz* (Accounting Act), *ÖVFA* has revised its method of calculating cash flow, which is now in line with international standards.

In order to improve the comparability of share-analysis data, *ÖVFA* has standardized other indicators.

For more information about the *ÖVFA,* please contact:
ÖVFA
Österreichische Vereinigung für Finanzanalyse und Anlageberatung
(Austrian Association of Financial Analysts and Investment Consultants)
Attn.: Mr. Gerhard Edelmann
c/o *Bank Austria AG*
A-1010 Vienna, Am Hof 13
Phone: +43-1-711 91-548 03
Fax: +43-1-711 91-548 99
e-mail: gerhard.edelmann@bankaustria.com

G. Taxation

Individuals whose residence or customary place of abode is not in Austria and corporate bodies whose registered offices or management is located abroad are considered non-residents. Non-residents are subject only to limited tax liability, i. e. they are taxable in regard of 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 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. Therefore, they are taxable with the income that is received by an Austrian permanent establishment. A corporate tax return for 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 are entitled to file for a so called "proof of the foreign nationality" and are therefore withholding tax exempt (compare exemptions from withholding tax).

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 dormant 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 guarantees 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 Federal Republic of Austria or if it is a branch of a financial institution within the territory of the Federal Republic of Austria. Capital income derived from bond securities shall be deemed to be derived in Austria if the coupon paying location is located within Austria.

Exemption from Withholding Tax:

- intercompany profit shares (dividends, etc.) paid to a resident corporation provided that the participation exceeds 25%;
- intercompany dividends paid to a non-resident corporation under the parent subsidiary directive (90/435/EC). I. e. the exemption is only applicable to corporations resident within the EU (please see below);
- interest income from cash deposits and other accounts receivable from non-resident permanent establishments of banks;
- interest income from cash deposits and other receivables against banks if the creditor of the capital is a domestic or foreign bank;
- interest income from cash deposits (savings and fixed deposits) and from other accounts receivable from banks based on banking operations and capital yields from securities representing money claims if the recipient is a corporation that declares in writing that this interest income is to be assessed as business receipts of a domestic or foreign trade or business. The recipient furthermore has to forward a duplicate of the exemption declaration to the competent local tax office. The respective security and the coupon have to be deposited in a custodian account with the bank;
- 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 occasion of capital increases out of corporate funds (bonus shares).

Foreign investors (either physical persons whose residence or customary place of abode is not in Austria or corporate entities having registered domicile or place of management abroad) are exempt from withholding tax in Austria with

- interest income from cash deposits (e. g. savings and time deposits) and from other accounts receivable from banks based on banking operations;
- capital yields on securities representing money claims (certificates of deposit in foreign currency, mortgage funds, bond issues, convertible and income bonds).

This tax exemption from withholding tax is only granted if evidence of the investor's non-resident status is furnished (the bank will make a note of the investor's name and address as well as certain particulars from the passport); investors who are Austrian nationals or nationals of Austria's neighbouring states must declare in writing that they do not have their residence or customary abode in Austria.

In general, profit shares are taxed in the state of residence. However, they are also taxed in Austria as state of source. The tax imposed in Austria is in most cases limited by the tax treaties concluded by Austria to a certain percentage (usually, this percentage ranges between 5 percent and 15 percent and may be precisely seen from the double tax treaty survey hereinafter referred to).

Tax Treaties
in Force with the Following States:

Australia	IT
Argentina	IT, NWT
Belgium	IT, NWT
Brazil	IT, NWT
Bulgaria	IT, NWT
Canada	IT, NWT
China	IT, NWT
Cyprus	IT, NWT
Czech Republic	IT, NWT
Federal Republic of Germany	IT, NWT, IHT
Denmark	IT, NWT
Egypt	IT, NWT
Finland	IT, NWT
France	IT, NWT, IHT
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
Liechtenstein	IT, NWT
Luxembourg	IT, NWT
Malaysia	IT
Malta	IT, NWT
Netherlands	IT, NWT
Norway	IT, NWT
Pakistan	IT
Philippines	IT
Poland	IT, NWT
Portugal	IT, NWT
Romania	IT, NWT
Russia (CIS)[1])	IT, NWT
Slovak Republic	IT, NWT
Slovenia	IT, NWT
South Africa	IT, NWT
Sweden	IT, NWT, IHT
Switzerland	IT, NWT, IHT
Spain	IT, NWT
Thailand	IT, NWT
Tunesia	IT, NWT
Turkey	IT, NWT
Ukraine	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, Belarus, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Ukraine, Uzbekistan.*

