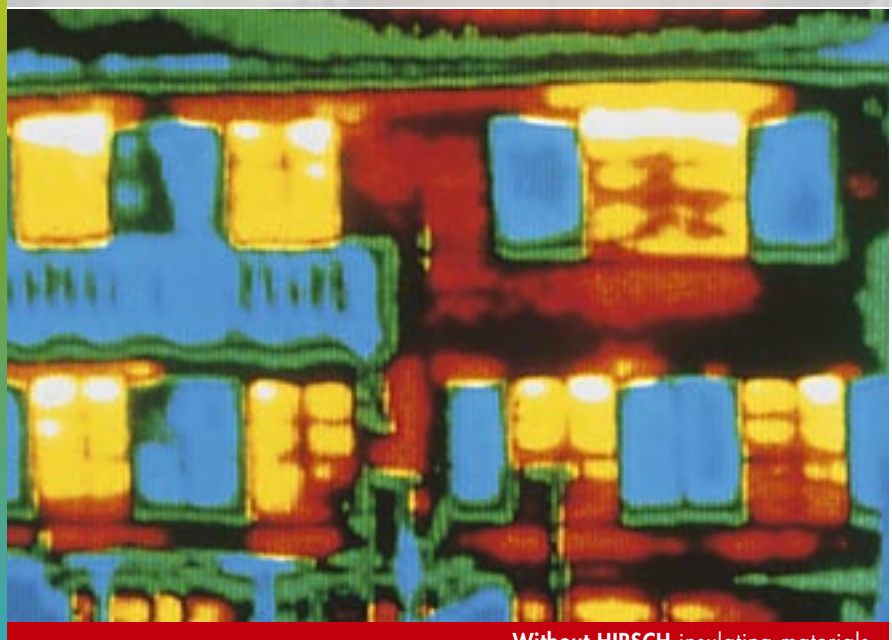
HIRSCH Servo

Protecting with EPS.

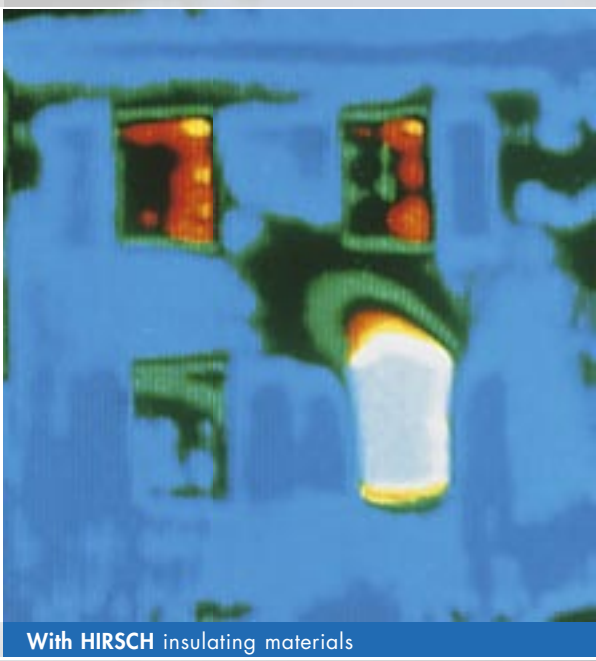
Saving energy with EPS insulation.

Expanding with ideas.

The Sustainable Annual Report 2005/06



Without HIRSCH insulating materials



With HIRSCH insulating materials

The Strategy

- EPS – a material well-suited for a wide range of applications – forms the focal point of our activities.
- The steady rise in energy prices has made EPS an ecologically interesting material with a future.
- Our primary segment of business is EPS processing.
- As a know-how leader, the Machinery and Plant Engineering Division supports our position in EPS processing.
- Our objective is to increase the value and earning power of the company over the long-term, and we direct our growth to meet this goal.
- We are expanding our position as a strategic partner for global customers with a focus on Eastern Europe.
- As a public stock corporation, we want our shareholders to profit from an increase in the value of the company and an attractive dividend yield.

The 2005/06 Business Year

- Operating profit reaches historic level, turnaround completed, basis established for long-term growth
- EPS Processing Segment grows approx. 30% for third year in succession – Acquisition in Slovakia, greenfield project in Romania
- Machinery and Plant Engineering Division records highest profit on ordinary activities in six years
- Earnings per share rise 87%
- Increase of 138% in share price
- First Sustainability Report published, member of VÖNIX-Universum
- Innovation center opens in Glanegg, first developments placed

