

we  
love  
IT

Annual Report 2005

# » S&T is the leading provider for IT solutions and services in Central and Eastern Europe »

## S&T GROUP in EUR million

	2005	Change in %	2004 <sup>1)</sup>	2003	2002	2001
Total revenues	360.5	63%	220.9	209.3	171.1	161.6
EBITDA	14.5	73%	8.4	8.2	7.6	8.1
EBITA	8.5	66% <sup>2)</sup>	5.1	4.7	4.9	6.0
Profit / Loss from operations (EBIT)	8.5	66% <sup>2)</sup>	5.1	0.2	2.6	4.0
Profit / Loss before tax	6.4	53% <sup>2)</sup>	4.1	-1.8	0.5	2.8
Profit / Loss after tax	4.9	84% <sup>2)</sup>	2.7	-2.6	0.2	1.4
Diluted earnings per share (in EUR)	1.38	82%	0.76	-0.76	0.05	0.42
Shareholders' equity	37.7	20%	31.4	27.2	31.2	30.3
Total assets	197.7	89%	104.7	113.4	112.4	109.3
Employees at year-end	1,923	64%	1,169	1,208	882	816
Net debt	37.2	248%	10.7	5.1	11.1	-8.9
Tangible equity	17.6	-14%	20.5	17.1	16.2	15.5
Net gearing	18.8%		10.2%	4.5%	9.9%	-8.1%

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

2) Calculated using unrounded figures

### Disclaimer

This Annual Report reflects the situation of S&T as per December 31, 2005.

The Annual Report contains certain forward-looking statements. Such forward-looking statements involve management estimates, known and unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of S&T, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: competition from other companies, changes in operating expenses, attraction and retention of qualified employees, uncertainties arising out of S&T's operations outside Austria, adverse changes in applicable regulations and tax laws, adverse changes in government or fiscal policies, civil unrest, vis major, acts of war and other factors referenced in this Annual Report. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. No representation or warranty can be given, expressly or implied, regarding the correctness, completeness or fairness of information and opinion regarding such forward-looking statements contained in this Annual Report. S&T disclaims any obligation to update any such forward-looking statements to reflect future events or developments. S&T and the persons acting on behalf of S&T do not accept any liability whatsoever arising from any use of this Annual Report or its contents or otherwise arising in connection therewith. This Annual Report is neither an offer nor an invitation to submit an offer to buy S&T securities.

# we love IT

<b>Letter to the Shareholders</b>	<b>4</b>
<b>Management</b>	<b>6</b>
<b>About S&amp;T</b>	<b>8</b>
<b>Highlights 2005</b>	<b>10</b>
<b>Success Stories</b>	<b>14</b>
<b>S&amp;T Team</b>	<b>18</b>
<b>Management Report</b>	<b>19</b>
<b>Report of the Supervisory Board</b>	<b>26</b>
<b>Consolidated Financial Statements</b>	<b>27</b>
<b>S&amp;T Locations</b>	<b>64</b>
<b>S&amp;T Share</b>	<b>66</b>

# Letter to the Shareholders

Dear Shareholders,

**Strong growth** and strategic expansion were the top priorities for S&T in 2005, allowing us to grow large enough to begin taking advantage of synergies and economies of scale and to achieve record-setting results in revenues, EBITDA and EBIT, despite integration costs and expenses for optimizing group structure. With a 62% increase in revenues and EBIT growth of 66%, last year certainly provided one of the best results in the company's history.

**In addition to our expansion** in our focal market of Central and Eastern Europe, we also advanced our position as a leading provider for IT solutions and services on the Austrian market through two acquisitions. Backed by the enormous commitment and dedication of our employees, we were able to carry through with the integration of these two companies in 2005, leaving us free to concentrate all our energy on serving the market in 2006. The acquisition of the SAP specialist EFP was a strategic milestone: this profitable group provides us with broad-ranging competence in SAP, coupled with valuable Western European industry and process know-how.

**Our goal** is to leverage the dynamic development of the IT market and to continue strengthening S&T's leading position in this industry. With our staff of more than 400 ERP/SAP specialists, we will sharpen our focus on solutions and services, drawing on our vast expertise in manufacturing, power utilities, telecommunications, financial service providers and public administration.

**In addition to organic growth**, we are also planning further acquisitions to complement our regional positioning, enhance our value-added chain and broaden our customer orientation.

**S&T's market capitalization has increased** from EUR 64.2 million to over EUR 90 million, and our shares put in an excellent performance in 2005, with the share price gaining 41.2%.

**Our goals for 2006 are ambitious:** we aim to achieve sales of more than EUR 400 million and EBIT of more than EUR 10 million.

**Our main priorities in 2006** will be to sustain our company's profitable growth and take advantage of opportunities to further increase shareholder value. S&T is on the right track becoming a major force on the European IT market.

Vienna, March 2006



Christian Rosner  
Chief Executive Officer, S&T



Christian Rosner  
Chief Executive Officer, S&T

# » Leading the way to CEE





**Christian Rosner**  
Chief Executive Officer



**Martin Bergler**  
Chief Financial Officer

## Management Board

### **Christian Rosner**

Chief Operating Officer (until December 31, 2005)  
Chief Executive Officer (since January 1, 2006)

### **Martin Bergler**

Chief Financial Officer

### **Karl Tantscher**

Chief Executive Officer (until December 31, 2005)

**Christian Rosner** has been the company's Chief Executive Officer since January 2006. Prior to this, he held the position of Chief Operating Officer after joining the company in January 2004. In that capacity he was responsible for marketing & sales, vendor relations and business development in the Central and Adriatic regions. His broad range of experience in the computer and telecommunications industry was gained in management positions at Digital Equipment, Hewlett-Packard and CWS, as well as board positions at EMTS and eTel Austria.

**Martin Bergler** joined the company in 1998 and is the Board Member responsible for corporate finances and administration. A trained business economist, he was CEO of Mazda Bank Österreich AG, which operated also in Slovenia, Croatia and Hungary. Prior to this, he worked as a financial specialist at the Girozentrale.

**Karl Tantscher** was one of S&T's founders and served as CEO from 2000 until December 31, 2005. He was responsible for investor relations, human resources and business development in the South and East regions. Mr. Tantscher retired on January 1, 2006 and passed on his responsibility as CEO to Christian Rosner.

## Supervisory Board

### **Chairman**

Thomas Streimelweger

### **Deputy Chairman**

Reinhard Moser

### **Supervisory Board Members**

Wolfgang Auer von Welsbach (until April 2005)

William de Gelsey

Franz Jurkowitsch

Karl Michael Millauer

Karl Nigl (since April 2005)

# About S&T...

With over 1,900 employees in 19 countries, S&T is the leading provider for IT solutions and services in Central and Eastern Europe. S&T develops and implements customized IT solutions for clients in the telecommunications, banking and insurance, power utilities and manufacturing sectors as well as public administration.



## “One-Stop-IT-Shop“

**Our main priority are our customers.**

That is why it is particularly important to have a tight network to ensure that we are quickly available for our customers at all times. Each customer has an experienced contact person at S&T who is responsible for the implementation of their project, be it a single server or a complex crossborder software rollout or the outsourcing of an entire IT infrastructure.

We provide the competence of over 1,900 highly qualified and certified employees, each of them meeting the exacting quality standards of S&T and our customers. The annual customer satisfaction survey provides impressive proof of this.

## Superior performance

**IT outsourcing** allows S&T’s customers to focus fully on their core business activities. S&T AG’s range of services covers the entire spectrum of IT system integration from consultation and project management to system implementation, configuration of the best hardware and software to round-the-clock customer support and training. Our goal is to optimize our customers’ business processes, in order to maximize their profitability and enhance their competitiveness. With subsidiaries in 19 countries, S&T also excels in the field of transnational IT structures, offering top-notch expertise in IT solutions and services.

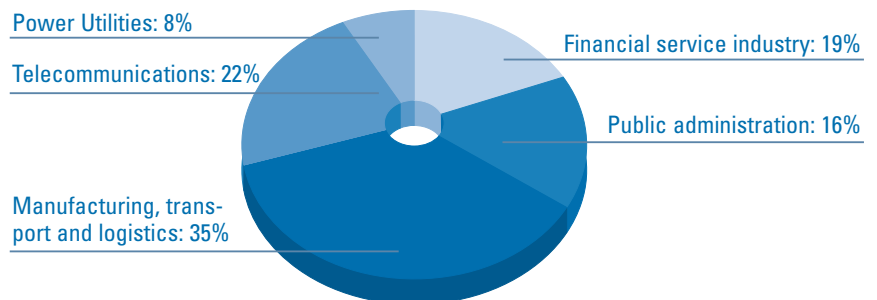
**S&T develops customized solutions** based on the cutting-edge technologies of leading global hardware and software manufacturers such as Cisco Systems, EMC, Hewlett-Packard, IBM, Microsoft, Oracle and SAP, to name just a few. In 2005, S&T reinforced its activities in the ERP business with the acquisition of the EFP Group, and is now one of the key players for SAP. We are the only IT service provider that has built up SAP skills in 10 Central and Eastern European countries, giving us the ability to carry out global rollouts.

## Our customers

**S&T mainly serves large** and medium-size enterprises in the sectors manufacturing, financial services, telecommunications, energy and public administration. On the following pages you will find examples of applications which have been successfully installed for various customers.

### Customer segments in 2005

(by sales)





» Follow me to S&T

# Highlights 2005...

2005 was a sizzling year for S&T, marked by rapid expansion and consolidation of the newly acquired companies at a record-setting pace. Despite this brisk growth, S&T was still able to boost EBIT from EUR 5.1 million to EUR 8.5 million.



## Only the best for our customers

For S&T, partnerships with suppliers are a crucial aspect of long-term strategy. In addition to broadening the cooperation contract with Hewlett-Packard in Austria and Central and Eastern Europe, S&T was able to forge a global partnership with IBM.

### Summary:

S&T keeps growing and growing.

The acquisitions of T-Systems DSS, Computacenter Austria and the EFP Group were important milestones for the company.



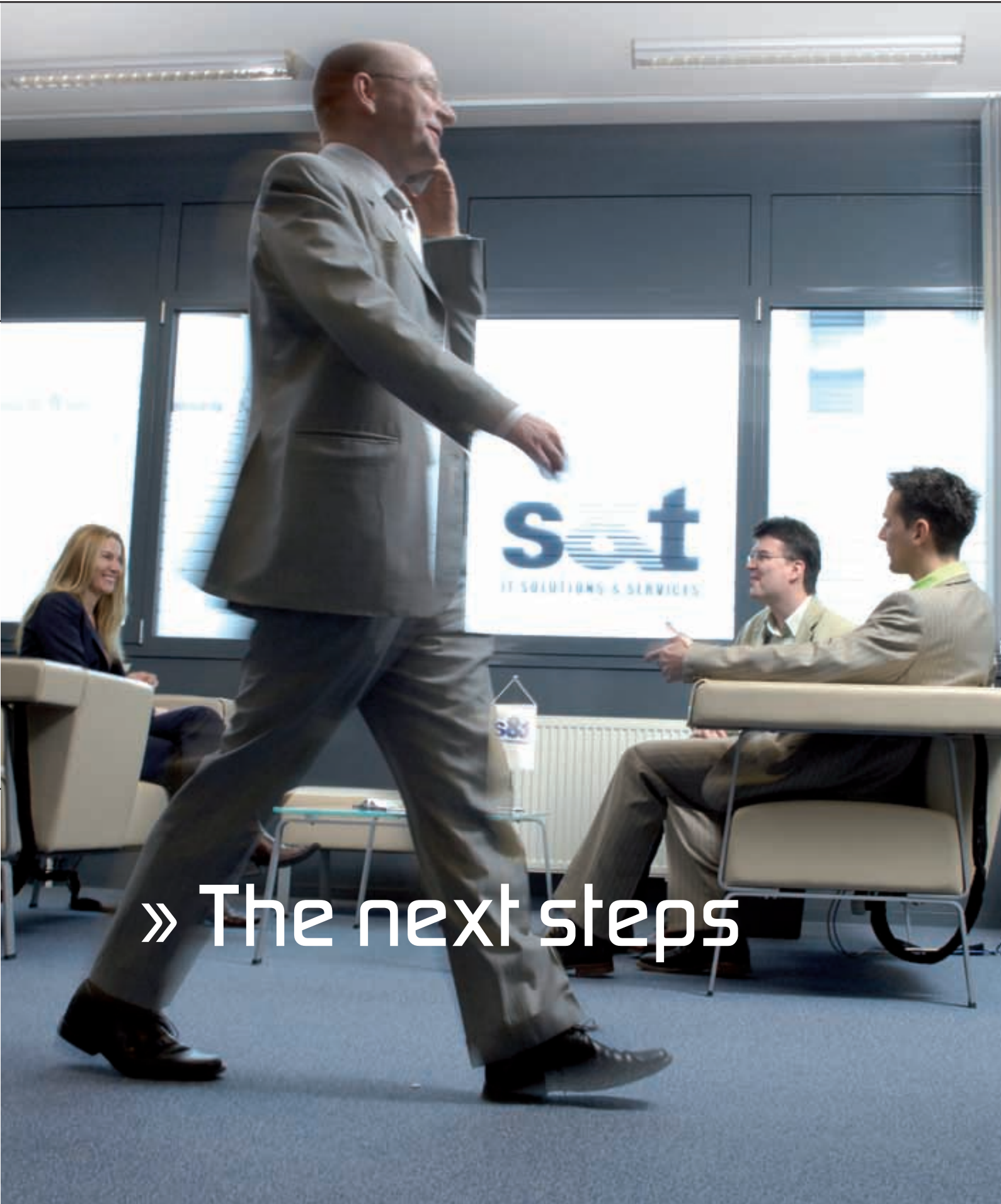
## S&T shakes up the Austrian market

Right at the beginning of the year, S&T took a place amongst the market leaders in the Austrian market for IT solutions and services by acquiring two Austrian IT service providers, T-Systems DSS GmbH & Co KG and Computacenter GmbH. As new CEO, Christian Rosner explained, "Following our acquisitions, there are only three main players left in the systems integration business on the Austrian IT market."



## Milestone for SAP business

With the purchase of the SAP specialist EFP, S&T rounded off a very busy year of acquisitions. EFP's expertise in implementation and process consultation now makes S&T a key player for SAP in Central and Eastern Europe. As CEO Christian Rosner noted, "By acquiring the profitable EFP Group, we gain broad-based SAP expertise together with highly valuable Western European industry and process know-how."



» The next steps

# Expansion continues...

**S&T set a blistering pace in 2005:** One of the most important acquisitions was the purchase of the two companies in Austria, which has turned S&T into one of the main players on the Austrian market.

## S&T moves forward with acquisitions

In 2005, S&T not only increased its market share through acquisitions in Central and Eastern Europe, it also created another strong business focus with its two purchases in Austria. In the past, S&T was concentrated exclusively on Eastern Europe and the company has established itself as a leading player in this region over recent years. By contrast, S&T was not represented in IT services on its home market. This changed suddenly in early 2005: in a veritable tour de force, S&T bought up two former competitors in the space of a single week and merged them into the company by the end of the year.

**T-Systems DSS**, a subsidiary of Deutsche Telekom, specializes in data processing services and enterprise infrastructure. This company's expertise provides valuable support for the strategic core area of ICT outsourcing and desktop outsourcing. T-Systems DSS has offices in Vienna, Upper Austria, Styria, Salzburg, Tyrol and service centers in Carinthia and Vorarlberg.

**Acquisition of the IT infrastructure specialist Computacenter**, a subsidiary of Computacenter PLC which is listed on the London Stock Exchange, has accelerated S&T's expansion of IT services and is a perfect complement to T-Systems DSS.



## "Go-to-market" in Austria

Following approval by the Austrian competition authority, the process of merging the two companies into the S&T Group got off to an early start in March. And thanks to the exceptional commitment and hard work of our employees, T-Systems DSS and Computacenter were fully integrated by the end of the year. For 2006, the motto in Austria is "Go-to-market" and "fine tuning".