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
Australia	25	15	10	10	15
Belgium	25	15/0F	10	15	10
Brazil	25	15	10	15	10
Bulgaria	25	0	25	0	25
Canada	25	15	10	15	10
China	25	10/7B	15/18B	10	15
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	10/0F	15	0	25
France	25	10/0A	15/25	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	0	25	0	25
Israel	25	25	0	15	10
Italy	25	15	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
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	5	20	5	20
Thailand	25	25/10B	0/15	25/10 [5])	0/15
Tunesia	25	20/10B	2/15B	10	15
Turkey	25	25	0	15	10
Ukraine	25	10/5A	15/20	2/5 [6])	23/20
United Kingdom	25	15/5B/0F	10/20B	0	25
United States	25	5/12.5	20/12.5	0	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 at all 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]) *Recipient is an Austrian bank or insurance company.*

[6]) *For interest on bank loans for sale on hire purchase agreements.*

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 percent of the distributing resident subsidiary's stated capital/share capital continuously for a period of two years;
- 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 two 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 that legal form.

a) Formation

Generally a *GesmbH* is formed by at least two persons; they may be individuals or legal entities, resident or non-resident, Austrian or foreign citizens. After formation all shares may be transferred to and 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 ATS 37 million (€ 2.69 million)
  - revenue *("Umsatzerlöse")* must not exceed ATS 74 million (€ 5.38 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 month 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 ATS 150 million (€ 10.90 million)
  - revenue *("Umsatzerlöse")* exceeds ATS 300 million (€ 21.80 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 month 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 € 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 ATS 500,000 (€ 36,336) the overall cost will be roughly between ATS 50,000 (€ 3,634) and ATS 70,000 (€ 5,087). 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 € 35,000 and shall consist of shares with a minimum nominal value of € 70. This must be subscribed in full on formation of the company, but only the higher of either € 17,500 or 25 percent 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. The transfer involves 2.5 percent stock exchange turnover tax on the stipulated transfer price. If the transaction is performed abroad and only one of the parties is a resident, the tax is reduced to one half of the rate.

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. 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 percent 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 percent 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 ATS 1 million (€ 0.07 million), total formation cost of ATS 120,000 (€ 8,721) through ATS 200,000 (€ 14,535) 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 50% 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 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 percent 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 five percent 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 € 70,000 and shall consist of shares of at a minimum € 1,00 or any multiple in full Euro.

Before registration in the Commercial Register, at least 25 percent 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; no-par-value shares are not permitted. 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 rights may be issued up to 50 percent of the common stock. 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

	Minimum Stated Capital Stock
Stock Corporation	**Limited Liability Company**
€ 70,000	€ 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
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 percent of capital stock entitle shareholders to exercise most of the minority rights	10 percent of capital stock required for exercising minority rights

Both types of corporations have in common that after incorporation 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

Sole Proprietorship

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.

Civil-Law Association

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

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

GesmbH & Co KG

The *GesmbH & Co KG* is a limited partnership with, typically, 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.

Dormant Partnership

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; in case of insolvency of the enterprise he is creditor with the portion of his contribution not consumed by losses. Strictly speaking, the dormant partnership is nothing more than an 'undisclosed participation'.

Private Foundation

A Private Foundation constitutes a conglomeration of property having legal personality 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 ATS 1,000,000 (€ 72,673).