Key Data HIRSCH Servo Group

Key Indicators		2005/06	Chg. in %	2004/05	2003/04	2002/03	2001/02
Revenues	T€	68,724	+ 20	57,198	56,561	55,880	51,019
Operating profit (EBIT)	T€	6,566	+ 177	2,370	2,304	3,127	4,343
Profit on ordinary activities	T€	4,577	+ 221	1,428	1,664	2,181	3,809
Net income	T€	3,607	+ 87	1,933	822	1,484	2,400
Balance sheet total	T€	72,332	+ 28	56,362	54,336	46,502	51,047
Equity	T€	23,478	+ 14	20,589	19,125	19,443	18,905
Net debt	T€	30,069	+ 41	21,268	16,061	11,901	12,088
Cash flow from op. activities	T€	5,168	+ 19	4,350	2,126	4,435	4,169
Investments	T€	12,371	+ 30	9,507	5,192	3,409	5,846
Employees (average for the year)		478	+ 15	417	409	381	361
Return on sales (ROS)[1]	%	6.7	–	2.5	2.9	3.9	7.5
Return on capital employed (ROCE)	%	10.2	–	5.8	3.5	6.5	8.3
Equity ratio	%	32.5	–	36.5	35.2	41.8	37.0
Stock Market Indicators							
Closing price as of June 30	€	87.99	+ 138	36.99	45.75	41.00	56.45
Market price - high	€	96.00	+ 99	48.22	51.00	53.56	70.24
Market price - low	€	36.67	+ 0,5	36.50	31.50	33.00	45.50
Average price	€	57.76	+ 42	40.78	42.70	43.16	53.97
Market cap. as of June 30	T€	43,830	+ 137	18,495	22,875	20,500	28,225
Earnings per share	€	7.44	+ 87	3.99	1.7	3.0	4.9
Price/earnings ratio, June 30		12	+ 33	9	27	14	12
Price/earnings ratio: average price		8	– 20	10	25	14	11
Dividend	T€	1,552 [2]	+ 185	534	534	1,021	833
Dividend per share	€	3.2 [2]	+ 191	1.1	1.1	2.1	1.7
Dividend yield[4]	%	3.6 [2]	–	3.0	2.4	5.1	3.0
Payout ratio[3]	%	42.3	–	27.6	64.9	68.8	34.7

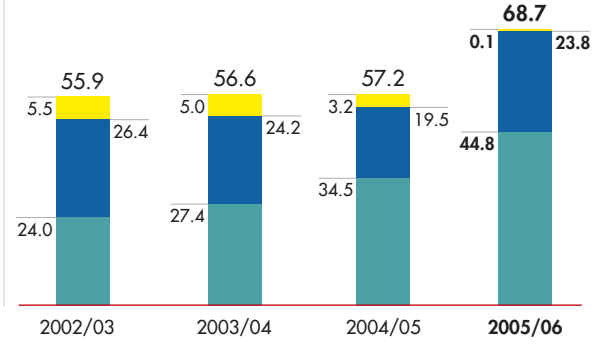
[1] Profit on ordinary activities/sales [2] Recommendation to the Annual General Meeting [3] Based on net income [4] Based on price as of June 30

Ecological Indicators	2005/06	2004/05	2003/04	2002/03
kW/h electricity per kg of EPS	1.04	1.23	1.37	1.47
kW/h energy for steam gen. p. kg of EPS	4.50	5.55	6.74	6.78
Liter of water per kg of EPS	13.8	18.7	21.1	24.0
EPS recycling rate*	100	100	100	100

*Based on EPS waste returned to the HIRSCH Servo Group plus EPS waste from production

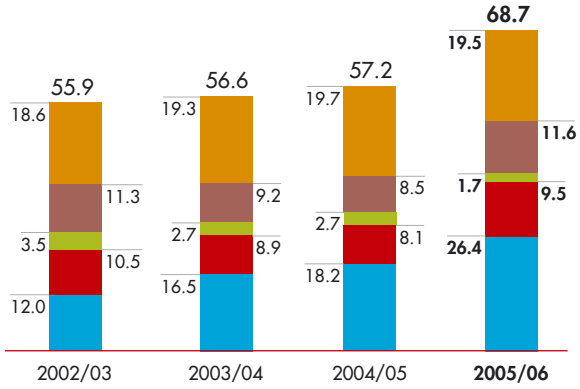
Social Indicators	2005/06	2004/05	2003/04	2002/03
Share of women in %	29	27	24	24
Sick days per employee	8.7	9.1	6.7	5.9
External training costs in T€	52	38	24	21

Revenues by division in € mill.



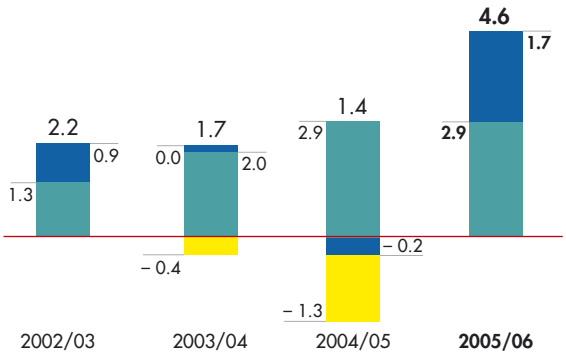
- Machinery and Plant Engineering
- EPS Processing
- Other areas

Revenues by region in € mill.