For 2006,  
the motto in Austria is  
"Go-to-market" and "fine tuning".



## Full speed ahead in the East

Despite the important acquisitions in Austria, S&T remained on the lookout for further opportunities to expand in its core markets in Central and Eastern Europe in 2005. This vigilance paid off, as attractive deals were identified in Serbia and Croatia.

In April, S&T wrapped up a contract for the 100% takeover of the Serbian firm SITO Inc. SITO is a profitable provider for IT solutions in the Serbian banking sector and has long-standing experience in consulting, process analysis, design, development, implementation and customized solutions. This acquisition further reinforces S&T's leading position in the Adriatic region.

In December, S&T successfully completed the acquisition of Infonet Projekt d.o.o., one of Croatia's leading provider of IT network and security solutions. As a highly specialized IT system integrator, the company's main focus is on the design, development, installation and maintenance of IT systems for Croatia's top 100 companies, such as Privredna banka Zagreb and the Croatian Telekom, as well as other key clients including the Ministry of Defense, the Ministry of the Interior and the Croatian National Bank.



## S&T – the ideal partner

S&T has concluded several key partnership agreements with its strategic partners in recent years. In 2005, in addition to broadening the scope of our cooperation with Hewlett-Packard and EMC, we also further strengthened our ties with IBM, Cisco and Microsoft.

In August, we signed a contract with HP allowing us to offer HP's full service and product portfolio throughout Central and Eastern Europe.

One month prior to that, we concluded a system integrator contract with IBM, which puts us in a position to integrate the entire spectrum of IBM hardware and software into the complex IT infrastructures of its customers in Central and Eastern European countries.

## Key player in the SAP business

Along with the companies acquired in Austria, S&T also scored a major success with another acquisition which will be decisive for the company's further development. The process of developing the SAP business culminated in the 100% acquisition of the SAP specialist EFP in December 2005. Headquartered in Vienna, EFP is an expert in implementation and process consulting, with a well defined focus on the manufacturing and processing industries, and public administration.



With the takeover of EFP, S&T has brought on board 190 ERP specialists in Austria, Switzerland, Slovakia, the Czech Republic and Poland, advancing to become one of the premiere players in the SAP business. S&T is the only IT service provider that has built up SAP skills in 10 Central and Eastern European countries, making us the ideal partner for conducting global rollouts. In addition to being a strategic asset, EFP will also yield a significant contribution to our financial performance.

# Success Stories...



## S&T Central Region



### S&T rides the rails

The Austrian Federal Railways (ÖBB) was interested in enhancing the efficiency of its communications in the field of freight transport. And this was precisely the kind of challenge that the specialists at S&T love to master. The objective: to transfer information about freight transport, order administration, way papers and transport status to an effective and secure electronic system. At the heart of the software which was used was the "Sterling Integrator" produced by Sterling Commerce, one of S&T's strategic partners. This IT solution provides real-time processing of cross-system business processes using predetermined rules. And at the end of the day, ÖBB can react more flexibly and quickly to market and customer requirements. Whilst saving money at the same time.

### Virtual chamber of commerce

Virtual Private Network or VPN was the magic word for meeting the needs of the Austrian Federal Economic Chamber. S&T installed a comprehensive VPN solution which allows the Chamber's employees to access the contents of the corporate network, from within Austria or from abroad. Using a security token, it is possible to authenticate users even when they are outside the country. Thomas Reithofer from the Federal Economic Chamber had the following comments on the S&T project: "To secure access for our users around the world via the VPN tunnel is very important for us."

### S&T sets its sights on smugglers and criminals

Since joining the EU in 2004, Poland is on track to becoming a member of the Schengen Agreement. In order to do this, the Polish Border Guard must be linked into the Schengen Information System (SIS). Founded by national legislation in 1990, the Polish Border Guard is responsible for goods and passenger traffic across Poland's borders and for fighting illegal immigration and smuggling. Upon EU accession, the Border Guard took on new responsibilities, including monitoring and guarding the EU's external border to the east. In the Member States SIS allows the exchange of information on persons and objects between the various police, immigration and customs authorities. The project is financed with Schengen funds. The initial contract volume was EUR 1 million.

At the end of the year, another Schengen project was initiated in Poland, which involved upgrading the information system of the Polish police to meet Schengen standards. In this regard, particular attention was paid to the exchange of information in law enforcement and antiterrorism activities. As was the case with Border Guard, the goal here was to connect the police information system to SIS. This contract once again underscores S&T's strength when it comes to executing public sector projects.

### Monitoring the agricultural market with S&T

EU enlargement resulted in a massive flood of new projects for S&T in the "new" EU Member States. Changes in legislation necessitated the connection of numerous information systems to EU systems. In Slovakia, for example, the system of the agricultural authority had to be linked up. For S&T, which has specialized experience in this particular field, this project was a new challenge. S&T installed a custom-designed IT solution for the agricultural authority, which registers the producers, importers and exporters of plants and plant products as well as monitoring the status and labeling of all traded plants. The project was completed successfully in October 2005.

### S&T Central Region



### S&T, a telecom specialist

S&T's reputation as an IT specialist in the telecom sector is simply outstanding. In Bosnia, S&T was able to win the country's largest telecom BH Telekom as a customer. The job was to create an infrastructure offering better performance, to improve maximum data availability and allow BH Telekom to focus more keenly on customer service. With BH Telekom, S&T has acquired yet another major company in Bosnia-Herzegovina as a client, in addition to multinational groups such as Raiffeisen and HVB. Moreover, this project has helped to further strengthen S&T's presence in the telecommunications industry in the Adriatic region.

### SAP solution for auto supplier

With years of experience as an SAP partner in Slovenia, S&T was the clear choice for the Slovenian auto industry supplier TPV Novo Mesto. S&T implemented a MySAP solution specially tailored to the needs of the auto manufacturing industry. This solution provides all of the necessary interfaces to integrate the company into the value-added chains of its partners via an electronic data interchange. The new technology enables TPV to unify the business processes, rendering production faster and more efficient.

### S&T Adriatic Region





## S&T South Region



### State-of-the-art point of sales solution

As Greece's largest department store prepared for the storm of summer shoppers, S&T was busy providing it with a completely new IT solution for customer service, which also gives the management vital real-time information. Attica, the largest department store in Greece, opened its doors on April 9, 2005, an investment project with a volume of some EUR 25 million. The expectation is that the store will surpass EUR 100 million in annual revenues within just two years. One of the key elements of the store's IT systems was a state-of-the-art Point of Sales (PoS) system, and thus S&T opted for a solution which features maximum customer convenience and ease of use. Moreover, this is the first solution which fully integrates credit card transactions without the need for separate hardware and network connections. An analysis tool also enables the management to directly access information on customers' buying habits, thereby improving customer service.

Constantinos Lambropoulos, Managing Director of Attica, praised S&T's excellent performance, "We are extremely pleased to have this well-known PoS system from S&T, as it is vital in providing the level of customer satisfaction we are looking for. Together with S&T, we were able complete this complex project on time."

### S&T outfits Schneider Electric in Romania

Last year, Schneider Electric provided its Romanian subsidiary with a special SAP-based ERP system. A leading international supplier in the field of electrical power distribution and industrial control and automation technology, Schneider Electric has been active in Romania since 1997, with annual business growth rates of up to 40%. This rapid growth necessitated a software solution which could link the subsidiary to the uniform IT environment in place throughout the Group. With this customized IT solution, S&T made a significant improvement in the administration processes at Schneider Electric Romania, enabling customers to be served faster and more efficiently.



**S&T supports election process**

**The Republic of Moldova’s intention** to become a member of the EU resulted in increased international interest in the general elections held in the country in 2005. The top priority of these elections was to guarantee a transparent polling process. And this is where S&T stepped in, providing the responsible authorities with new instruments for monitoring, analyzing and calculating the election results. S&T provided a turn-key solution, comprising construction of a computer center, a secure communications network throughout the entire country and a PC infrastructure for 36 regional offices. Following successful completion of the project in a record time of just three months, the central electoral committee was able to directly access the latest information on the trends and results of the election and to immediately release this information to the media and on the Internet. By ensuring a completely transparent election process, the Republic of Moldova was able to demonstrate its readiness to join the EU.

**S&T East Region**



**Major contract in the telecom sector**

**Ukraine’s largest telecommunications provider, UkrTelecom,** needed to expand its modern data processing center and launch a uniform, group-wide IT system for all of its branch offices. With years of experience in storage and security solutions, sector-specific know-how in the telecom industry and key strategic partnerships with the leading hardware and software manufacturers, S&T was the logical choice for UkrTelecom. The contract had a volume of some EUR 7 million and covered the delivery of software and hardware, installation, implementation of new services and user training. S&T CEO Christian Rosner on the project: “According to the market analyst IDC we can expect to see annual IT growth of 15% in Ukraine’s telecom sector in the next five years. This reflects the fact that we are on the right track with our sharp focus on IT solutions for the telecommunications sector.”

## S&T Team

We rely on employees drawn from the local markets so that we can offer our customers solutions which are tailored to the specific characteristics of their regional environment.



### S&T Team

**As a service provider**, our highly qualified employees are our most valuable asset. Not only does our staff have comprehensive technical and application-related know-how, they are also deeply familiar with the particular requirements on the local markets in which they work. We rely on employees drawn from the local markets so that we can offer our customers solutions which are tailored to the specifics of their regional setting. S&T has employees at offices in Austria, Poland, Russia, Hungary, the Czech Republic, Slovakia, Slovenia, Croatia, Romania, Bulgaria, Ukraine, Turkey, Malta, Macedonia, the Republic of Moldova, Bosnia-Herzegovina, Albania, Serbia & Montenegro and in Switzerland.

**Due to our vigorous expansion** in the year under review, the number of employees as of end 2005 increased to 1,923, up from 1,169 at the end of 2004. The company's central headquarters are located in Vienna.

**S&T's goal** is to put team spirit into practice, in our dealings within the company and with our customers. Naturally, this also means that we strive to develop long-term relationships with our customers and place great emphasis on ensuring a supportive atmosphere and mutual respect, both with our external partners and our employees.

#### Number of employees per country

																					as of December 31, 2005		
	AL	AT	BA	BG	CH	CZ	DE	GR	HR	HU	LV	MD	MK	MT	PL	RO	RU	SCG	SI	SK	TR	UA	Total
<b>2005</b>	2	385	8	33	51	192	8	41	113	37	–	24	21	11	145	80	47	88	353	150	19	115	<b>1,923</b>
<b>2004</b>	–	27	7	34	–	188	–	44	82	28	6	20	22	12	137	66	44	31	246	70	14	91	1,169
<b>2003</b>	–	26	10	34	–	211	–	39	75	39	4	19	19	13	136	84	32	29	246	63	49	80	1,208
<b>2002</b>	–	18	8	37	–	139	–	–	55	25	8	18	19	–	19	71	28	21	201	63	79	73	882
<b>2001</b>	–	14	12	37	–	161	–	–	52	24	–	16	16	–	22	64	29	12	230	58	–	69	816
<b>2000</b>	–	15	13	36	–	24	–	–	37	29	–	16	14	–	24	38	22	8	177	71	–	75	599

# Management Report 2005...



## Nominal GDP (in \$ PPP, bn)

Country	2005
Russia	1,547.74
Poland	483.25
Ukraine	315.73
Austria	272.66
Switzerland	256.80
Czech Republic	184.20
Romania	183.48
Hungary	162.70
Slovakia	85.00
Bulgaria	68.31
Croatia	54.10
Serbia and Montenegro	51.22
Slovenia	45.25
Bosnia-Herzegovina	32.27
Albania	17.82
Macedonia	15.75
Republic of Moldova	8.58
Malta	7.51

Source: Economist Intelligence Unit 2006

Note: all figures are estimates

PPP: Purchasing Power Parity

## Foreign direct investment in 2005 (in EUR million)

	2005	Change in %	2004
Russia	17,810	89.87%	9,380
Czech Rep.	8,630	140.12%	3,594
Poland	6,780	-32.67%	10,070
Ukraine	6,420	365.22%	1,380
Romania	5,000	-2.53%	5,130
Hungary	3,000	-8.81%	3,290
Slovakia	1,670	65.35%	1,010
Bulgaria	1,600	-11.11%	1,800
Croatia	1,500	50.00%	1,000
Slovenia	-40	-200.00%	40

Source: BA-CA

February 2006

## 1. Economic situation

**Fiscal 2005 was marked by continuation** of the global economic recovery. After several years of lackluster performance, growth rates in the European Union began to return to more normal levels, with real GDP growth in the euro area edging up from 1.5% in 2005 to a rate of over 2% this year. In 2005, GDP growth in the EU-25 amounted to 1.7%, and this rate is expected to increase to 2.1% in 2006. Once again, one of the driving forces behind the recovery in economic activity was the robust performance in the USA, and although the growth rate of 3.5% of the U.S. economy was not the strongest by global standards, its sheer size more than makes up for this.

**Moreover**, Asia also registered strong economic growth. Japan finally overcame more than ten years of sluggish economic performance, with GDP growth accelerating to 2.4% in 2005.

**The countries in Central and Eastern Europe** continued to record above-average economic growth in 2005. In terms of growth, the CIS states led the way with a 5.9% real increase in GDP, followed by Turkey with a rate of 5%. Economic growth in South-Eastern Europe (Croatia, Bulgaria, Romania, Serbia, Bosnia-Herzegovina and Albania) reached 4.5%, with Central Europe (Poland, Hungary, the Czech Republic, Slovakia and Slovenia) posting growth of 3.8%. Similarly strong economic growth rates are expected in these regions in 2006 as well.

**S&T was able to take excellent advantage** of the opportunities that arose in 2005. The trend towards consolidation in the IT industry paved the way for strong growth through acquisitions, and the sharper focus on service and infrastructure made it possible to enhance earnings power by leveraging synergies within the Group, despite the keen competition on the market. The growth rates in the IT market in the CEE region are expected to remain above the average of Western Europe in the future, providing an outstanding basis for S&T's continuing business success.

**In 2005**, the information technology and telecommunications market (ITC) once again registered stable growth. According to the European Information Technology Observatory (EITO), the global ITC sector expanded by 3.5% in 2005. With a share of 31%, Europe accounts for roughly one-third of the total market. IT business growth in 2005 was driven mainly by the software and services business. The software sector in particular was marked by dynamic growth, which is expected to continue, and should reach 6% in 2006 according to EITO. On the other hand, the hardware business was once again faced with price erosion and fierce competition in 2005.

**In addition to accelerating growth rates**, the European ICT market is currently undergoing a phase of consolidation, which S&T took advantage of to carry out several acquisitions. Nonetheless, this trend is just beginning and should continue in 2006. In particular, the new EU Member States and the rest of the Central and Eastern European region are projected to see above-average growth in the ITC sector, due not least to the process of convergence. Foreign direct investment in these regions continues to grow by leaps and bounds. The CIS countries in particular have made great strides in closing the economic gap to the rest of Europe.

**Within this framework**, S&T is a major regional player in the IT business on the emerging markets of Central and Eastern Europe. The S&T Group is taking full advantage of this dynamic growth through its network of offices in 19 countries in the Central and Eastern European region (CEE).

## 2. Revenues

**S&T achieved record revenues** of EUR 355.7 million in 2005, an increase of approximately 62% on the previous year's result of EUR 219.5 million. One particularly important aspect was the shift in revenues towards the services business, with such revenues up 54% on the previous year. Acquisitions in 2005 consisted of Computacenter Austria, T-System DSS, both in Austria, Sito in Serbia, Infonet in Croatia, ITS in Slovenia and EFP (Austria, Switzerland, Germany, Poland, Slovakia and the Czech Republic). Integration of these companies was commenced without delay and completed for the most part by the end of the year. The effects of these acquisitions, in terms of contributions to revenues and margins on the one hand, and integration expenses on the other, characterized the development of earnings at the subannual level at least.

**The acquisitions in Austria** have created a leading market player, while the takeovers in the other countries complemented the existing portfolio in the field of services and strengthened the company's market position in Slovenia, Croatia, Serbia and Montenegro, Poland, the Czech Republic and Slovakia. With the acquisition of the EFP Group, Switzerland was added as a new country, served by a team of 50 SAP specialists.