Any contributions made by any donors are subject to inheritance and gift tax. The tax rate is 2.5% for donations made by the donors mentioned in the charter of the Private Foundation regardless of the amount donated. 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 4% of the unit value of the land (which is considerably lower than the fair market value) has to be paid. Capital yields retained are not subject to withholding tax until distribution. The foundation's regular income (e.g. income derived from rentals and royalties) is subject to 34% corporate income tax, whereas capital gains are not taxable unless they are out of speculative ventures (→ capital gains out of sales of securities within one year). Furthermore dividends received from participations in Austrian corporations, interest derived from bank deposits with Austrian banks and interest from bearing bonds received in Austria (Austrian paying agent) are tax-exempt, if the charter of the Private Foundation is disclosed to the competent tax authority. Also foreign capital yields that can be compared with the above mentioned Austrian capital yields – except income out of foreign investment funds – are tax exempt on the level of the Private Foundation, if no discharge from foreign withholding taxes due to the corresponding double taxation treaty is effectuated.

Branch

A foreign enterprise may establish a branch in Austria; the branch must be registered with the local Commercial Register which requires: proof of the legal existence of the foreign company and of a regular business activity in the country where it is domiciled; appointment of an authorized representative residing in Austria.

An Austrian branch of a foreign enterprise is considered a taxable entity and has to maintain proper books and records in Austria.

Tax Incentives

Special tax incentives are granted for investments in tangible and intangible 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

- Investment allowance *(Investitionsfreibetrag)*: in addition to standard depreciation an investment allowance of the cost of acquisition/production of qualifying assets to be used in a domestic business can be claimed in the year of acquisition/production, so that 100% plus the investment allowance of the cost of the respective asset is deductible over the useful life of the asset. Currently, the investment allowance amounts to 9% and 6%.
  - 9% applies to the cost of acquisition/production of new tangible assets, second-hand tangible assets, buildings (without real estate), trucks and lorries (in special cases)
  - 6% applies to the cost of acquisition/production of trucks, lorries and busses (generally) and intangible assets (e. g. software).

  No investment allowance will be granted in the case of passenger cars, estate cars and motor-cycles, for assets acquired in connection with sale-and-lease back arrangements and for second-hand tangible assets acquired within a group.

Both tangible and intangible, movable and immovable fixed assets are eligible provided the useful life of the assets is at least four years. Tax losses resulting from the use of investment allowances cannot be set off from other income but can only be deducted from future profits of the same enterprise, without time limit. The investment allowance must be stated as a special form of reserve in the balance sheet with an indication of the year of appropriation. After the end of four years following appropriation the tax advantage is final and the reserve is freely disposable. However, if the relevant assets are sold or scrapped within the four-year period, the allowance must be written back to taxable income.

- Rollover of capital gains *(Übertragung stiller Reserven):* if fixed assets are sold gains resulting on disposal may be deducted from the cost of investments made in the same period, or may be allocated to a tax-free reserve to be used against investments within the following year. Any amounts not used within this period must be written back to taxable income with an uplift. Capital gains on tangible assets can only be rolled over to investments in other tangible assets; likewise, rollovers are only permitted from intangible to other intangible assets. Furthermore, capital gains may be rolled over to investments in real estates if these capital gains derive from the sale of real estates. A carry over of capital gains deriving from the disposal of business units or shares of a partnership is not permitted. Moreover, a carry over of capital gains to the acquisition costs concerning business units, shares of a partnership and Financial Assets is also not possible. At the time of their disposal the assets must have been part of the business-fixed assets for at least seven years. The minimum retention period is not required if the assets are disposed of on account of force majeure or of expropriation proceedings.

b) Research and Development

Research and development expenses (excluding administration and distribution costs as well as cost of fixed assets) are tax deductible at 25% of the actual amounts incurred provided that the Ministry for Economy and Labor certifies that the research work is in the economic interest of the Republic of Austria. No such certificate is required if a patent has already been issued.

The tax deductible amount is raised to 35% of the current actual expenses for Research and Development exceed the arithmetical mean of the expenses of the preceding three business years (comparable period). If in one of the years of the comparable period no expenses for Research and Development have fallen due, for the calculation of the arithmetical mean the expenses for the corresponding year are zero. It has to be set up a reconciliation showing which expenses are subject to the 25% and what expenses to the 35% rate.