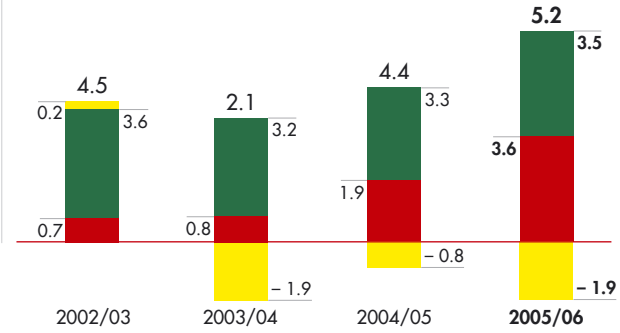


- Other Europe
- America
- Other
- Austria
- Eastern Europe

Profit on ordinary activities by division in € mill.

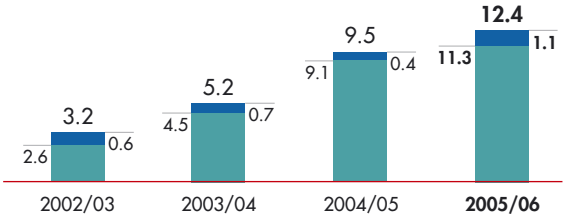


Cash flow from operating activities in € mill.



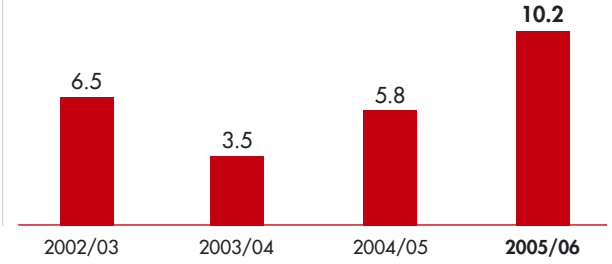
- Depreciation and amortization
- Net income
- Other

Investments by division[1] in € mill.



[1]) Investments in the other areas are immaterial, and are therefore included under the Machinery and Plant Engineering Division.

ROCE in %



- HIRSCH Servo Group

Contents

The English text of the HIRSCH Servo AG annual report is provided for convenience. Only the German text is binding

This annual report also contains elements of our sustainability report, which are highlighted to provide a better overview.

Overview of the HIRSCH Servo Group

The HIRSCH Servo Group is an international company with core expertise in EPS (expandable polystyrene), a material that is well-suited for a wide variety of applications.

Segments of Business

The primary segment of business at HIRSCH Servo is the manufacture of EPS products. The large variety of applications covers protection for man (e.g. crash helmets) and products (e.g. packaging for high-quality electronic equipment) as well as insulating boards (e.g. underfloor heating) and insulating materials.

The Machinery and Plant Engineering Division supports our position as a know-how leader in the manufacture of EPS products. From this segment, we supply EPS processors who serve as sub-contractors for the packaging, construction, foodstuffs and electronics industries.

Executive Board

Kurt Hirsch, Peter Grabuschnig and Carsten Brinkmeier form the Managing Board. The members of the Supervisory Board are Georg Gorton, Georg Wall, Helmut Grienschgl, Axel Hirschberg and Michael Kaufmann.

Locations

The HIRSCH Servo Group operates one plant in Austria, three plants in Hungary, two plants in Poland and Slovakia and one plant in Italy and Romania, and also maintains sales offices in the USA and Taiwan.

Employees

The Group employed a total workforce of 500 as of June 30, 2006: 212 in Austria, 111 in Hungary, 74 in Poland and 25 in Italy, 69 in Slovakia und 9 in Romania. In addition, a sales force of 15 is active in 24 countries.

The HIRSCH Servo Share

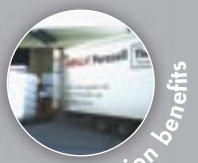
The HIRSCH Servo share is traded in the Standard Market Auction segment of the Vienna Stock Exchange and over-the-counter on the Stuttgart Exchange and Berlin-Bremen Exchange. The initial public offering of HIRSCH Servo took place in 1997 and totalled 500.000 shares.

Energy and EPS

EPS

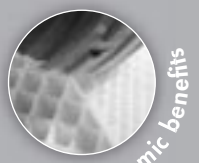
Energy savings potential

Over the coming decades energy will become more expensive due to the shortage of raw materials and steady growth in demand, and technologies and products that save energy will take on a higher value. For this reason, energy-saving measures will include the increased use of EPS for insulation and lightweight packaging systems.



Location benefits

EPS products are comprised of 98% air. Due to the unfavorable relationship of volume to transportation costs, EPS cannot be economically transported beyond a radius of 300 km. Local production facilities are therefore becoming more important, and will help retain jobs in Europe.