### Sales revenues by business segments

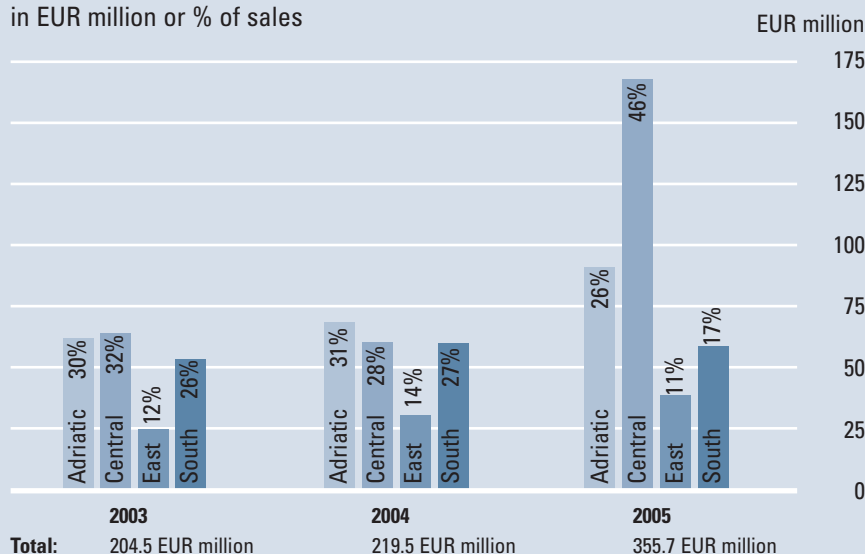
in EUR million

	2005	Change in %	2004	Change in %	2003
Business Solutions	66.2	33 %	49.8	28 %	38.9
Managed Services	63.7	86 %	34.3	19 %	28.9
<b>Services</b>	<b>129.9</b>	<b>54 %</b>	<b>84.1</b>	<b>24 %</b>	<b>67.8</b>
Enterprise Systems	214.4	88 %	114.3	- 10 %	126.8
Medical Systems	11.4	- 46 %	21.1	113 %	9.9
<b>Total sales</b>	<b>355.7</b>	<b>62 %</b>	<b>219.5</b>	<b>7 %</b>	<b>204.5</b>

The regional breakdown of sales revenues reflects both the acquisitions, which benefited the region Central most strongly, and the circumstance that in 2003 and 2004 the region South was boosted strongly by several major projects in Romania. The share of revenues in the "old" Member States and the "new" Member States was 63% in 2005, compared to 49% in 2004.

### Development of sales by regions

in EUR million or % of sales



#### S&T by region in 2005

##### Adriatic:

Slovenia, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro, Albania

##### Central:

Austria, Poland, Hungary, Slovakia, Czech Republic, Switzerland, Germany

##### East:

Republic of Moldova, Russia, Ukraine, Latvia

##### South:

Bulgaria, Greece, Malta, Cyprus, Romania, Turkey

## 3. Earnings – new records set in 2005

**The profitability in 2005** reflects the expenses arising from integrating the acquired companies and investment in the service business, as well as the savings that were achieved from taking advantage of synergy potential within the existing organizational framework. As in 2004, another record result was registered in fiscal 2005.

Both EBIT and net earnings were significant higher than the previous year's figures.

**The sharp rise in expenses** includes the one-off costs from the acquisitions discussed above, which were partially offset by other income (from the release of negative goodwill), but renders direct comparison between the fiscal years difficult. The company's shift towards a focus on the service business also results in higher expenses for training additional staff. Total staff costs also increased due to the increase in the number of employees.

	2005	2004	2003
Employees at year-end	1,923	1,169	1,208

**S&T's business activities** are focused strongly on services, with the result that staff qualifications, and thus also advanced training and education, are very important. For the same reason, the company attempts to keep staff fluctuations to a minimum. The brisk pace of acquisition activity in 2005 and the resulting need for restructuring measures are important one-off factors in the development of the number of employees, but are not related to staff fluctuation. In accordance with S&T's philosophy of using performance-driven remuneration systems, the majority of employees receive variable compensation based on individual achievement of targets.

**Despite the aforementioned investment** in staff and organization, **EBITDA** (cf. Consolidated Financial Statements) **rose** 73% on the previous year, increasing from EUR 8.4 million to EUR 14.5 million in 2005.

**EBIT** amounted to EUR 8.5 million, up 66% on the previous year.

**In order to finance further growth**, in early 2005 the company issued two non-callable bonds in the amounts of EUR 10.0 million and EUR 15.0 million and maturities of seven years each. Together with other short-term working capital finance arrangements, this measure resulted in higher finance expenses in 2005 than in 2004. Furthermore, in 2005 the result of exchange rate changes had a neutral effect, whereas an exchange rate gain was recorded in 2004. The financial result also includes expenses from the valuation of an interest rate hedging transaction, which was concluded with an eye to the expected increase in interest rates over the long term. This transaction was wound up in the first quarter of 2006, not only resulting in a reversal of the expense, but leading to recognition of financial income several times higher than the original expense.

**The tax burden for 2005** is not representative, as the successful conclusion of pending tax proceedings resulted in a significant tax refund.

**All of these measures and effects** resulted in net profit of EUR 4.9 million and (undiluted) earnings per share of EUR 1.40. This represented an increase of 82%, thus almost doubling the previous year's result.

## Consolidated Income Statement in EUR million

	2005	Change in %	2004 <sup>1)</sup>	Change in %	2003
Total revenues	360.5	63%	220.9	6%	209.3
EBITDA	14.5	73%	8.4	2%	8.2
EBITA	8.5	66% <sup>3)</sup>	5.1	9%	4.7
Profit / Loss from operations (EBIT)	8.5	66% <sup>3)</sup>	5.1	-	0.2
Profit / Loss before tax	6.4	53% <sup>3)</sup>	4.1	-	-1.8
Profit / Loss after tax	4.9	84% <sup>3)</sup>	2.7	-	-2.6
Operative earnings per share in EUR (undiluted) <sup>2)</sup>	2.42	65%	1.47	-	0.07

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

2) Profit from operations (EBIT) / weighted number of common shares in circulation

3) Calculated using unrounded figures

## 4. Financial position, assets and capital structure

The company's financial position (cf. Cash Flow Statement in the Consolidated Financial Statements) reflects the strong year-end business and the acquisition activity, including the necessary financing measures:

## Cash Flow Statement in EUR million

	2005	Change in %	2004	Change in %	2003
Cash flows from operating activities before change in working capital	11.5	34%	8.6	65%	5.2
Cash flows from operating activities	-5.8	100%	-2.9	-	10.4
Cash flows from investing activities	-9.3	-	-0.8	-	0.5
Cash flows from financing activities	22.3	-	-2.8	-43%	-4.9
Cash and cash equivalents at year-end	19.8	65%	12.0	-33%	18.0

Financing of the growth which is also reflected in the balance sheet was essentially secured via the issue of two bonds (cf. Note 21 in the Notes to the Consolidated Financial Statements).

**Due to acquisitions**, the balance sheet total increased by 89% from EUR 104.7 million to EUR 197.7 million. Moreover, the strong business at the year-end resulted in a doubling of receivables from customers and trade liabilities as of the balance sheet date in 2005, compared to 2004.

**Cash flows from operating activities**, as was the case in 2004, reflected the increased need for financing working capital due to the company's vigorous growth. Due the positive Group result for the year, the sale of treasury shares and changes in adjustment items from currency translation, shareholders' equity increased by 20%, rising from EUR 31.4 million to EUR 37.7 million.

## 5. Investments

Important investments in 2005 were the purchase of companies in Austria, Switzerland, Slovenia, Croatia and in Serbia and Montenegro. In Greece, S&T Hellas SA, which was taken over as part of an acquisition in 2003, was sold off as of December 31, 2005. This company was fully included in the scope of consolidation in the 2004 and 2005 reporting years.

Ongoing investment in property, plant and equipment and in intangible assets amounted to EUR 4.9 million (related to reinvestment in office and computer equipment and vehicle fleet) and was within the bounds of normal depreciation.

## Key indicators in EUR million and in %

	2005	Change in %	2004 <sup>1)</sup>	Change in %	2003
Total assets	197.7	89%	104.7	-8%	113.4
Shareholders' equity	37.7	20%	31.4	16%	27.2
Ratio of shareholders' equity (in %)	19.1		30.0		24.0
Net working capital <sup>2)</sup>	32.7	97%	16.6	100%	8.3
Net debt <sup>3)</sup>	37.2	248%	10.7	110%	5.1
Gearing in % <sup>4)</sup>	28.8		21.8		22.0
Liquidity ratio <sup>5)</sup>	1.22	0%	1.22	-4%	1.27
Market capitalization (as of 31 Dec.) in EUR million <sup>6)</sup>	90.7	41%	64.2	166%	24.1

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

2) Current assets (excl. cash and cash equivalents) less current liabilities (excl. financial debt)

3) Non-current and current financial debt less cash and cash equivalents

4) Ratio of non-current and current financial debt to balance sheet total

5) Ratio of current assets to current liabilities

6) Number of shares multiplied by listed price at year-end

## 6. Risk management

The early recognition of risks and opportunities, the assessment of such and the formulation of suitable measures to mitigate such risks and exploit such opportunities are crucial elements of S&T's business success. With regard to risk management in the S&T Group, please also refer to the information presented in the Notes to the Consolidated Financial Statements (section on financial risk management).

No single customer accounts for more than 3% of S&T total revenues. This helps to ensure that customer and default risk is well diversified within the Group.

## 7. Research and development

S&T does not undertake major investments in research and development. Continuous training courses, project-related studies and local centers of competence guarantee that a high level of technical expertise and know-how is maintained throughout the Group.

## 8. Non-financial performance indicators

Due to the increasing share of recurrent services, customer satisfaction is surveyed on an annual basis. The results of this survey are also integrated into the individual targets agreed with the service personnel.

Due to the nature of S&T's business, environmental aspects are not taken into account separately, and there are no expenses related to such, e.g. for environmental impact reviews.

## 9. Events after the balance-sheet date

There are no material events after the balance sheet date.

## 10. Outlook

**Global economic growth** has begun to recover in the last few years, and growth rates of around 4% are forecast for 2006. In Europe, the economic recovery has continued to accelerate and GDP growth of around 2% should now be possible again. By contrast, the rapid expansion of economic activity in the Central and Eastern European region looks set to continue unabated. Romania is expected to achieve GDP growth on par with the 5% average for the South-Eastern European region, and the new EU Member States are also anticipated to experience robust economic growth. Although the situation in Ukraine remains difficult, the European CIS countries are forecast to post the highest GDP growth rates of around 6%.

**Nevertheless, economic activity** at the global level varies strongly from region to region, with brisk growth seen mainly in the United States, in East Asia and in the new democracies in Central and Eastern Europe. In the USA, economists project that the pace of activity will slacken somewhat in the second half of 2006, after stable development in the first half of the year. In 2006, the emerging markets will continue to be a driving force for the global economy, and analysts expect to see an acceleration in economic performance in Japan as well.

**According to EITO**, the ITC market in the EU is expected to grow at a rate of 3.2% this year, rising to EUR 643 billion. Europe accounts for the largest share of the global ITC market, with a share of 33.6%. EITO projects the sharpest increases in sales in Asia at a rate of 6.8%, followed by 3.9% in the USA and a 3.2% increase in Europe.

**Growth prospects within Europe itself** also vary from region to region. The strongest growth in the ITC sector is anticipated in the new EU Member States, with Slovakia leading the way with projected growth of 7.6%. In 2006, the European IT market will be driven by the software and services business, in respect of which EITO forecasts growth of 5%.

**S&T is convinced** that the Eastern European markets continue to offer excellent growth opportunities and is bolstering its strong position in these regions. This approach was recently complemented by adding a significant market presence in Austria as well: for many companies that invest in the CEE region, Austria is an important location, meaning that joint services for "Austria and CEE countries" and the related leveraging of transnational synergies is a crucial aspect of business.

**In 2006, S&T will continue** to pursue its well-defined strategy of focusing on services and solutions with commitment and determination. The company has now successfully transformed itself from a supplier of hardware to a pure solutions provider. In addition to this, the newly created distribution structures, the focus on CEE and the high degree of flexibility will continue to be factors that underscore the company's success in its efforts to further develop its strong market position as a solutions and service provider and to expand its market share and customer base.

All in all, the management of S&T expects sales to grow to over EUR 400 million in 2006. Significant increases in EBITDA should also be possible despite the highly competitive conditions on the market.



Christian Rosner

Vienna, March 7, 2006



Martin Bergler

### Average annual growth in IT spending\* from 2004 to 2009

Country	CAGR (%)
Russia	18.7
Ukraine	15.5
Turkey	15.3
Serbia and Montenegro	14.6
Poland	13.1
Bulgaria	12.8
Romania	11.5
Slovakia	9.4
Croatia	8.5
Czech Republik	8.1
Hungary	7.5
Slovenia	6.8
Austria	5.4

\* Projection

Source: IDC

## Report of the Supervisory Board

**The Supervisory Board of S&T AG** met six times in the financial year 2005. The Supervisory Board received regular reports from the Management Board concerning the company's business development and situation as well as regarding important projects and transactions. On the basis of these reports and the additional information given, the Supervisory Board carried out its control function and discussed all measures which require the approval of the Supervisory Board and other business transactions of particular importance in detail and was satisfied that the company's business was being conducted in a proper and orderly manner.

The financial statements for 2005 and the Management Report were audited by PwC Wirtschaftsprüfung AG, 1030 Vienna, Erdbergstrasse 200 and received an unqualified opinion. The Supervisory Board concurred with the result of the audit and endorsed the Annual Report submitted by the Management Board, including the use of the net result, and approved the financial statements for 2005, which are therefore approved in accordance with Article 125 para. 2 of the Stock Corporation Act.

Mr. Wolfgang Auer von Welsbach resigned from the Supervisory Board as of April 28, 2005. At the Annual General Meeting on April 28, 2005, Mr. Karl Nigl was elected to the Supervisory Board.

Vienna, March 2006  
For the Supervisory Board



Thomas Streimelweger  
Chairman

# Consolidated Financial Statements

Translation for convenience purposes



# S&T System Integration & Technology Distribution AG

## Consolidated Financial Statements for the Year ended December 31, 2005

### General information

S&T currently operates in the following business segments: "Business Solutions" (BS), "Enterprise Systems" (ES) with "System Integration" as main activities; "Managed Services" (MS), where high-level pre- and post-sales services are provided, and "Medical Diagnosis Systems" (MED), where hospitals are supplied with high-tech diagnosis and monitoring systems.

S&T integrates customer-specific solutions for major companies and institutions using technologies and products from leading hardware and software manufacturers:

- > re applications software: SAP, SSA Global, Mercury Interactive, Microsoft, Oracle, Remedy, Micromuse, Ixos, Cognos, Documentum;
- > re servers: Hewlett-Packard, IBM, Sun Micro Systems, Fujitsu Siemens;
- > re storage: EMC<sup>2</sup>, Hitachi Data Systems, Hewlett-Packard, IBM, Network Appliance, Mc Data, Brocade, Legato, Veritas, StorageTek;
- > re networking and security: Cisco Systems, Checkpoint, Entrust Technologies, Nokia;
- > re the medical field: Philips Medical Systems

adding value through customization, customer consulting, user training, and, in certain circumstances, organization of financing for customer projects. S&T customers are generally medium-sized to large companies and institutions, including telecommunication providers, banks, utilities, railways, manufacturing companies, governmental agencies and health-care providers.

S&T System Integration & Technology Distribution AG is incorporated as a joint stock corporation and domiciled in Austria. Since 8 August 2005 the address of its registered office is A-1110 Vienna, Geiselbergstrasse 17-19.

The Company has been listed on the Prime Market of the Vienna Stock Exchange since 11 April 2003.