Tax Rates in Austria
1. Individual Income Tax

Unlimited Tax Liability
till 31. 12. 1999

Taxable income			Tax rate on Total Taxable income	less
ATS			*percent*	*ATS*
0	up to	50,000	10	0
50,000	to	150,000	22	6,000
150,000	to	300,000	32	21,000
300,000	to	700,000	42	51,000
	over	700,000	50	107,000

The income tax is reduced by the following deductions:

General deduction (for every taxpayer)	ATS	0 to[1]) 8,840
Deduction for employees and pension earners	ATS	1,500
Deduction for solitary earner in a family	ATS	4,000
Commuter's deduction for employees	ATS	4,000

[1]) *Depending on total income: under ATS 200,000.00 total income – full deduction; between ATS 200,000.00 and ATS 500,000.00: deduction decreasing corresponding to increasing income; over ATS 500,000.00 no deduction.*

Unlimited Tax Liability
from 1. 1. 2000

Taxable income			Tax rate on Total Taxable income	less
ATS			*percent*	*ATS*
0	up to	50,000	0	0
50,100	to	100,000	21	10,500
100,100	to	300,000	31	20,500
300,100	to	700,000	41	50,500
	over	700,000	50	113,500

The income tax is reduced by the following deductions:

General deduction (for every taxpayer)	ATS	500 to[1]) 12,200
Deduction for employees and pension earners	ATS	1,500
Deduction for solitary earner in a family	ATS	5,000
Commuter's deduction for employees	ATS	4,000

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

2. Corporation 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 uniform rate of 34%. There are no separate tax rates, e. g., for capital gains, rental income etc.

Resident legal entities have to pay a minimum corporate income tax which amounts to 5% of the minimum stated capital. In case of a limited liability company the minimum corporate tax amounts to ATS 24,080 (€ 1,750) and in case of a stock corporation the minimum corporate tax amounts to ATS 48,160 (€ 3,500) (the minimum corporate tax for banks and insurance companies amounts to ATS 75,000 [€ 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 development of overall income tax burden on retained and distributed earnings (dividends) of corporations may be shown as follows:

	1994 and subsequent years
retained earnings	34.0%
distributed earnings	50.5%

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 which for certain qualified participations normally amount to 5% (such as, in the treaties with the Netherlands, Luxembourg, Sweden, Switzerland, UK, USA). In these cases the overall tax burden on distributed earnings will even decline from 50.5% to 37.3%.

So-called financing companies remain tax exempted for a period of five years subsequent to the year of registration. After the five-year period, the tax exemption will continue to apply without limitation of time to those portions of income which is to be allocated to the financing sphere. Additional tax exemptions are granted as to capital transfer tax, legal fees. Financing companies which enjoy these benefits have to meet, inter alia, the following requirements:

- minimum stated capital ATS 100 million (€ 7.27 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.

H. 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.co.at

Oesterreichische Kontrollbank AG
A-1010 Vienna,
Am Hof 4 and Strauchgasse 1–3
Phone: +43-1-531 27-0
Fax: +43-1-531 27-237
http://www.oekb.co.at

FMA Finanzmarkt Austria Dienstleistungs GesmbH
A-1010 Vienna, Am Hof 4
Phone: +43-1-531 27-353
Fax: +43-1-531 27-237

Wiener Börse AG
A-1014 Vienna, Strauchgasse 1–3
Phone: +43-1-531 65-0
Fax: +43-1-532 97-40
http://www.wbag.at

Bundeswertpapieraufsicht
(Austrian Securities Authority)
A-1010 Vienna, Canovagasse 7
Phone: +43-1-502 42-0
Fax: +43-1-502 42-15

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 AG
A-1030 Vienna, Vordere Zollamtstraße 13
Phone: +43-1-711 91-0
Fax: +43-1-711 91-52807
http://www.bankaustria.com

Creditanstalt AG
A-1010 Vienna, Schottengasse 6
Phone: +43-1-531 31-0
Fax: +43-1-531 31-475 66
http://www.creditanstalt.co.at