Economic benefits

EPS is a low-cost material with unusual properties (low weight, high breaking strength and corrosion resistance etc.). As a result, new applications to substitute EPS for other materials are being discovered almost every day. In 2005 4 million tons of EPS were processed throughout the world, but this production consumed only approx. 0.1% of total crude oil requirements.

Ecological benefits

The replacement of all EPS products by cardboard, paper, wood, molded fiber or similar products would lead to a significant increase in raw material requirements. EPS products are completely recyclable. No harmful chlorofluorocarbons (FCKW) or plasticizers (phthalates) are used in the production or processing of EPS.

Suitable for foodstuffs

EPS meets all requirements for food packaging and is therefore an absolutely safe material. By the way, the basic substance used to produce most yoghurt containers is polystyrene.

EPS insulating materials will be used increasingly in the future – in addition to heat insulation – for low-temperature insulation because the production of cold air by air conditioners uses up to 5 x more energy than the generation of heat.

Review of the Managing Board

from right to left: Peter Grabuschnig, Kurt Hirsch, Carsten Brinkmeier

Dear Ladies and Gentlemen Dear Shareholders,

The HIRSCH Servo Group set two important milestones during the 2005/06 Business Year by recording the highest operating profit (EBIT) in the history of the company and the best profit on ordinary activities since 2000/01 (see also page 18).

Both segments of business and all four business units registered high rates of growth.

The Group met all forecasts that were announced in the 2004/05 Annual Report or raised at a later date. Profit on ordinary activities rose by 221% to € 4.6 million and earnings per share increased 87% to € 7.44.

The operating environment for the HIRSCH Servo Group was excellent during the past business year. In the EPS Processing Segment momentum remains high. Sales volumes in the Packaging Division increased as a result of pressure by customers to shift production from Western to Eastern Europe as well as the growing interest of major Asian companies in Eastern Europe as an investment target. Higher energy prices, new legal regulations to improve the energy efficiency of buildings and the noticeable recovery that also spread to the construction industry in the German-speaking countries at the start of 2006 have led to higher demand for insulating materials. The worldwide growth in EPS processing volumes forms the basis for a steady increase in revenues in the Machinery and Plant Engineering Division.
Results for the year were negatively affected by currency translation effects resulting from the devaluation of the Hungarian forint.

The HIRSCH Servo Group continued its steady expansion during the 2005/06 Business Year. The historical high level of investment in the eastward expansion was again topped during the reporting year – projects were realized for a total of € 12.4 million (2004/05: € 9.5 mill.), with over 90% of this amount directed to the EPS Processing Segment. These activities focused on the acquisition and expansion of companies in Slovakia as well as the greenfield plant in Romania that opened in August 2006 and the enlargement of the production facility in Wroclaw. Production capacity was raised from 15.000 to 25.000 tons.

The improvement in operating results led to an increase of 87% in earnings per share to € 7.44 (2004/05: € 3.99), even though there were no special effects from the capitalization of deferred taxes or tax rate reductions in the past year. The Managing Board will recommend that the Annual General Meeting approve a dividend of € 3.20 per share, which represents a yield of 3.6% based on the June 30, 2006 market price of € 87.99. In accordance with the dividend strategy, distributions are planned to equal roughly 30% of profit on ordinary activities in the future.

This report is designed to provide you with information on the financial development of our Group during the past year and is combined with elements from our March 2006 Sustainability Report to create a sustainable annual report. Our examination of and interaction with the subject of sustainability is our response to the increasing pace of change on global markets. After more than 30 years of successful business operations, we not only want to become better over the short-term but also create a solid basis for long-term growth. This objective can

only be met when we are able to meet most of the economic, ecological and social goals that represent the requirements for success. Our activities to safeguard sustainable development resulted in the inclusion of our company in the Austrian VÖNIX Sustainability Index in June 2006.

Following the development of a new strategy for our Group in 2004/05 and the implementation of first measures, we were able to complete our turnaround in 2005/06 and thereby end Phase 1 of our long-term concept. In December 2005 the Managing Board also filed a lawsuit over € 1.2 million of excessive severance compensation that was reflected in the financial statements for 2003/04. In Phase 2 we intend to concentrate on the expansion of our EPS production network in Eastern Europe and on the design of management systems to meet the requirements of an international company that is focused on long-term growth. Planning for Phase 3 has started and will allow us to evaluate options for further – and possibly global – growth.

Ever since the founding of our Company, our employees have formed a key support and central basis for our financial success. This is also reflected in the fact that we did not reduce our workforce at any time during the 34-year history of the Group despite repeated economic cycles. Moreover, we have utilized the major advantages provided by the long-term development of markets in Central, Eastern and Southeastern Europe. The limited transportation radius of 300 km for EPS products allows us to offer simple processing steps at our own locations, where other branches are increasingly affected by the relocation of customers to Asia. An analysis of costs and benefits clearly demonstrates the ecological benefits of our products: for example, approx. 2.8 liters of crude oil are used to make 1 kg of EPS raw material, and 1 kg of EPS that is processed into insulating materials saves approx. 3.7 liters of heating oil per year. The ecological strengths of the HIRSCH Servo Group are well anchored in production processes that are nearly waste-free.