#### The following subsidiaries are included in the consolidation:

	2005	2004	Comments
S&T Slovakia spol. s.r.o., Slovakia	100%	100%	
S&T CEE Holding s.r.o., Slovakia	100%	100%	Founded and consolidated for the first time in 2004
S&T Soft-Tronik, Ukraine	100%	100%	
S&T Bulgaria e.o.o.d., Bulgaria	100%	100%	
S&T Services Polska Ltd., Poland	100%	100%	
S&T Plus s.r.o., Czech Republic	100%	100%	
S&T BA d.o.o., Bosnia-Herzegovina	100%	100%	
S&T Services Ceska republika s.r.o., Czech Republic	100%	100%	
S&T Ceska republika a.s., Czech Republic (prior Neos Computer a.s.)	--	↑	2004 merged into S&T Services Ceska republika s.r.o., Czech Republic
GCC a.s., Czech Republic	100%	100%	
S&T Hermes Plus d.d., Slovenia	100%	100%	Subgroup acquired and consolidated for the first time in 1999
Skupina Atlantis d.o.o., Slovenia	↑	100%	Acquired and consolidated for the first time in 2003, 2005 merged into S&T Hermes Plus d.d., Slovenia
ITS Intertrade Sistemi d.o.o., Slovenia	↑	--	Acquired and merged into S&T Hermes Plus d.d., Slovenia in 2005, see note 30
S&T Hermes Plus d.o.o., Croatia	100%	100%	
Epsilon d.o.o., Croatia	100%	100%	Acquired and consolidated for the first time in 2003, 2005 liquidated, see note 31
Infonet Project d.o.o., Croatia	100%	--	Acquired and consolidated for the first time in 2005, see note 30
S&T Hermes Plus d.o.o.e.l., Macedonia	100%	100%	
HPC Trading Limited, Cyprus	100%	100%	
S&T Romania S.R.L., Romania	100%	100%	
Plaut Romania S.R.L. i.L., Romania	100%	100%	

## Consolidated Financial Statements

	2005	2004	Comments
S&T Yugoslavia d.o.o., Serbia and Montenegro	100%	100%	
Sito d.o.o., Serbia and Montenegro	100%	--	Subgroup acquired and consolidated for the first time in 2005, see note 30
Sito servis d.o.o., Serbia and Montenegro	100%	--	
S&T (Malta) Limited, Malta	100%	100%	
S&T Hellas S.A., Greece	100%	100%	Acquired and consolidated for the first time in 2003, sold in 2005, see note 31
S&T Mold S.R.L., Republic of Moldova	99%	99%	
S&T Polska Sp. z o.o. i.L., Poland	100%	100%	
S&T International ooo, Russia	100%	100%	
S&T Latvia SIA, Latvia	100%	100%	Founded and consolidated for the first time in 2002, in 2005 divested, see note 31
S&T IT Systems & Services Inc. (prior Protek A.S.), Turkey	100%	100%	
S&T Austria GmbH, Austria (prior Computacenter GmbH)	100%	--	Acquired and consolidated for the first time in 2005, see note 30
S&T Austria GmbH, Austria	↑	100%	Founded and consolidated for the first time in 2003. 2005 merged into S&T Austria GmbH (prior Computacenter GmbH)
T-Systems DSS GmbH & Co KG, Austria	↑	--	Acquired and merged into S&T Austria GmbH in 2005, see note 30
T-Systems DSS GmbH, Austria	↑	--	Acquired and merged into S&T Austria GmbH in 2005, see note 30
High Performance Systems Holding GmbH, Austria <sup>3)</sup>	100%	100%	
HPS International ooo, Russia	100%	100%	
S&T Hungary Ltd., Hungary	100%	100%	1% held indirectly through HPC Trading, Cyprus
S&T Services Hungary Ltd., Hungary	--	100%	Acquired and consolidated for the first time in 2003, divested in 2004
EFP Holding AG, Austria	100%	--	Subgroup acquired and consolidated for the first time in 2005, see note 30
EFP Consulting GmbH & Co KG, Austria	100%	--	
EFP Consulting GmbH, Austria	100%	--	
EFP Consulting Deutschland GmbH, Germany	100%	--	
EFP Consulting AG, Switzerland	100%	--	
Varias Group a.s., Slovakia	100%	--	
Varias a.s., Slovakia	100%	--	
Varias a.s., Czech Republic <sup>1)</sup>	100%	--	
Varias S.A., Poland <sup>2)</sup>	100%	--	

1) Was sold to S&T CEE Holding s.r.o., Slovakia, at year-end 2005

2) Was sold to S&T Services Polska Ltd., Poland, at year-end 2005

3) Was incorporated into S&T Austria GmbH, Austria, at year-end 2005

# Consolidated Financial Statements

The following subsidiaries of the S&T Group were not consolidated on the grounds of immateriality:

	% held by S&T	Comments
S&T Crna Gora d.o.o., Serbia and Montenegro	100%	Founded in 2002, currently dormant
S&T IT Solutions & Services Ltd., Cyprus	100%	Founded in 2002, currently dormant
S&T Software S.R.L., Romania	100%	Acquired in 2003, currently dormant
S&T TechnoServ Leasing Moscow ooo, Russia	100%	Founded in 1999, currently dormant
B.K.F. Softwareentwicklungs- und BeratungsgmbH i.L., Germany	100%	Acquired in 2005, in liquidation
b1 consulting AG, Switzerland	50%	Acquired in 2005, currently dormant
b1 consulting s.r.o., Slovakia	50%	Acquired in 2005, currently dormant
EFP Systemhaus GmbH, Austria	100%	Acquired in 2005 and divested
EFP Systemhaus Deutschland GmbH i.L., Germany	100%	Acquired in 2005, in liquidation
EFP France s.á.r.l., France	100%	Acquired in 2005, currently dormant
COBWEB Consulting GmbH i.L., Austria	50%	Acquired in 2005, in liquidation
Intertrade ITS Zagreb d.o.o. i.L., Croatia	100%	Acquired in 2005, in liquidation
Intertrade ITS Beograd d.o.o. i.L., Serbia and Montenegro	100%	Acquired in 2005, in liquidation
S&T Albania Ltd., Albania	100%	Founded in 2005, currently dormant

# Consolidated Financial Statements

## Consolidated income statement (all amounts in EUR '000)

Year ended December 31

	notes	2005	2004 <sup>1)</sup>
Sales	(1)	355,670	219,539
Other operating income	(2)	4,788	1,342
<b>Total revenues</b>		<b>360,458</b>	<b>220,881</b>
Merchandise, spare parts and purchased services		(253,556)	(157,054)
Staff costs	(3)	(64,050)	(36,660)
Other operating expenses	(4)	(28,342)	(18,799)
<b>Total operating expenses</b>		<b>(345,948)</b>	<b>(212,513)</b>
<b>Profit from operations before depreciation and amortization (EBITDA)</b>		<b>14,510</b>	<b>8,368</b>
Depreciation and amortization	(5)	(6,038)	(3,279)
<b>Profit from operations (EBIT)</b>	<b>(1)</b>	<b>8,472</b>	<b>5,089</b>
Finance costs (net)	(6)	(2,112)	(943)
<b>Profit/(loss) before tax</b>		<b>6,360</b>	<b>4,146</b>
Income tax expense	(7)	(1,442)	(1,479)
<b>Net profit/(loss)</b>		<b>4,918</b>	<b>2,667</b>
Attributable to:			
Equity holders of the company		4,917	2,666
Minority interest		1	1
<b>Net profit/(loss)</b>		<b>4,918</b>	<b>2,667</b>
Earnings per share attributable to equity holders of the company in EUR:			
Basic earnings per share	(8)	1.40	0.77
Diluted earnings per share	(8)	1.38	0.76

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

The accounting policies on pages 35 to 43 and the notes on pages 44 to 60 form an integral part of these consolidated financial statements.

# Consolidated Financial Statements

## Consolidated balance sheet (all amounts in EUR '000)

Assets	notes	Year ended December 31	
		2005	2004 <sup>1)</sup>
<b>Non-current assets</b>			
Property, plant and equipment	(10)	15,153	10,755
Intangible assets	(11)	20,027	10,954
Investments in affiliated companies	(12)	112	32
Other investments	(13)	473	144
Non-current receivables	(14)	2,931	828
Deferred tax assets	(22)	4,002	4,405
		<b>42,698</b>	<b>27,118</b>
<b>Current assets</b>			
Inventories	(15)	19,680	8,771
Trade accounts receivable		98,158	46,131
Other receivables and prepayments	(16)	17,350	10,595
Cash and cash equivalents	(17)	19,781	12,086
		<b>154,969</b>	<b>77,583</b>
<b>Total assets</b>		<b>197,667</b>	<b>104,701</b>
<b>Equity and Liabilities</b>			
<b>Shareholders' equity</b>			
Issued capital	(18)	7,137	7,137
Share premium	(18)	5,907	8,302
Treasury shares	(18)	(69)	(638)
Accumulated translation adjustments		(521)	(1,195)
Retained earnings and other reserves	(20)	25,213	17,832
Equity attributable to equity holders of the company		37,667	31,438
Minority interest		2	1
		<b>37,669</b>	<b>31,439</b>
<b>Non-current liabilities</b>			
Loans and other liabilities	(21)	32,383	8,065
Deferred tax liability	(22)	525	1,543
		<b>32,908</b>	<b>9,608</b>
<b>Current liabilities</b>			
Trade accounts payable		55,715	26,148
Current tax liabilities		1,292	719
Other payables	(23)	18,478	9,675
Short-term borrowings	(24)	24,626	14,732
Provisions and deferred income	(25)	26,979	12,380
		<b>127,090</b>	<b>63,654</b>
<b>Total equity and liabilities</b>		<b>197,667</b>	<b>104,701</b>

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

The accounting policies on pages 35 to 43 and the notes on pages 44 to 60 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in shareholders' equity (all amounts in EUR '000)

Shareholders' equity	Issued capital	Share premium	Treasury shares	Accumulated translation-adjustment	Available for sale investments	Retained earnings and other reserves	Minority interest	Total	
Year ended December 31, 2003	7,091	8,074	(778)	(1,360)	--	14,193	27,220	--	27,220
Adjustment IFRS 2	--	15	--	--	--	(15)	--	--	--
<b>Opening amount January 1, 2004</b>	<b>7,091</b>	<b>8,089</b>	<b>(778)</b>	<b>(1,360)</b>	<b>--</b>	<b>14,178</b>	<b>27,220</b>	<b>--</b>	<b>27,220</b>
Currency translation differences	--	--	--	165	--	--	165	--	165
Net profit for the year	--	--	--	--	--	2,666	2,666	1	2,667
<b>Total recognized income for 2004</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>165</b>	<b>--</b>	<b>2,666</b>	<b>2,831</b>	<b>1</b>	<b>2,832</b>
Transactions with treasury shares	--	--	140	--	--	--	140	--	140
Equity compensation plan	--	93	--	--	--	--	93	--	93
Capital increase	46	120	--	--	--	--	166	--	166
Reclassification of negative goodwill (IFRS 3.81)	--	--	--	--	--	988	988	--	988
<b>Closing amount December 31, 2004 <sup>1)</sup></b>	<b>7,137</b>	<b>8,302</b>	<b>(638)</b>	<b>(1,195)</b>	<b>--</b>	<b>17,832</b>	<b>31,438</b>	<b>1</b>	<b>31,439</b>
Opening amount January 1, 2005	7,137	8,302	(638)	(1,195)	--	17,832	31,438	1	31,439
Reclassification	--	(2,454)	--	--	--	2,454	--	--	--
Currency translation differences	--	--	--	674	--	--	674	--	674
Securities available for sale <sup>2)</sup>	--	--	--	--	10	--	10	--	10
Net income recognized directly in equity	--	--	--	674	10	--	684	--	684
Net profit for the year	--	--	--	--	--	4,917	4,917	1	4,918
<b>Total recognized income for 2005</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>674</b>	<b>10</b>	<b>4,917</b>	<b>5,601</b>	<b>1</b>	<b>5,602</b>
Transactions with treasury shares	--	--	569	--	--	--	569	--	569
Equity compensation plan	--	59	--	--	--	--	59	--	59
<b>Closing amount December 31, 2005</b>	<b>7,137</b>	<b>5,907</b>	<b>(69)</b>	<b>(521)</b>	<b>10</b>	<b>25,203</b>	<b>37,667</b>	<b>2</b>	<b>37,669</b>

1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

2) Net of tax (TEUR 2)

The accounting policies on pages 35 to 43 and the notes on pages 44 to 60 form an integral part of these consolidated financial statements.

# Consolidated Financial Statements

## Consolidated cash flow statement (all amounts in EUR '000)

	notes	Year ended December 31	
		2005	2004 <sup>1)</sup>
<b>Operating activities</b>			
Profit from operations		8,472	5,089
Adjustments for items not affecting cash:			
Depreciation and amortization		6,038	3,279
Gain on disposal of subsidiary		(350)	(48)
Other (net)		(2,652)	274
		<b>11,508</b>	<b>8,594</b>
Changes in working capital:			
(Increase)/decrease in trade accounts and other receivables		(26,854)	(50)
(Increase)/decrease in inventory		(1,999)	591
Increase/(decrease) in current liabilities		14,313	(8,793)
		<b>(14,540)</b>	<b>(8,252)</b>
Interest received		494	250
Interest paid		(2,329)	(1,473)
Taxes paid		(914)	(1,996)
Net cash from operating activities	(27)	<b>(5,781)</b>	<b>(2,877)</b>
<b>Investing activities</b>			
Capital expenditure	(27)	(4,913)	(2,685)
Purchase of investments		(5)	(66)
Proceeds from sale of fixed assets		1,181	563
Proceeds from sale of investments		251	176
Disposal of subsidiaries, net of cash	(31)	(372)	(158)
Acquisition of subsidiaries, net of cash	(30)	(4,875)	(6)
Decrease in time deposit for a period longer than three months		52	1,765
Long-term loans and receivables from other parties		(621)	(395)
Net cash used in investing activities	(27)	<b>(9,302)</b>	<b>(806)</b>
<b>Financing activities</b>			
Capital increase		--	166
Treasury shares		569	140
Increase in long-term borrowings		24,347	--
Decrease in long-term loans and borrowings		(7,600)	(3,444)
Repayment of finance lease		(1,197)	(584)
Increase/(decrease) in short-term borrowings		6,184	888
Net cash used in financing activities		<b>22,303</b>	<b>(2,834)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>7,220</b>	<b>(6,517)</b>
<b>Movement in cash and cash equivalents</b>			
At start of year		12,034	18,010
Increase/(decrease)		7,220	(6,517)
Effect of exchange rate changes		527	541
At end of year	(17)	<b>19,781</b>	<b>12,034</b>

1) Adjusted in accordance with IFRS 2

The accounting policies on pages 35 to 43 and the notes on pages 44 to 60 form an integral part of these consolidated financial statements.

## Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### 1 Basis of Preparation

Pursuant to § 245a HGB the **consolidated financial statements at December 31, 2005** were compiled in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Presentation currency is the Euro. The consolidated financial statements are prepared in thousands of Euro (EUR '000 or TEUR). The consolidated financial statements are generally prepared under the historical cost convention, except for financial instruments, which are stated at the fair values at the balance sheet date.

The consolidated financial statements have been prepared applying those IFRS effective at the balance sheet date. The International Accounting Standards Board (IASB) published a number of changes to existing standards as well as new standards and interpretations in connection with the Improvement Project, which have to be applied as of January 1, 2005. These standards have also been adopted by the EU.