Bank für Arbeit und Wirtschaft AG
A-1010 Vienna, Seitzergasse 2-4
Phone: +43-1-534 53-0
Fax: +43-1-534 53-2840
http://www.bawag.co.at

Erste Bank der oesterreichischen Sparkassen AG
A-1010 Vienna, Graben 21
Phone: +43-1-531 00-0
Fax: +43-1-531 00-2272
http://www.erstebank.at

Österreichische Postsparkasse AG
(Postal Savings Bank Austria)
A-1010 Vienna, Georg-Coch-Platz 2
Phone: +43-1-514 00-0
Fax: 43-1-514 00-1700
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 40-3103
http://www.volksbank.co.at

ÖVFA: Österreichische Vereinigung für Finanzanalyse und Anlageberatung
(Austrian Association of Financial Analysts and Investment Consultants)
A-1010 Vienna, Am Hof 13
Phone: +43-1-711 91-548 03
Fax: +43-1-711 91-548 99

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

Wirtschaftskammer Österreich
(Austrian Federal Economic Chamber)
A-1050 Vienna, Wiedner Hauptstraße 63
Phone: +43-1-501 05-4266
Fax: +43-1-502 06-259
http://www.wk.or.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://www.akwien.or.at

*WIFO: Österreichisches Institut
für Wirtschaftsforschung*
(Austrian Institute for Economic Research)
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

*Österreichs Bundes-
Betriebsansiedlungs-Gesellschaft*
(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 for Agriculture,
Forestry 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 Economy and Labor)
A-1010 Vienna, Stubenring 1
Phone: +43-1-711 00-5555
Fax: +43-1-714 2724
http://www.bmwa.gv.at

Bundesministerium für Finanzen
(Federal Ministry for Finance)
A-1010 Vienna, Himmelpfortgasse 4–8
Phone: +43-1-514 33-0
Fax: +43-1-512 26 78
http://www.bmf.gv.at

*Bundesministerium für
auswärtige Angelegenheiten*
(Federal Ministry for Foreign Affairs)
A-1014 Vienna, Ballhausplatz 2
Phone: +43-1-531 15-0
Fax: +43-1-535 45 30
http://www.bmaa.gv.at

Bundesministerium für Inneres
(Federal Ministry for Interior)
A-1010 Vienna, Herrengasse 7
Phone: +43-1-531 26-0
Fax: +43-1-531 26-3910
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
und Generationen*
(Federal Ministry for Social Safety
and Generations)
A-1010 Vienna, Stubenring 1
Phone: +43-1-711 00-6155, 6230
Fax: +43-1-711 00-6469
http://www.bmsg.gv.at

*Bundesministerium für Verkehr,
Innovation und Technologie*
(Federal Ministry for Transport,
Innovation and Technology)
A-1030 Vienna, Radetzkystraße 2
Phone: +43-1-711 62-8001
Fax: +43-1-713 78 76
http://www.bmv.gv.at

*Bundesministerium für Bildung,
Wissenschaft und Kultur*
(Federal Ministry for Education,
Science and Culture)
A-1010 Vienna, Minoritenplatz 5
Phone: +43-1-531 20-5002
Fax: +43-1-533 77 97
http://www.bmbwk.gv.at

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Capital Markets

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- Terms of Business of Wiener Börse (also on the Website www.wbag.at under info wbag – legal – statutes and other legal texts as pdf-file downloads)
- Wiener Börse Statistics 1999
- Wiener Börse Monthly Statistics 1999
- Austrian Securities Supervision Act 1998

OeKB's Securities Services

- Central Securities Depository, Oesterreichische Kontrollbank AG, Vienna
- PATS – Partly Assisted Trading System, Oesterreichische Kontrollbank AG, Vienna
- PICS – Price Information, Clearing and Settlement System, Oesterreichische Kontrollbank AG, Vienna
- Rates and Fees; Oesterreichische Kontrollbank AG, Vienna
- PROFIT LINE™, OeKB Finanzdatenservice, Vienna

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