Our outlook for the 2006/07 Business Year is positive. Based on the investments made during the past year and new contracts with major customers, we expect a 15% increase in profit on ordinary activities from € 4.6 million to € 5.3 million. Earnings per share are forecasted to rise from € 7.44 to € 8.60.
Management has set a goal to make the HIRSCH Servo Group one of the most successful EPS processors, whereby we define success according to the principles of sustainable action.

The turnaround completed during 2005/06 is in part the result of deep-seated changes in all companies of the HIRSCH Servo Group and, as a consequence, the result of hard work by all our employees and managers. The Managing Board would like to thank all these men and women for their dedication and commitment. We would also like to thank our shareholders for their continued confidence and welcome the new investors who have discovered our Company. We hope the HIRSCH Servo share will also represent an interesting investment in the future.

The Managing Board

Kurt Hirsch

Peter Grabuschnig

Carsten Brinkmeier

Report of the Supervisory Board

from right to left: Michael Kaufmann, Helmut Grienschgl, Georg Wall, Georg Gorton, Axel Hirschberg

The Supervisory Board and Managing Board held wide-ranging discussions on the financial position and strategic development of the company as well as significant events and measures at six regular meetings during the 2005/06 Business Year. Throughout the reporting year the Supervisory Board repeatedly reviewed the management of the company. Extensive written and verbal reports by the Managing Board formed the basis for these deliberations.

In cases where the approval of the Supervisory Board was required for decisions or actions by the Managing Board, the Supervisory Board evaluated the relevant proposals and made its decisions based on written or verbal information provided by the Managing Board. In this way the Supervisory Board was involved in all major decisions relating to the company.

The activities of the Supervisory Board during the reporting year concentrated on discussions concerning the strategic growth alternatives available to the company and the assessment of options for further growth. The mid-term planning and financing structure of the group were also analyzed.

Discussions were held by the Supervisory Board and Managing Board on the severance payments made to former members of the Managing Board, which were approved by previous members of the Supervisory Board in July 2004. After extensive analysis and deliberations, the Supervisory Board approved the decision of the Managing Board to file a lawsuit for the repayment of excessive severance compensation. This lawsuit is currently pending at court.

The consolidated financial statements were prepared in accordance with the principles of International Financial Reporting Standards (IFRS). Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., certified public accountants in Vienna, audited the consolidated financial statements and annual financial statements of HIRSCH Servo AG as well as the management reports for the company and group. The results of this audit indicate that the group complied with the full scope of IFRS. The audit opinion on the consolidated financial statements contained no objections.

The Supervisory Board reviewed the annual financial statements, management report and recommendation for the distribution of profit as well as the consolidated financial statements and group management report, and discussed all major points with the Managing Board and auditor. No objections were raised.

The Supervisory Board agrees with the results of this audit, and has approved the annual financial statements and consolidated financial statements as prepared by the Managing Board. The annual financial statements of HIRSCH Servo AG were therefore formally released. The Supervisory Board agrees with the management reports and the evaluation of the further development of the company by the Managing Board, and also supports the dividend policy of the company. Moreover, the Supervisory Board agrees with the recommendation for the distribution of profit.

The Supervisory Board would like to thank the management and employees of the company for their commitment and performance during the 2005/06 Business Year.