IAS 1 (revised 2003) Presentation of Financial Statements  
IAS 2 (revised 2003) Inventories  
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors  
IAS 10 (revised 2003) Events after the Balance Sheet Date  
IAS 16 (revised 2003) Property, Plant and Equipment  
IAS 17 (revised 2003) Leases  
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates  
IAS 24 (revised 2003) Related Party Disclosures  
IAS 27 (revised 2003) Consolidated and Separate Financial Statements  
IAS 28 (revised 2003) Investments in Associates  
IAS 31 (revised 2003) Financial Reporting of Interests in Joint Ventures  
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation  
IAS 33 (revised 2003) Earnings per Share  
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement  
IAS 40 (revised 2003) Investment Property  
IFRS 2 (2004) Share-based Payment  
IFRS 4 (2004) Insurance Contracts  
IFRS 5 (2004) Non-current Assets Held for Sale and Discontinued Operations  
SIC 12 (2004) Consolidation – Special Purpose Entities  
IFRIC 2 (2004) Members' Shares in Co-operative Entities and Similar Instruments

In terms of the relevant amendments to IAS 1 all long-term interest-bearing payables are disclosed as such in the consolidated balance sheet, provided the maturity is beyond 12 months as at the balance sheet date. The comparative amounts were reclassified accordingly. The adjustments relate principally to the reclassification of TEUR 4,072 at December 31, 2004 from long-term borrowings to short-term borrowings.

The Group applies IFRS 2. In compliance with the transitional provisions IFRS 2 is applied to all grants of equity instruments after November 7, 2002, which had not yet vested by January 1, 2005. The fair value of the grants is calculated using the Merton-Black-Scholes model. As required by IFRS 2 prior year comparatives were adjusted. The effect of the adjustments relating to the financial year 2004 amounts to TEUR 93.

S&T had early-adopted IFRS 3 "Business Combinations", IAS 36 (2004) "Impairment of Assets" and IAS 38 (2004) "Intangible Assets" in the previous financial year.

# Consolidated Financial Statements

The IASB has issued further standards as well as amendments to existing standards and interpretations, which are not yet mandatory for the 2005 financial year. The following standards and interpretations were adopted by the EU and published in the official journal up to the date of issue of these consolidated financial statements.

The amendments to IAS 1 "Presentation of Financial Statements" require additional disclosures on capital, e.g. on capital structure and management's objectives, policies and processes for managing capital, as well as, whether the entity has complied with any capital requirements.

In December 2004 the IASB introduced an additional option in IAS 19 to immediately recognise actuarial gains and losses from defined benefit pension plans outside the income statement in the form of a "statement of total recognized gains and losses". The revised IAS 19 will be mandatory for all accounting periods beginning on or after January 1, 2006.

The amendments published in IAS 21 in December 2005, mandatory for all accounting periods beginning on or after January 1, 2006, stipulate that monetary assets and liabilities of a parent company or one of its subsidiaries in connection with foreign operations – irrespective of the underlying currency – have to be classified as part of the net investment in foreign operations. Consequently, any translation differences resulting from this shall be recognised in the consolidated financial statements (initially) in equity, not affecting net income.

The IASB published amendments to IAS 39, mandatory for all accounting periods beginning on or after January 1, 2006. These amendments refer to the option of classifying financial instruments at fair value through profit or loss and the permitting of a foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements. The amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts requires issued financial guarantees to be recognized in the balance sheet as liabilities.

In August 2005 IASB issued IFRS 7. IFRS 7 requires information about the significance of financial assets and liabilities for an entity's financial position and performance and includes new disclosure requirements concerning the exposure to risks arising from financial assets and liabilities. IFRS 7 is mandatory for accounting periods beginning on or after January 1, 2007.

In December 2004, the IASB published IFRIC 4. IFRIC 4 contains criteria for the identification of leasing elements in contracts which are not formally designated as leasing contracts. Elements of contracts that meet the criteria of IFRIC 4 need to be accounted for as leasing contracts pursuant to the regulations of IAS 17. IFRIC 4 is mandatory for all accounting periods beginning on or after January 1, 2006.

The effects of these standards cannot yet be estimated reliably.

The various group companies maintain their books and other accounting records in accordance with local legal requirements in the currency of the respective country in which they were incorporated and are registered. Certain corrections to these financial statements have been effected in order to achieve compliance with IFRS.

The consolidated financial statements were prepared by the management board on the undersigned date and released for issue. The entity financial statements of the parent company, which has been included in the consolidated financial statements after reconciliation to the applicable accounting standards, will be presented to the supervisory board for review and approval on March 20, 2006. The supervisory board and, assuming presentation of these financial statements at the annual general meeting, the shareholders could alter these entity financial statements in a form that may also impact the presentation in the consolidated financial statements.

## 2 Consolidation

Subsidiaries are those companies in which the Group, directly or indirectly, holds an interest of more than one-half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date on which this effective control no longer exists. In the case of subsidiaries consolidated for the first time, assets and liabilities are valued at their fair value at the time of acquisition. Where the acquisition costs of the investments exceed the Group's share of net assets, the difference is capitalized as goodwill. Until 2003 goodwill was amortized over its expected useful life using the straightline method. Until 2003 negative goodwill was disclosed as a negative line item within long-term assets and was released to income in terms of IAS 22 paragraph 61 and 62.

In accordance with IFRS 3, applied in conjunction with IAS 36 (2004) and IAS 38 (2004) from January 1, 2004, the purchase method of accounting is prescribed to account for all business combinations. The initial consolidation is carried out by comparing the acquisition price with the revalued net assets of the subsidiary. Identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Intangible assets should be raised separately from the goodwill if they are identifiable or arise from a contractual or other legal right. Provisions for restructuring may not be raised as part of the purchase price allocation. The remaining positive difference is capitalized as goodwill. An excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (also referred to as "negative goodwill") arising from an initial consolidation is recognized immediately in income. At January 1, 2004 previously raised negative goodwill was set off against revenue reserves directly in equity.

In accordance with IFRS 3 in combination with IAS 36 (2004), capitalized goodwill is no longer amortized as of January 1, 2004. Instead the carrying amount of goodwill is tested for impairment annually, or when there are indicators for an impairment. If this results in the carrying amount of a cash-generating unit to which goodwill was allocated exceeding the recoverable amount, the allocated goodwill is initially written down by the difference. Additional impairment losses are taken into account by reducing the carrying amount of the other remaining non-current assets on a prorated basis. In the deconsolidation, residual carrying amounts of capitalized goodwill are taken into account when calculating the profit/loss on disposal.

The accompanying consolidated financial statements include the accounts of all significant S&T subsidiaries (as listed above). All inter-company transactions, balances and unrealized profits from transactions within the group were eliminated on consolidation. Material inter-company profits were eliminated. Minority interests are disclosed separately.

Subsidiaries which are dormant or have low business volumes and which are only of minor importance in determining fair presentation of the Group's financial position, financial situation and results, are not consolidated. They are recognized in the consolidated financial statements at the lower of cost or fair value in accordance with IAS 39.46.

## 3 Foreign Currencies

In the individual financial statements of S&T AG and its consolidated subsidiaries, transactions in foreign currencies are translated at the rates prevailing at the dates of the transactions.

The income statements of foreign entities are translated into euro at the average exchange rates for the year, balance sheets are translated at the midrates at the balance sheet date. Exchange differences arising from re-translation of the net investments in foreign subsidiaries are taken to "accumulated translation adjustments" in shareholders' equity.

# Consolidated Financial Statements

Currency 1 EUR =	2005	2005	2004	2004
	Average rate	Closing rate	Average rate	Closing rate
CHF	1.5479	1.5557	--	--
CZK	29.7853	29.0500	31.9057	30.2500
HUF	248.0433	252.4500	251.7825	244.5000
HRK	7.3981	7.3755	7.4866	7.6000
LVL	0.6961	0.6940	0.6652	0.6990
MTL	0.4299	0.4280	0.4279	0.4325
PLN	4.0226	3.8550	4.5339	4.0650
RON	3.6224	3.6850	--	--
RUR	35.2046	34.0459	--	--
SIT	239.5711	239.6000	239.1069	239.2500
SKK	38.5950	37.9000	40.0330	38.5500
TRL	1.6779	1.5910	1.7746	1.8470
USD	1.2448	1.1847	1.2433	1.3662
UAH	6.4366	5.9838	6.8016	7.4319
YUN	83.2944	85.9437	73.3276	79.3549

In the Republic of Moldova, where the subsidiary conducts its operations primarily in USD, the USD serves as the functional currency. For the subsidiaries in Romania and Russia, the functional currencies were changed to the relevant local currencies effective on January 1, 2005. A restatement in accordance with IAS 29 "Financial reporting in hyperinflationary economies" was applied in Turkey. All other subsidiaries and the parent company prepare their financial statements in their respective local currency, which also represents the functional currency. The functional currency is the currency of the primary economic environment in which the subsidiary operates.

Foreign currency transactions are converted at the exchange rates prevailing at the date of the transactions: gains and losses resulting from such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement. Monetary assets and liabilities in the balance sheet are translated at year-end exchange rates.

## 4 Financial Instruments

### Originated financial instruments:

Financial instruments carried in the balance sheet include cash and cash equivalents, securities, investments, trade receivables, trade creditors, lease liabilities and borrowings. The recognition and measurement methods applied for these financial instruments are shown under the accounting policies for the relevant financial statement line items.

The Group has adopted IAS 39 and classifies its investments into the following categories: trading and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term price fluctuations are classified as trading investments and included in current assets. Investments intended to be held for an indefinite period of time, which may be sold in the case of liquidity requirements or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the express intention of disposing of these securities within the next 12 months from the balance sheet date, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and reevaluates such designation on a regular basis.

All purchases and sales of investments are recognized in the balance sheet on the trade date, which is the date that the Group commits to purchase or sell the asset. The cost of purchase includes transaction costs. The securities are derecognized when the rights to the cash flows have expired or have been transferred and the group has transferred substantially all risks and rewards. Trading and available-for-sale investments are subsequently valued at fair value. Securities, in particular equity investments, for which fair values cannot be measured reliably on the basis of market prices or using valuation models are recognized at cost or cost less applicable impairment. Realized and unrealized gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in equity. As soon as indicators for impairment exist an impairment test is carried out. Significant or prolonged declines in the fair values are charged to the income statement.

#### Derivative financial instruments:

Derivative financial instruments are initially recognized at acquisition cost plus transaction costs on the day of conclusion of the contract. In future periods these are valued at fair value. The method of recognizing gains or losses depends upon whether the derivative was classified as a hedge instrument and, if this is the case, the underlying hedged item. At the balance sheet date the group has not classified any derivatives as hedging instruments. With the exception of a single interest rate swap valued at fair value the Group does not hold any derivative financial instruments as at December 31, 2005.

## **5 Financial Risk Management**

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. With due regard to these inherent risks the central S&T risk management attempts to minimise possible losses and their effects on the financial strength of the entity. The Group occasionally uses derivative financial instruments such as foreign exchange contracts, currency swaps and interest rate swaps to hedge certain exposures. To minimise the risk of liquidity S&T AG and its subsidiaries compile liquidity plans on a weekly basis.

Local and central treasury departments carrying out the risk management operate under group policies approved by the Board of Directors. These Treasury departments identify, evaluate and possibly hedge financial risks in close cooperation with the operating units. The Board provides written guidelines acting on the exposures to business risks, as well as written guidelines covering specific areas, such as foreign exchange risk, credit risk, etc..

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to USD and the various local currencies in Central and Eastern Europe. Group companies sometimes use forward contracts to hedge their exposure to foreign currency risk with regard to their local reporting currency. Treasury departments are responsible for hedging such positions by using foreign currency borrowings and external forward currency contracts.

Credit risk with respect to trade receivables is limited due to the Group's customer diversification and large number of customers who are internationally dispersed and operate in different branches, e.g. manufacturing, distribution and financial services. In addition, governmental institutions form part of the customer base. Based on the Group's historical experience in the collection of accounts receivable, risks with regard to trade receivables are provided for by means of the creation of sufficient bad debt provisions. Management at present believes that no additional credit risk beyond amounts provided for in respect of collection losses is inherent in the Group's trade receivables.

# Consolidated Financial Statements

The interest rate risk is the risk that arises from changes in the value fluctuations of financial instruments, other balance sheet line items and/or interest rate dependent cash flows as a result of fluctuations in market interest rates. In the case of variable interest rates for balance sheet items, the interest rate risk includes the cash flow risk. For fixed interest rate financial instruments a market interest rate over the full period of the instrument is agreed upon. For these financial instruments the risk exposure lies in the fact that the market value (present value of future cash flows, i.e. interest and capital repayment, discounted with the interest rate applicable at the balance sheet date for the remaining outstanding period of the instrument) will change. The interest rate risk would result in a loss or profit if a fixed interest rate financial instrument is disposed of prior to maturity. In the case of variable interest rate financial instruments the interest rate is adjusted promptly and tends to follow the market interest rate. The risk exposure is a fluctuating market interest rate, which may result in different interest payments.

The S&T group predominantly uses third party financing. In addition to financing obtained through non-interest-bearing trade payables as well as short-term and variable interest rate borrowings fixed interest rate long-term borrowings exist.

The book values of trade receivables and other receivables and payables, as well as, cash and cash equivalents disclosed in the balance sheet approximate their fair values.

## 6 Property, Plant and Equipment

All property, plant and equipment is initially recorded at historical cost, reduced by depreciation using the straightline method over the useful life of 10 to 33 years for buildings, and 3 to 10 years for furniture and office equipment.

Repairs and maintenance are charged directly to the income statement in the year in which the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down to its recoverable amount in accordance with IAS 36.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

## 7 Goodwill

Within a business combination goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on such acquisitions is disclosed in the balance sheet as an intangible asset. In accordance with IFRS 3 together with IAS 36 (2004) goodwill is no longer amortized, but is subject to an annual impairment test or impairment tests if indicators therefor exist. In order to assess impairment, goodwill is allocated to cash-generating units. Every defined cash-generating unit represents the investment of the group in the relevant region in terms of the secondary segment reporting.

## 8 Intangible Assets

The intangible assets other than goodwill are recorded at cost and are amortised using the straightline method over their estimated useful lives (licenses and similar rights 2 to 5 years).

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down to its recoverable amount in accordance with IAS 36.

## 9 Accounting for Leases - where a Group Company is the lessee

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the estimated present value of the underlying lease payments. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straightline basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

## 10 Accounting for Leases - where a Group Company is the lessor

### Finance leases

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Finance income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

### Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straightline basis over the lease term.

## 11 Inventories

Inventories including demonstration equipment are stated at the lower of cost or net realisable value. Cost comprises all external cost including freight and duties and is determined by the first-in, first-out (FIFO) method or by the average cost method. Net realizable value is the estimated selling price in the ordinary course of business less installation and selling cost.

## 12 Construction Contracts

Profits on construction contracts are recognized as soon as these can be estimated reliably. The Group uses the percentage-of-completion method to determine the appropriate amount to be recognized in an accounting period. The stage of completion is determined by comparing the hours incurred at the balance sheet date to the total estimated hours for the relevant project. Losses are recognized at the earliest possible date. Receivables from construction contracts may be reduced by advance payments. A possible negative balance is shown under liabilities from construction contracts.

# Consolidated Financial Statements

## 13 Trade Receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

## 14 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, in particular time deposits.

## 15 Provisions

The Group recognizes provisions when it has a present legal or constructive obligation as a result of past events, it is probable that the transfer of economic benefits will be required to settle the obligation and a reasonable estimate of the obligation can be made.

The Group recognizes the estimated future liability on all products sold on or prior to balance sheet date and still under warranty at the balance sheet date. This provision is calculated based on past experience.

## 16 Employee Benefits

The holding company and certain subsidiaries provide various post-employment benefits, as well as, long-term benefits in accordance with local labour law. The entitlements are principally measured on the basis of the remaining working life of the employees until retirement age, as well as, if applicable, minimum periods of service. The costs of defined benefit plans are spread over future periods of service of the employees until retirement age using the projected unit credit method (see note 21). Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. Service costs are disclosed under staff costs, the interest costs of the increase in the provision under finance costs. Furthermore, employee benefits from defined contribution plans from external pension funds (see Note 3) exist.

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

## 17 Income Taxes

Income taxes are recognised according to the source of tax and are based on the corresponding profit of the financial year. Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from provisions and the valuation of current, non-current assets and tax losses carried forward. Currently enacted tax rates for the individual subsidiaries' jurisdictions are used to determine deferred income tax. Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. A deferred tax asset is set off against a deferred tax liability of the same taxable entity if they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

## 18 Revenue Recognition

Sales represent the amounts received and receivable for goods sold and services provided after deducting volume discounts and sales taxes, and after eliminating sales within the Group.

Sales revenues are recognized when the significant risks and benefits of ownership of the product have been transferred to the buyer and when the exact amount of revenue can be measured reliably. Service revenue is recorded when the services have been performed. Maintenance contract revenue is recognized over the period of the relevant agreement.

In certain instances the Group uses the percentage-of-completion method in accounting for the revenue recognition arising from the rendering of services in accordance with IAS 18.

## 19 Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Estimated impairment of goodwill:

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 11).

If the actual EBIT margin were 10% lower than management's estimated EBIT margin at September 30, 2005, the Group would not yet have to record impairment charges on goodwill.

If the estimated pre-tax discount rate, which was used in the calculation of the value-in-use, was 2% higher than management's estimate, the Group would not yet have to record impairment charges on goodwill.

With regard to the other balance sheet items, changes in estimates and assumptions do not result in significant effects on the financial position, financial performance and the cash flows for the following operating year.

# Consolidated Financial Statements

## Notes to the consolidated financial statements

(In the notes all amounts are shown in thousand EUR (TEUR) unless otherwise stated)

### 1 Segment Information

#### Primary reporting format – Business segments

During 2005 S&T's activities were grouped into four business segments: Business Solutions (BS), Enterprise Systems (ES), Managed Services (MS) and Medical Systems (MED). The former business segment Customer Support (CS) was summarized with the business segment Managed Services.

There are no material sales or other transactions between the business segments. Unallocated costs represent mainly corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables, and generally exclude investments and cash and cash equivalents. Segment liabilities consist of operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

#### Year ended December 31, 2005

	Business Solutions	Enterprise Systems	Managed Services	Medical Systems	Group
Revenues	66,203	214,373	63,688	11,406	355,670
Segment result	6,873	6,597	11,416	1,228	26,114
Unallocated costs					(17,642)
Profit from operations (EBIT)					8,472
Finance costs (net)					(2,112)
Profit/(loss) before tax					6,360
Income tax expense					(1,442)
<b>Profit/(loss) after tax</b>					<b>4,918</b>
Segment assets	19,809	60,027	10,645	3,312	93,793
Unallocated assets					103,874
Consolidated total assets					197,667
Segment liabilities	19,372	34,215	3,949	2,042	59,578
Unallocated liabilities					100,420
Consolidated total liabilities					159,998
Segment capital expenditure	987	562	997	75	2,621
Unallocated expenditure					2,292
Consolidated total expenditure					4,913
Segment depreciation and amortization	1,213	691	1,226	92	3,222
Unallocated depreciation and amortization					2,816
Consolidated total depreciation and amortization					6,038

# Consolidated Financial Statements

<b>Year ended December 31, 2004</b>	<b>Business Solutions</b>	<b>Enterprise Systems</b>	<b>Managed Services</b>	<b>Medical Systems</b>	<b>Group</b>
Revenues	49,779	114,320	34,299	21,141	219,539
Segment result	5,034	5,486	5,726	1,831	18,077
Unallocated costs					(12,988)
Profit from operations (EBIT)					5,089
Finance costs (net)					(943)
Profit/(loss) before tax					4,146
Income tax expense					(1,479)
<b>Profit/(loss) after tax</b>					<b>2,667</b>
Segment assets	12,969	34,331	10,268	3,746	61,314
Unallocated assets					43,387
<b>Consolidated total assets</b>					<b>104,701</b>
Segment liabilities	10,683	17,973	4,246	2,727	35,629
Unallocated liabilities					37,633
<b>Consolidated total liabilities</b>					<b>73,262</b>
Segment capital expenditure	669	605	909	87	2,270
Unallocated capital expenditure					415
<b>Consolidated capital expenditure</b>					<b>2,685</b>
Segment depreciation and amortization	823	610	790	61	2,284
Unallocated depreciation and amortization					995
<b>Consolidated total depreciation and amortization</b>					<b>3,279</b>

## Secondary reporting format – geographical segments

Although the S&T business segments are managed on Group level, they operate in the following main geographical areas in Central and Eastern Europe:

	2005			2004		
	Sales	Total assets	Capital expenditure	Sales	Total assets	Capital expenditure
<b>Adriatic</b> (Slovenia, Croatia, Macedonia, Serbia and Montenegro, Bosnia-Herzegovina)	90,902	54,158	994	68,498	37,875	927
<b>Central</b> (Poland, Czech Republic, Slovakia, Hungary, Austria, Switzerland, Germany)	167,186	91,519	3,114	60,463	33,011	996
<b>East</b> (Latvia, Russia, Ukraine, Republic of Moldova)	38,824	19,044	380	30,658	9,096	316
<b>South</b> (Bulgaria, Romania, Turkey, Malta, Greece)	58,758	26,276	189	59,920	17,866	305
<b>Unallocated</b>	--	6,670	236	--	6,853	141
	355,670	197,667	4,913	219,539	104,701	2,685

Sales revenue is classified based on the country in which the customer is located. Total assets and capital expenditure are shown by geographical area in which the assets are located.

# Consolidated Financial Statements

## 2 Other operating income

	2005	2004
Gain on disposal of office equipment	239	267
Income from release of negative goodwill	2,277	--
Miscellaneous income	2,272	1,075
	<b>4,788</b>	<b>1,342</b>

Miscellaneous income mainly includes income from the passing on of cost charges and compensation received from insurances as well as income from disposals of investments in subsidiaries amounting to TEUR 350 (2004: TEUR 48; see note 31).

## 3 Staff costs

	2005	2004
Salaries	44,416	25,742
Commissions	7,251	4,043
Social security costs and payroll tax	11,237	5,744
Expenses for leaving indemnities and pensions (see Note 21)	597	802
Equity compensation plan	59	93
Other voluntary benefits	490	236
	<b>64,050</b>	<b>36,660</b>

Commissions include one-time bonuses paid to sales personnel in foreign countries. The number of staff was 1,923 at year-end 2005 (2004: 1,169). The average number of employees in 2005 was 1,711 (2004:1,171).

### Expenses for leaving indemnities and pension plans consist of:

	2005	2004
Expenses of defined benefit plans (especially leaving indemnities)	(29)	558
Contributions to "Mitarbeitervorsorgekassen" and other expenses	424	87
Contributions to an external pension fund	202	157
	<b>597</b>	<b>802</b>

## 4 Other operating expenses

	2005	2004
Rental expenses	5,497	3,370
Travel expenses	2,776	1,571
Legal, consultancy and audit fees	3,912	2,598
Communication and infrastructure costs	2,238	1,601
Marketing and advertising expenses	1,883	1,123
Office costs	2,470	1,540
Vehicle expense	3,163	1,910
Other taxes and levies	647	332
Other operating expenses	5,756	4,754
	<b>28,342</b>	<b>18,799</b>

## 5 Depreciation and amortization

	2005	2004
Depreciation of property, plant and equipment	3,987	2,801
Amortization of intangible assets	1,928	414
Expenses from low value items written off	123	64
	<b>6,038</b>	<b>3,279</b>

## 6 Finance costs (net)

	2005	2004
Interest income	494	250
Interest expense	(2,329)	(1,473)
Losses net, from securities and other financial assets	(4)	--
Net result of fair value adjustments to derivative financial instruments	(233)	(15)
Net foreign exchange transaction gains/(losses)	(11)	269
Other	(29)	26
	<b>(2,112)</b>	<b>(943)</b>

## 7 Tax

	2005	2004
Current tax charge	1,451	2,140
Deferred tax charge	(9)	(661)
	<b>1,442</b>	<b>1,479</b>

Tax on the Group profit before tax differs from the theoretical amount that arises from the application of the corporate tax rate in Austria, the home country of the parent company, as follows:

	2005	2004
Profit before tax	6,360	4,239
Tax calculated at tax rate of 25% (2004: 34%)	1,590	1,441
Effect of different tax rates in other countries and other differences not recognized	1,096	907
Effect of change in tax rate on deferred tax charge	--	189
Tax refund previous years	(1,018)	--
Income not taxable	(1,135)	(1,424)
Expenses not deductible for tax purposes	909	366
Tax charge	<b>1,442</b>	<b>1,479</b>

Further information on deferred tax is presented in Note 22.

## 8 Earnings per share

	2005	2004 <sup>1)</sup>
Net profit attributable to shareholders	4,917	2,666
Weighted number of ordinary shares in issue (thousands)	3,507	3,451
Basic earnings per share in EUR	1.40	0.77

1) Adjusted in accordance with IFRS 2 (before adjustment: EUR 0.80/share)

Basic earnings per share is calculated by dividing the net group profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year (see Note 18).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For share options, a calculation is performed to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Company's shares) based on the monetary value of subscription rights attached to outstanding share options to determine the 'bonus' element; the 'bonus' shares are added to ordinary shares outstanding though no adjustment is made to net profit.

	2005	2004 <sup>1)</sup>
Net profit attributable to shareholders	4,917	2,666
Weighted number of ordinary shares in issue (thousands)	3,507	3,451
Adjustment for share options	48	38
Weighted number of ordinary shares for diluted earnings per share	3,555	3,489
Diluted earnings per share in EUR	1.38	0.76

1) Adjusted in accordance with IFRS 2 (before adjustment: EUR 0.79/share)

## 9 Dividends per share

In 2004 and in 2005 no dividends were paid out or declared.

# Consolidated Financial Statements

## 10 Property, plant and equipment

Year ended December 31, 2005	Land/ buildings	Office equipment	Total
<b>Cost:</b>			
Opening amount	6,790	17,234	24,024
Acquisition of subsidiaries (Note 30)	4,301	10,590	14,891
Disposal of subsidiaries (Note 31)	(63)	(382)	(445)
Additions	415	4,437	4,852
Disposals	(1,692)	(6,170)	(7,862)
Translation adjustments	172	441	613
<b>Closing amount</b>	<b>9,923</b>	<b>26,150</b>	<b>36,073</b>
<b>Accumulated depreciation:</b>			
Opening amount	1,378	11,891	13,269
Acquisition of subsidiaries (Note 30)	2,052	8,139	10,191
Disposal of subsidiaries (Note 31)	(54)	(336)	(390)
Depreciation charge	397	3,590	3,987
Disposals	(1,002)	(5,722)	(6,724)
Translation adjustments	55	532	587
<b>Closing amount</b>	<b>2,826</b>	<b>18,094</b>	<b>20,920</b>
Net book amount	<b>7,097</b>	<b>8,056</b>	<b>15,153</b>

Year ended December 31, 2004	Land/ buildings	Office equipment	Total
<b>Cost:</b>			
Opening amount	6,846	16,607	23,453
Disposal of subsidiaries	(54)	(220)	(274)
Additions	95	2,856	2,951
Disposals	(44)	(2,463)	(2,507)
Translation adjustments	(53)	454	401
<b>Closing amount</b>	<b>6,790</b>	<b>17,234</b>	<b>24,024</b>
<b>Accumulated depreciation:</b>			
Opening amount	1,088	11,310	12,398
Disposal of subsidiaries	(54)	(189)	(243)
Depreciation charge	371	2,430	2,801
Disposals	(36)	(2,065)	(2,101)
Translation adjustments	9	405	414
<b>Closing amount</b>	<b>1,378</b>	<b>11,891</b>	<b>13,269</b>
Net book amount	<b>5,412</b>	<b>5,343</b>	<b>10,755</b>

Property to the amount of TEUR 2,276 (2004: TEUR 3,627) is pledged as security for long-term loans. Additions include TEUR 802 (2004: TEUR 505) assets acquired under finance leases (where a group company is the lessee). Net book value of property, plant and equipment under finance leases at December 31, 2005 is TEUR 2,108 (2004: TEUR 1,112).

# Consolidated Financial Statements

## 11 Intangible assets

Year ended December 31, 2005	Goodwill	Licences & similar rights	Total
<b>Cost:</b>			
Opening amount	10,556	3,963	14,519
Acquisition of subsidiaries (Note 30)	--	6,426	6,426
Disposal of subsidiaries (Note 31)	--	(1,131)	(1,131)
Additions	6,846	863	7,709
Disposals	--	(1,374)	(1,374)
Translation adjustments	(51)	61	10
<b>Closing amount</b>	<b>17,351</b>	<b>8,808</b>	<b>26,159</b>
<b>Accumulated amortization:</b>			
Opening amount	--	3,565	3,565
Acquisition of subsidiaries (Note 30)	--	3,008	3,008
Disposal of subsidiaries (Note 31)	--	(1,130)	(1,130)
Amortization charge	--	1,928	1,928
Disposals	--	(1,309)	(1,309)
Translation adjustments	--	70	70
<b>Closing amount</b>	<b>--</b>	<b>6,132</b>	<b>6,132</b>
Net book amount	<b>17,351</b>	<b>2,676</b>	<b>20,027</b>

### Goodwill

Year ended December 31, 2004	positive	negative	Licences & similar rights	Total
<b>Cost:</b>				
Opening amount	20,580	(3,143)	3,708	21,145
Disposal of subsidiaries	--	--	(16)	(16)
Additions	--	--	239	239
Disposals	--	--	(65)	(65)
Reclassifications	(10,011)	3,143	--	(6,868)
Translation adjustments	(13)	--	97	84
<b>Closing amount</b>	<b>10,556</b>	<b>--</b>	<b>3,963</b>	<b>14,519</b>
<b>Accumulated amortization:</b>				
Opening amount	10,011	(2,155)	3,119	10,975
Disposal of subsidiaries	--	--	(16)	(16)
Amortization charge	--	--	414	414
Disposals	--	--	(61)	(61)
Reclassifications	(10,011)	2,155	--	(7,856)
Translation adjustments	--	--	109	109
<b>Closing amount</b>	<b>--</b>	<b>--</b>	<b>3,565</b>	<b>3,565</b>
Net book amount	<b>10,556</b>	<b>--</b>	<b>398</b>	<b>10,954</b>

# Consolidated Financial Statements

Goodwill was allocated to cash-generating units at the segment level to carry out impairment tests. The carrying amounts of goodwill allocated to segments can be broken down as follows:

	2005	2004
Adriatic	4,768	3,302
Central	11,125	5,796
East	627	627
South	831	831
	<b>17,351</b>	<b>10,556</b>

The impairment test involves determining the recoverable amount of the cash-generating units based on value in use calculations. The value in use is determined based on cash flow budgets, which are based on the medium-term budget for a period of three years, which has been approved by the Executive Board and which is valid when the impairment test is performed. These budgets are based on past experience as well as on surveys of IDC and future expected market trends. The medium-term budget is based on the general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, consumer prices, interest rates and nominal wages.

Assumptions used for value in use calculation:

	Adriatic	Central	East	South
Weighted average growth rate used to extrapolated cash flows beyond the budget period	1.50%	1.50%	1.50%	1.50%
Pre-tax discount rate	12.64%	12.23%	17.50%	16.36%
After-tax discount rate	10.47%	10.08%	14.30%	12.52%

Key assumptions of the management used for the value in use calculation of the cash-generating units are revenues, EBIT margins and discount rates. The calculation is based on reasonable EBIT margins reflecting the regional performance. S&T extrapolates expected currency devaluation going beyond the detailed budget horizon based on constant growth rates of 1.50 %, which are derived from past experience for each division, and none of which exceed the average growth rates of the markets on which the companies are active. Growth rates are determined subtracting the capital expenditure required to achieve them.

The impairment test carried out at September 30, 2005 has not resulted in any impairment charge.

## 12 Investments in affiliated companies

	2005	2004
Opening net book amount:	32	31
Acquisition of subsidiaries (Note 30)	92	--
Additions	5	--
Disposals	(13)	--
Depreciation	(4)	--
Translation adjustments	--	1
<b>Closing net book amount</b>	<b>112</b>	<b>32</b>

Investments in affiliated companies include subsidiaries which have not been consolidated due to immateriality (see chapter general information).