Klagenfurt, September 20, 2006

Georg Gorton
Chairman of the Supervisory Board

Executive Bodies and Structure

Executive Bodies of HIRSCH Servo AG

Supervisory Board

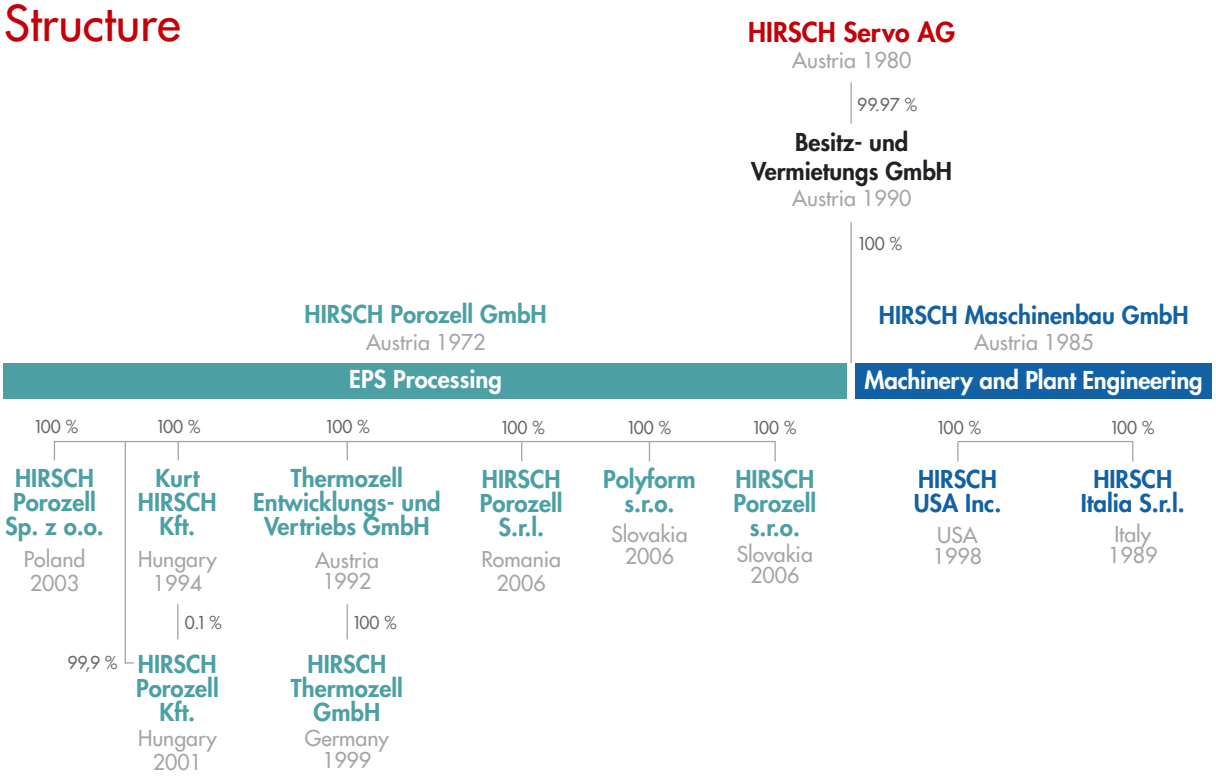
Georg Gorton	Chairman since November 9, 2005 (Member since September 30, 2004)
Georg Wall	Vice-Chairman since November 9, 2005
Helmut Grienschgl	Since November 9, 2005
Axel Hirschberg	Since November 9, 2005
Michael Kaufmann	Since November 9, 2005

Werner Kraus resigned from the Supervisor Board on September 8, 2005;
Christian Grave and Heinz G. Paar resigned on September 15, 2005.

Managing Board

Kurt Hirsch
Peter Grabuschnig
Carsten Brinkmeier

Structure



Plant Locations and Milestones

Historical Milestones

1972 — Founding of HIRSCH Porozell GmbH in Landskron/Carinthia

1976 — Relocation of the company to Glanegg/Carinthia

1996 — First step in eastward expansion with the founding of a Hungarian subsidiary, Kurt Hirsch Kft., in Sárvár

1997 — IPO of HIRSCH Servo AG

2003 — Start of production in Poland (Wroclaw)

2004 — Start of EPS blockmolding production in Glanegg

2005 — Construction of a further shape molding plant in Poland (Lódz)

Completation of the turnaround that started in mid-2004

2006 — Largest investment to date: € 12.4 million to expand in Eastern Europe

Acquisition of the Slovakian EPS insulating materials producer Polyform s.r.o.

Start of production at the new EPS insulating materials plant in Romania

HIRSCH Servo AG

HIRSCH Maschinenbau GmbH

HIRSCH Porozell GmbH

Thermozell Entwicklungs- und Vertriebs GmbH

EPS Processing

Machinery and Plant Engineering

2 **HIRS** Italia S.r.l.

3 **KURT HIRSCH** Kft.

4 **HIRSCH** Porozell Kft.