# Consolidated Financial Statements

## 13 Other investments

	2005	2004
Opening net book amount:	144	229
Acquisition of subsidiaries (Note 30)	576	--
Disposal of subsidiaries (Note 31)	(27)	--
Additions	--	66
Disposals	(230)	(154)
Write-up	12	2
Translation adjustments	(2)	1
<b>Closing net book amount</b>	<b>473</b>	<b>144</b>

Other investments comprise marketable securities and other financial instruments. The investment in Pixelpark CEE Holding AG (14.2%) was sold in 2004.

## 14 Non-current receivables

	2005	2004
Finance leases – gross investments	1,387	152
Unearned finance income	(121)	(3)
	<b>1,266</b>	<b>149</b>
Long-term loans	1,665	679
	<b>2,931</b>	<b>828</b>

The current portion of receivables from finance leases is shown in Note 16. The average interest rate on such lease receivables (current and non-current) ranged from 5 % to 17 % in the 2005 financial year (2004: from 6% to 7%).

Finance lease receivables (where a Group Company is the lessor):

	2005	2004
Gross investment in finance leases:		
Not later than 1 year	868	99
Later than 1 year and not later than 5 years	1,387	152
	<b>2,255</b>	<b>251</b>
Unearned future finance income on finance leases	(157)	(15)
Net investment in finance leases	<b>2,098</b>	<b>236</b>
Representing:		
> current receivables (not later than 1 year)	832	87
> non-current receivables (later than 1 year and not later than 5 years)	1,266	149
Net investment in finance leases	<b>2,098</b>	<b>236</b>

## 15 Inventories

	2005	2004
Merchandise	15,282	5,564
Spare parts	4,113	2,903
Other products	285	304
Net book amount	<b>19,680</b>	<b>8,771</b>

# Consolidated Financial Statements

## 16 Other receivables and prepayments

	2005	2004
Receivables from tax authorities	1,360	1,339
Finance lease - gross investment (Note 14)	868	99
Unearned finance income	(36)	(12)
	<b>832</b>	<b>87</b>
Receivables due from affiliated/related companies	426	42
Prepayments	5,640	3,924
Prepaid expenses and other current receivables	9,092	5,203
	<b>17,350</b>	<b>10,595</b>

Receivables from tax authorities in 2005 comprise tax prepayments to the amount of TEUR 705 (2004: TEUR 800) and prepaid value-added tax to the amount of TEUR 655 (2004: TEUR 539). In 2004 other receivables to the amount of TEUR 190 were ceded as a loan collateral to a financial institution. Prepaid expenses mainly comprise prepayments to subcontractors for future services to be rendered.

## 17 Cash and cash equivalents

	2005	2004
Cash at banks and on hand	19,781	12,086

In 2004, for the purpose of preparing the cash flow statement, cash and cash equivalents were reduced by time deposits held for a period longer than 3 months to the amount of TEUR 52 (cash and cash equivalent net balance of TEUR 12,034). These deposits were pledged as security for long-term loans.

## 18 Issued capital, share premium and treasury shares and average number of shares

	Number of shares (thousands)	Issued capital	Share premium	Treasury shares	Total
At January 1, 2004 <sup>1)</sup>	3,546	7,091	8,089	(778)	14,402
Capital increase (equity compensation plans)	23	46	120	--	166
Expenses equity compensation plan <sup>1)</sup>	--	--	93	--	93
Transactions with treasury shares	--	--	--	140	140
<b>At December 31, 2004</b>	<b>3,569</b>	<b>7,137</b>	<b>8,302</b>	<b>(638)</b>	<b>14,801</b>
Reclassifications <sup>2)</sup>	--	--	(2,454)	--	(2,454)
Expenses equity compensation plan	--	--	59	--	59
Transactions with treasury shares	--	--	--	569	569
<b>At December 31, 2005</b>	<b>3,569</b>	<b>7,137</b>	<b>5,907</b>	<b>(69)</b>	<b>12,975</b>

1) Adjusted in accordance with IFRS 2

2) to retained earnings and other reserves (see consolidated statement of changes in shareholders' equity)

In financial year 2004, the exercising of the equity compensation plan (Note 19) led to an increase of the issued capital from EUR 7,091,200 to EUR 7,137,310.

As at December 31, 2005 issued capital of EUR 7,137,310 represents 3,568,655 no-par-value shares currently incorporated in the Company's register. The total authorized number of ordinary shares as at the balance sheet date is 5,352,982 with a value of EUR 2 per share.

Taking into account the average treasury share stock, the average number of shares was 3,507,416 (2004: 3,451,257) during the year.

The cost incurred by the Company to re-acquire its own shares and related proceeds for subsequent re-sale are shown as a deduction from equity (treasury shares).

## 19 Equity compensation plans

In 2000 share options were granted to directors and employees for the first time. Movements in the number of share options outstanding are as follows:

	Stock Option Program	January 1, 2005	Reclassifi- cation	Granted in 2005	Lapsed in 2005	Exercised in 2005	December 31, 2005	Strike Price EUR
<b>Management Board</b>								
Karl Tantscher	2000	3,000	--	--	--	(3,000)	--	20.00
	2002	4,000	--	--	--	(4,000)	--	6.75
	2003	6,000	--	--	(4,500)	(1,500)	--	8.00
Martin Bergler	2000	3,000	--	--	--	(3,000)	--	20.00
	2002	4,000	--	--	--	(4,000)	--	6.75
	2003	10,000	--	--	--	(2,500)	7,500	8.00
Directors	2000	--	--	--	--	--	--	15.50
	2002	1,000	--	--	(1,000)	--	--	6.75
	2003	--	--	--	--	--	--	8.00
Employees (Parent)	2000	3,150	--	--	--	(3,150)	--	15.50
	2002	7,068	--	--	(100)	(6,968)	--	6.75
	2003	22,400	--	--	(300)	(5,525)	16,575	8.00
<b>Total Parent</b>		<b>63,618</b>	--	--	<b>(5,900)</b>	<b>(33,643)</b>	<b>24,075</b>	
Employees (Subsidiaries)	2000	16,850	--	--	(5,000)	(11,850)	--	15.50
	2002	27,349	--	--	(10,746)	(16,603)	-	6.75
	2003	54,200	--	--	(1,475)	(9,863)	42,862	8.00
<b>Total Group</b>		<b>162,017</b>	--	--	<b>(23,121)</b>	<b>(71,959)</b>	<b>66,937</b>	
Thereof	2000	26,000	--	--	(5,000)	(21,000)	--	
	2002	43,417	--	--	(11,846)	(31,571)	--	
	2003	92,600	--	--	(6,275)	(19,388)	66,937	

The exercise periods for the stock option programs are generally May 15 to June 15; for the program 2003: in the years 2005, 2006, 2007 and 2008. A quarter of the options granted under each program may be exercised in each one of the defined exercise periods. Options of a program not exercised in one exercise period can be carried forward to the program's other exercise period(s). Compensation costs for the fair value of share options granted are recognized in these consolidated financial statements in the amount of TEUR 59 (2004, after adjustment: TEUR 93) (see note 3). In 2005 stock options were exercised at an average share price of EUR 28.41 within the exercise period.

## 20 Distributable retained earnings and other reserves

The reconciliation to distributable retained earnings and other reserves as of December 31, 2005 compared to the prior year is as follows:

	2005	2004
Consolidated retained earnings and other reserves	25,213	17,832
Non-distributable reserves	(2,478)	(2,044)
Consolidation adjustments	9,905	7,812
<b>Distributable retained earnings and other reserves</b>	<b>32,640</b>	<b>23,600</b>
Thereof: > Parent Company	--	377
> Subsidiaries	32,640	23,223

Non-distributable legal and other reserves to the amount of TEUR 2,478 (2004: TEUR 2,044) are included in the consolidated retained earnings and other reserves as of December 31, 2005.

# Consolidated Financial Statements

## 21 Loans and other liabilities (non-current)

	2005	2004
Bonds	24,392	--
Long-term bank loans	3,754	6,495
	<b>28,146</b>	<b>6,495</b>
Lease liabilities	1,510	330
Provisions for employee benefits	2,727	1,240
	<b>32,383</b>	<b>8,065</b>

S&T System Integration & Technology Distribution AG in 2005 issued two bonds with a nominal value of EUR 15,000,000 and EUR 10,000,000 respectively, a duration of seven years and interest rates of 4.375% and 4%.

Long-term loans and borrowings include bank loans partially guaranteed by the Republic of Austria and bearing mainly a fixed interest rate of 4%. In 2004 other receivables amounting to TEUR 190 were ceded as a loan collateral to a financial institution.

The weighted average effective interest rates are:

> bank overdrafts	3 - 20%
> long-term bank borrowings and loans	4 - 5.4%

Maturity of bonds and non-current borrowings (excluding finance lease liabilities):

	2005	2004
Within 1 year (Note 24)	5,118	4,072
Between 1 and 5 years	3,287	6,495
More than 5 years	24,859	--
<b>Total</b>	<b>33,264</b>	<b>10,567</b>

The average interest rate for lease liabilities is 6.5%.

Finance lease liabilities - minimum lease payments:

	2005	2004
Not later than 1 year	1,707	404
Later than 1 year and not later than 5 years	1,651	335
	<b>3,358</b>	<b>739</b>
Future finance charges on finance leases	(198)	(22)
Present value of finance lease liabilities	<b>3,160</b>	<b>717</b>
Representing lease liabilities:		
> current (not later than 1 year)	1,650	387
> non current	1,510	330
	<b>3,160</b>	<b>717</b>

Provisions for employee benefits relate to obligations of the parent company and some subsidiaries towards its employees and as such it is based on the local labour law, including provisions for leaving indemnities and provisions for service anniversary bonuses (jubilee pays). Indemnities must be paid to employees upon their release from service or retirement at pension age. Employees leaving voluntarily or dismissed for good cause are not entitled to such indemnities. These employee benefit liabilities are unfunded.

According to local labour law (or the terms of the relevant collective labour agreement), service anniversary bonuses must be paid to employees after 20, 25, 35 and 40 years of service. The present value of accrued liabilities is also included in the calculation.

# Consolidated Financial Statements

The amounts recognised in the balance sheet are determined as follows:

	2005	2004
Present value of obligations	2,521	1,012
Unrecognised actuarial gains/(losses)	(154)	99
Provisions for leaving indemnities	<b>2,367</b>	<b>1,111</b>
Provisions for service anniversary bonuses and other commitments	360	129
Provisions for employee benefits	<b>2,727</b>	<b>1,240</b>

The amounts recognised in the income statement are as follows:

	2005	2004
Current service cost	211	511
Amortization of actuarial gains and losses	(240)	--
Additional voluntary benefits	--	47
Total included in staff costs	<b>(29)</b>	<b>558</b>
Interest cost <sup>1)</sup>	122	53
	<b>93</b>	<b>611</b>

1) included in the finance costs

The movement in the liability recognised in the balance sheet is as follows:

	2005	2004
Beginning of the year	1,111	584
Acquisition and disposal of subsidiaries	1,457	--
Net expense recognised in the income statement	93	611
Contributions paid	(296)	(91)
Exchange differences	2	7
End of the year	<b>2,367</b>	<b>1,111</b>

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate:	4.75 – 5.0 %	5.0 - 7.6 %
Future salary increases:	1.50 – 5.0 %	1.5 - 5.0 %

## 22 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method.

	2005	2004
Deferred tax assets	(4,002)	(4,405)
Deferred tax liabilities	525	1,543
	<b>(3,477)</b>	<b>(2,862)</b>

Deferred income tax assets on tax loss carry forwards and deductible temporary differences are recognized only to the extent that realization is probable. The Group has deferred income taxes in connection with tax losses of TEUR 8,077 (2004: TEUR 3,391) which can be carried forward against future taxable income and which have not been recognised in these financial statements due to uncertainty of their recoverability. Net deferred tax assets in the amount of TEUR 1,019 (2004: TEUR 547) resulting from other deductible temporary differences have not been recognized because it is not probable that sufficient taxable profit will be available. These deductible temporary differences mainly consist of write-offs from previous periods which for tax purposes need to be allocated across a period of seven years. Deferred tax liabilities in the amount of TEUR 384 were not recognized in accordance with IAS 12.81 (f).

# Consolidated Financial Statements

Deferred tax assets and liabilities, deferred tax charges/(credits) in the income statement and deferred taxes directly charged/credited to equity are attributable to the following items:

	December 31, 2004	Charged/ (credited) to equity	Charged/ (credited) to P/L	Acquisition and disposal of subsidiaries	Reclassi- fications	Exchange differences	December 31, 2005
<b>Deferred income tax liabilities</b>							
Valuation of non-current assets	105	--	313	363	(315)	9	475
Valuation of receivables and inventory	1,292	--	45	(1)	(1,153)	94	277
Accruals and provisions	79	--	(71)	(33)	(132)	(1)	(158)
Tax loss carry forwards	--	--	(47)	--	(13)	(1)	(61)
Tax credit	--	--	--	(8)	--	--	(8)
Accounts payable	67	--	--	(43)	(19)	(5)	--
	<b>1,543</b>	<b>--</b>	<b>240</b>	<b>278</b>	<b>(1,632)</b>	<b>96</b>	<b>525</b>
<b>Deferred income tax assets</b>							
Valuation of non-current assets	(348)	2	(286)	(215)	323	(10)	(534)
Impairment of receivables and inventory (1,266)	--	--	(587)	303	1,154	(81)	(477)
Provisions and liabilities	(1,271)	--	30	(54)	191	(60)	(1,164)
Unused tax credits	(112)	--	58	(58)	--	5	(107)
Tax loss carry forwards	(1,408)	--	536	(815)	(36)	3	(1,720)
	<b>(4,405)</b>	<b>2</b>	<b>(249)</b>	<b>(839)</b>	<b>1,632</b>	<b>(143)</b>	<b>(4,002)</b>
Net deferred income tax assets	<b>(2,862)</b>	<b>2</b>	<b>(9)</b>	<b>(561)</b>	<b>--</b>	<b>(47)</b>	<b>(3,477)</b>

## 23 Other payables

	2005	2004
Advances received	6,044	3,937
Payables due to affiliated companies	160	--
Employees' bonuses/salaries	295	93
Other payables	11,979	5,645
	<b>18,478</b>	<b>9,675</b>

Other payables mainly consist of liabilities to social security agencies and tax authorities (VAT and payroll taxes) and the negative fair value of derivative financial instruments in the amount of TEUR 246.

## 24 Short-term borrowings

	2005	2004
Bank overdrafts	17,858	10,273
Short-term portion of long-term loans	5,118	4,072
Lease liabilities (see Note 21)	1,650	387
	<b>24,626</b>	<b>14,732</b>

The average effective interest rates for bank overdrafts ranged from 3% to 20% depending on the currency of the respective overdrafts and other factors (2004: 3% to 8%). Trade accounts receivable of TEUR 21,166 (2004: TEUR 2,097) are pledged, in the context of a global cession, as collateral for short-term borrowings.

## 25 Provisions and deferred income

	2005	2004
Provisions	1,472	543
Accrued liabilities:		
> for short-term personnel benefits	7,370	3,604
> deferred income	10,619	3,763
> other	7,518	4,470
	<b>26,979</b>	<b>12,380</b>

	December 31, 2004	Acquisitions/ disposals of subsidiaries	Additions	Usage	Reversal	Currency translation differences	December 31, 2005
Provisions for warranties	508	97	914	(258)	(108)	11	1,164
Provisions for pending losses	35	1,149	34	(914)	--	4	308
Total provisions	543	1,246	948	(1,172)	(108)	15	1,472

The provisions for warranties refer to warranty claims taken on by the Group over and above the manufacturer's warranty. The calculated amounts were determined based on past experience. The provisions for pending losses relate to risks from encumbered contracts calculated at their probable value.

Accrued liabilities mainly comprise consultancy and legal fees and goods received but not yet invoiced. Deferred income mainly represents the deferred portion of sales revenues, rentals and other income received in advance.