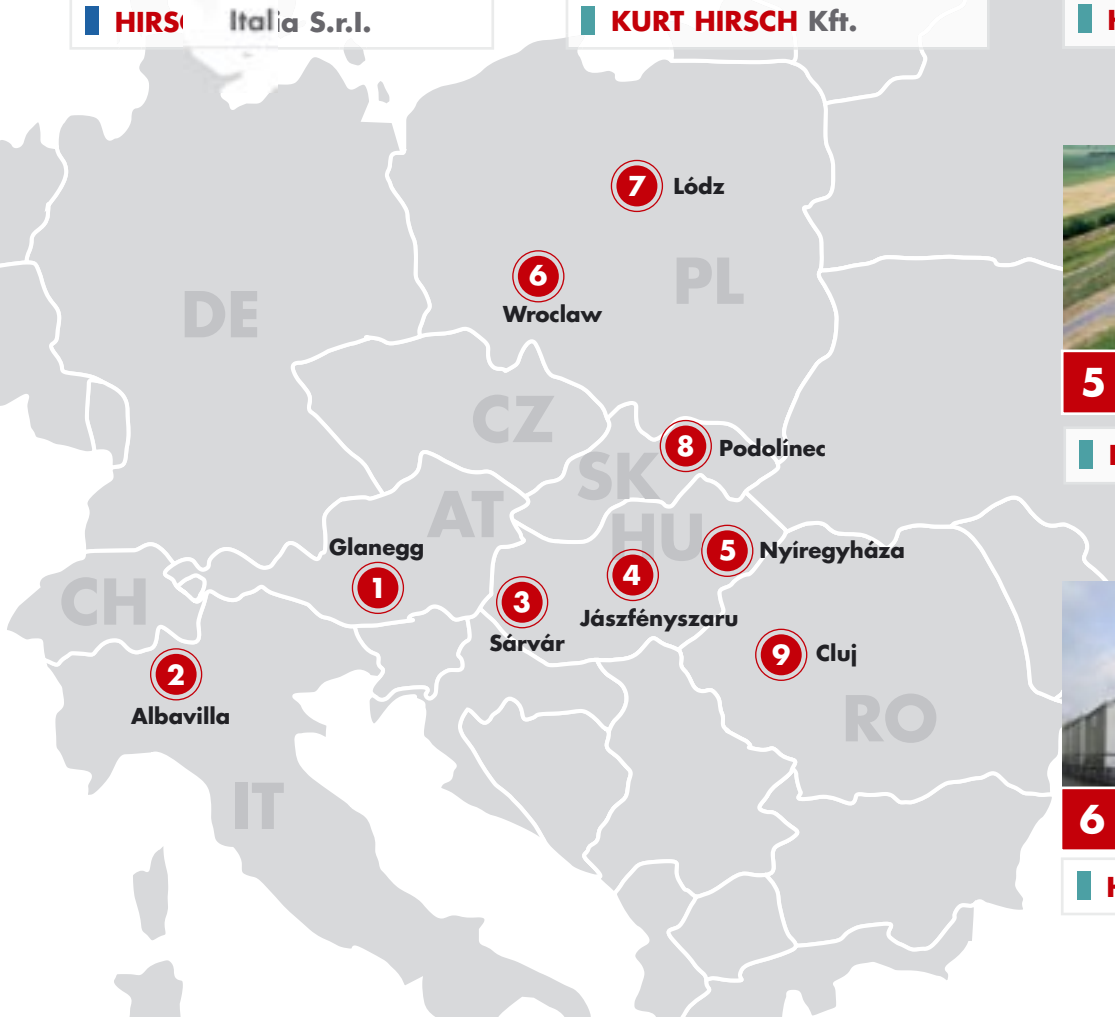
5 **KURT HIRSCH** Kft.

6 **HIRSCH** Porozell Sp. z o.o.

9 **HIRSCH** Porozell S.r.l.

8 **Polyform** s.r.o.
HIRSCH Porozell s.r.o.

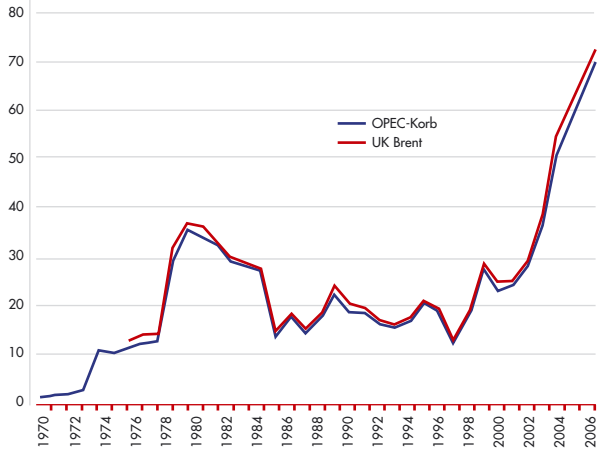
7 **HIRSCH** Porozell Sp. z o.o.



The High Oil Price and its Consequences

Higher demand, above all in Asia, as well as insufficient capacity for oil production and in part outdated processing equipment have combined with political conflicts and increasingly severe natural disasters to trigger a rapid increase in crude oil prices since 2005.