## 26 Operating lease commitments

The future minimum lease payments as a result of non-cancellable operating leases amount to TEUR 1,251 (2004: TEUR 444) of which TEUR 1,075 (2004: TEUR 332) is due not later than 1 year.

## 27 Non-cash transactions and sale of subsidiaries

The principal non-cash transactions relate to the acquisition of property, plant and equipment using finance leases (Note 10 and 21), and the sale of goods under finance lease (Note 14). The proceeds on disposal of "S&T Hellas S.A.", Greece, was used as a prepayment for the acquisition of "BEELC Polska Sp. z. o.o." (see Note 30 and 31).

## 28 Disclosures regarding certain non-financial risks

The operations and earnings of the Group continue, from time to time and to a varying degree, to be affected by political, legislative, fiscal and regulatory developments in the countries in which it operates. The nature and frequency of these developments and events, of which not all are covered by insurance, as well as their effect on future operations and earnings are not predictable. Furthermore, due to the fact that the Company's operations are primarily project-oriented, the level of earnings will naturally fluctuate according to the size and number of projects.

Due to the uncertainty of the tax regulations in various Eastern European countries, there may be contingent taxation liabilities which, at present, cannot be quantified.

## 29 Contingencies

In the ordinary course of business, the Group has issued performance bonds and bid bonds to the total amount of TEUR 6,121 (2004: TEUR 6,519).

# Consolidated Financial Statements

## 30 Acquisitions and initial consolidation

With effect from January 1, 2005 the group acquired "ITS Intertrade Sistemi d.o.o.", Slovenia, and "Computacenter GmbH", Austria. With effect from April 1, 2005 "T-Systems DSS GmbH & Co KG", Austria, "T-Systems DSS GmbH", Austria, "SITO d.o.o.", Serbia and Montenegro, and "SITO servis d.o.o.", Serbia and Montenegro, were consolidated for the first time. With effect from October 1, 2005 "Infonet Project d.o.o.", Croatia, and "EFP Holding AG", Austria, with eight direct and indirect subsidiaries were consolidated for the first time. Consideration for these acquisitions was/will be paid in cash and through assumption of liabilities. The acquired businesses contributed revenues of TEUR 106,435 and TEUR 1,665 to the profit before tax in 2005.

The impact of these acquisitions for the year 2005 is as follows:

Purchase consideration	18,492
Fair value of net assets acquired	(13,923)
<b>Goodwill</b>	<b>4,569</b>

The goodwill is attributable to the expected profitability of the acquired businesses and the synergies expected to arise after the acquisition. No provisions were created for plant closures or restructuring.

The fair values of assets and liabilities arising from acquisitions are as follows:

Cash and cash equivalents	5,816
Property, plant and equipment (Note 10)	4,700
Intangible assets (Note 11)	3,418
Investments (Note 12 and 13)	668
Non-current receivables	6,122
Deferred tax assets	1,295
Inventories	9,087
Current receivables	34,035
Non-current loans	(5,023)
Deferred tax liabilities	(278)
Current payables	(23,313)
Current loans	(7,190)
Provisions and deferred income	(15,414)
<b>Fair value of net assets</b>	<b>13,923</b>

Goodwill		
> positive (Note 11)	6,846	
> "negative"	(2,277)	4,569
<b>Total purchase consideration</b>	<b>18,492</b>	

Less:

Assumption of liabilities	(4,641)
Purchase consideration paid in previous periods	(1,479)
Purchase consideration payable	(1,456)
Cash and cash equivalents in subsidiaries acquired	(5,816)
<b>Cash outflow of acquisition</b>	<b>5,100</b>

Subsequent changes in acquisition costs:

> Reimbursement received	(233)	
> Changes in consideration payable	8	(225)
<b>Total cash outflow</b>	<b>4,875</b>	

# Consolidated Financial Statements

With the purchase agreement dated December 27, 2005 and effect from January 1, 2006 the Group acquired "BEELC Polska, Sp. z. o.o.", Poland. With an average number of 11 employees this company earned revenues of EUR 1.1 million in 2005.

## 31 Disposals of investments and deconsolidation

"S&T Hellas S.A.", Greece, was sold effective December 31, 2005. "S&T Latvia SIA", Latvia, and "Epsilon d.o.o.", Croatia, which are in liquidation, were deconsolidated.

Disposal consideration	1,540
Fair value of net assets disposed	(1,190)
Profit on disposal of investment (see Note 2)	<b>350</b>

The influence of the deconsolidation to the Consolidated Financial Statement 2005 is as follows:

Cash and cash equivalents	412
Property, plant and equipment (see Note 10)	55
Intangible assets (see Note 11)	1
Other investments (see Note 13)	27
Deferred tax assets	456
Inventories	178
Current receivables	1,062
Current liabilities	(463)
Non-current liabilities	(265)
Provisions and deferred income	(273)
Fair value of net assets	<b>1,190</b>
Profit on disposal	350
Total disposal consideration	<b>1,540</b>

Less:

Offset with prepayment for future acquisition ("BEELC Polska Sp. z. o.o." – see Note 30)	(1,500)
Cash and cash equivalents in subsidiary disposed	(412)
<b>Cash outflow of disposal</b>	<b>(372)</b>

# Consolidated Financial Statements

## 32 Management Board and related party transactions

No transactions of a material or non-business-related nature were concluded with related parties in 2005.

In 2005 the Management Board consisted of three members:

**Karl Tantscher**, CEO (until December 31, 2005)

**Martin Bergler**, CFO

**Christian Rosner**, COO (CEO since January 1, 2006)

Members of the Management Board received compensation totalling TEUR 1,377 for 2005 (2004: TEUR 1,330), consisting of TEUR 636 (2004: TEUR 507) fixed salaries and benefits, TEUR 816 (2004: TEUR 409) of bonuses and TEUR 90 (2004: TEUR 84) for a defined contribution retirement plan. A provision for leaving indemnities amounting to TEUR 165 was released in 2005 (2004 allocation TEUR 330). As at December 31, 2005 provisions for mandatory leaving indemnities totalled TEUR 384 (2004: TEUR 528) for the members of the Management Board.

The members of the Supervisory Board

**Thomas Streimelweger**, Chairman

**Reinhard Moser**, Deputy Chairman

**Karl-Michael Millauer**

**William de Gelsey**

**Franz Jurkowitsch**

**Wolfgang Auer von Welsbach** (member until April 28, 2005) and

**Karl Nigl** (member since April 28, 2005)

received remuneration of TEUR 93 in 2005 (in 2004: TEUR 43). The members of the Supervisory Board did not receive any other remuneration or benefits in kind from the Company or its subsidiaries.

Loans to employees amounted to TEUR 157 (2004: TEUR 294) per balance sheet date. There were no loans granted to members of the Supervisory or Management Board.

## 33 Events after balance sheet date

There are no material events after the balance sheet date.

Authorized for issue:  
Vienna, March 7, 2006



Christian Rosner



Martin Bergler

*The following auditor's report ("Bestätigungsvermerk") has been issued in German in accordance with section 274 of the Austrian Commercial Code on the German language version of the consolidated financial statements of S&T System Integration & Technology Distribution AG, Vienna, as of and for the fiscal year ended 31 December 2005 as a whole consisting of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes thereto and the management report ("Lagebericht").*

## **Auditor's report**

We have audited the consolidated financial statements of S & T System Integration & Technology Distribution AG, Vienna, for the fiscal year from 1 January to 31 December 2005. The Company's Management Board is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards/IFRSs as adopted by the EU and with section 245a (1) of the Austrian Commercial Code, as well as for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the Group corresponds to the consolidated financial statements.

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

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and present fairly, in all material respects, the financial position of the group as of 31 December 2005 and the results of its operations and its cash flows for the fiscal year from 1 January to 31 December 2005 in accordance with International Financial Reporting Standards/IFRSs as adopted by the EU and with section 245a (1) of the Austrian Commercial Code. The management report for the group corresponds to the consolidated financial statements.

Vienna, 7 March 2006

PwC Wirtschaftsprüfung AG  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed:

Christine Catasta  
Certified Public Accountant





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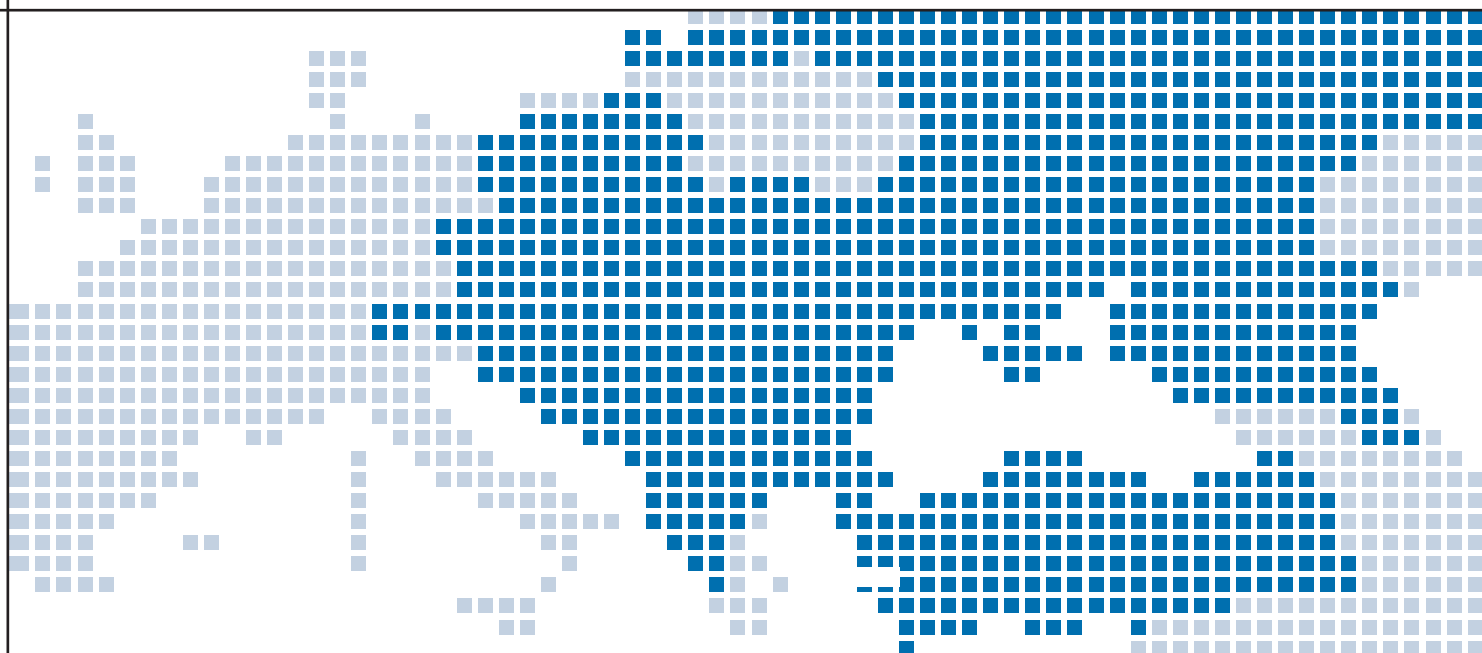
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## Financial Calendar 2006:

### March 28, 2006

Final Results 2005 (audited)

### April 25, 2006

Q1 2006 Results

### April 28, 2006

Annual General Meeting, Vienna

### July 27, 2006

H1 2006 Results

### October 25, 2006

Q3 2006 Results

## S&T on the Capital Market

**In the course of 2005**, the price of the S&T share increased by 41.2% from EUR 18.0 to EUR 25.2. Over a two-year period, the share price has risen by over 300%. The closing price for 2003 was EUR 6.80 and the annual high reached in 2005 was EUR 31.70 in March. This peak was followed by a consolidation in H2 2005. Nevertheless, the long-term upward trend remains intact. Since the beginning of 2006, the price of the S&T share has gained 16%, rising to EUR 29.49 (as of March 21).

**S&T has been listed on the Vienna Stock Exchange** since April 11, 2003. An ADR Level 1 program was established with the Bank of New York in March 2002.

### S&T is listed on the Vienna Stock Exchange ([www.wbag.at](http://www.wbag.at)), Prime Market:

ISIN:	AT0000905351	Bloomberg:	SNT AV
Number of shares:	3,568,655	US Trading Symbol:	STSQY
XETRA Vienna:	SNT	Market Maker:	Erste Bank
Reuters:	SNTS.VI	Designated Sponsor:	Capital Bank

### During the reporting year the following banks published analyses on S&T AG:

Capital Bank: Analyst Manfred Zöhrer  
 Erste Bank: Analyst Daniel Lion  
 Raiffeisen Centrobank: Analyst Leopold Salcher  
 WestLB: Analyst Jonathan Crozier

### Investor Relations

S&T defines investor relations as an intensive and continuous information policy. At numerous individual meetings with fund managers, financial analysts and business journalists in the reporting year, the management provided information on the business situation, strategy and outlook of the company. An additional 15 events with analysts and fund managers were held in Austria, Germany, Switzerland and the United Kingdom. Investors, analysts and journalists can obtain a current overview of the company online, as all relevant information is available at [www.snt.at](http://www.snt.at) in German and in English. We will continue to provide in-depth reports on the development of the company in the financial year 2006, to meet the information needs of the capital markets and the interested public.

## Information on the S&T share:

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### Key Data on the S&T Share

	2005	2004 <sup>1)</sup>	2003	2002	2001	2000	1999
P/E ratio	18	24	-	128	35	82	-
Diluted earnings per share in EUR	1.38	0.76	-0.76	0.05	0.42	0.14	-0.45
Market capitalization (as of 31 Dec.) in EUR million	90.7	64.2	24.1	22.7	51.6	38.0	20.9
Number of shares (as of 31 Dec.)	3,568,655	3,568,655	3,545,600	3,545,600	3,495,600	3,307,500	3,150,000
Stock price year-end	25.42	18.00	6.80	6.40	14.75	11.50	6.64
High	31.70	18.00	11.00	14.75	17.00	23.57	13.00
Low	18.00	7.04	6.10	5.20	8.00	6.09	5.07

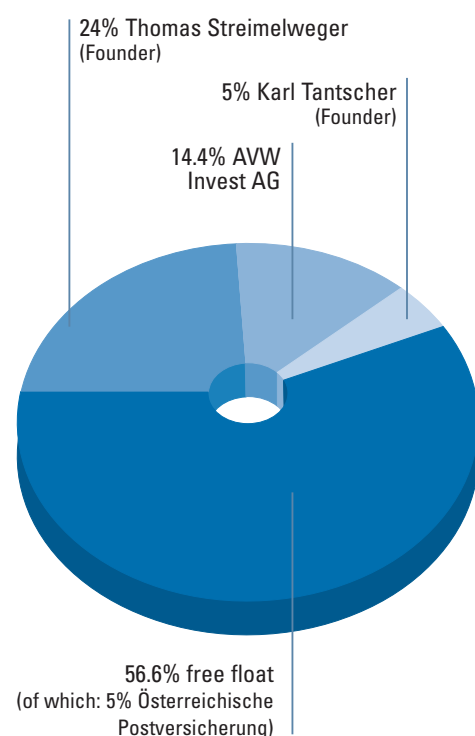
1) Adjusted in accordance with IAS 1 (revised 2003) and IFRS 2

### S&T share price on the Vienna Stock Exchange



### Shareholder structure

3,568,655 ordinary voting shares/1 ADR per share



### Corporate Governance

S&T AG is committed to responsible company management and control aimed at creating sustainable value. This should guarantee both the transparency of the principles upon which the company is run and its long-term development in order to maintain and strengthen the confidence of customers, business partners and shareholders. We therefore welcome the Austrian Corporate Governance Code and the ethical principles contained therein. Many of the standards and recommendations formulated in the Austrian Corporate Governance Code have been standard practice at S&T for many years. This compliance will also be maintained in the future.

we  
love  
IT

in:

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Hungary

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Slovakia

Slovenia

Croatia

Romania

Bulgaria

Ukraine

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Republic of Moldova

Bosnia-Herzegovina

Serbia and Montenegro

Turkey

Malta

Switzerland

Albania