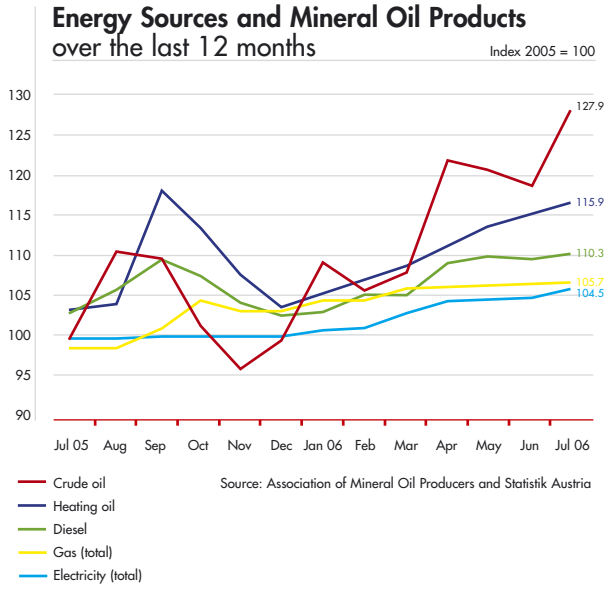
Development of Crude Oil Prices
1970 – 2006 in $ per Barrel



Source: Association of Mineral Oil Producers, Hamburg, 2005 (extrapolated)

The development of crude oil prices has an obvious and direct influence on energy prices.

Energy Sources and Mineral Oil Products
over the last 12 months



Source: Association of Mineral Oil Producers and Statistik Austria

This tense situation is not expected to ease in the near future, and experts agree: the price of oil will remain at a high level over the long-term and further temporary price increases cannot be excluded during the coming years.
The International Energy Agency (IEA) forecasts a nominal price of roughly US$ 65 per barrel in 2030. By this time, according to the IEA, the worldwide demand for energy should rise by more than one-half if general conditions remain stable.

Source: Austrian Energy Agency, Vienna, 2005

Given this scenario, the improvement of energy efficiency in new and existing buildings will make an important contribution to safeguarding supplies and realizing goals for the protection of the climate.

Climate Strategy – The Kyoto Protocol

The protocol approved in the Japanese city of Kyoto in 1997 calls for the roughly 130 signatory states to reduce emissions by an average of 5.2% (the EU by 8%) below the 1990 level during the period from 2008 to 2012. The individual countries have different plans to reach these targets, which are above all dependent on their individual economic development.
The Montreal climate conference in December 2005 passed important resolutions to further advance international efforts for the protection of the climate.
One of the most effective and, at the same time, cost-efficient measures to reach these goals is the reduction of CO_2 emissions through building insulation, both in the renovation of older buildings and the construction of new buildings.

Low-Energy and Passive Energy Houses

The market segment comprising low-energy and passive energy houses is becoming more and more important.
The basic requirement for both concepts is a thermally optimized building shell with no heat bridge. The passive house – a further development of the low-energy house – requires additional special windows and ventilation with heat recovery, which guarantee fresh air throughout the entire building at all times. In addition, the structure must be designed to allow for the use of solar energy.
The most popular system solution for residential construction that meets low-energy or passive house standards is a combination or brick walls with a full EPS heat protection system. Both components have been successfully used for many years, and together represent an optimized solution.

Insulating materials basically meet two goals: acoustic and thermal protection. The latter term covers both the prevention of heat loss from the building as well as the prevention of heat inflow when temperatures are high in the summer. In the area of thermal protection, insulating materials make an important contribution to environmental protection, and also help to reduce the consumption of heating oil and gas. This, in turn, lowers CO_2 emissions and further lowers heating costs.
The construction industry offers a wide range of insulating materials with different load capacity, fire protection rating, heat transfer coefficient and other properties that are suitable for a variety of applications. An extensive lifecycle balance* has been available for EPS insulating materials since 1994, which covers all stages from production to the disposal of waste, and shows excellent results in comparison to other materials used for this same purpose.

*Source: Lifecycle Balance of EPS Insulating Materials, Interdisciplinary Research Association for Plastics, Berlin

New EU Building Guideline

In order to improve the energy efficiency of buildings, the European Parliament and European Council have issued Guideline 2002/91/EG. The basis for this new EU directive "The general energy efficiency of buildings", which took effect on January 1, 2006, is formed by the climate protection goals of the EU and its member states.

Specifically, the member countries of the EU must define minimum requirements for the overall energy efficiency of buildings (e. g. in the form of energy indicators). In the future an energy certificate that is not more than 10 years old must be presented when a building is constructed, sold or rented. This certificate must also contain recommended measures for improvement, and will allow consumers to compare and evaluate the energy efficiency of buildings.

New standards in selected EU countries:

Energy standards for new buildings	Mandatory beginning in
in Austria	2008
in Germany	2007
in Slovakia	2008
in Denmark	2006
in the Netherlands	2006

The HIRSCH Servo Share

Development of Share Price

In a positive market climate on the Vienna Stock Exchange the price of the HIRSCH Servo rose from € 37 in July 2005 to a historical high of € 96 in early May 2006, and then declined to € 88 by the end of June 2006. The strong performance of the share over the past 12 months with a plus of roughly 138% reflects the significant improvement in basic indicators and the renewed confidence of investors.

The price of the HIRSCH Servo at the initial public offering in 1997 was € 51.96 (ATS 715.00). In addition to the gain in the share price, dividends totaling € 17.40 were paid out up to the end of 2005.

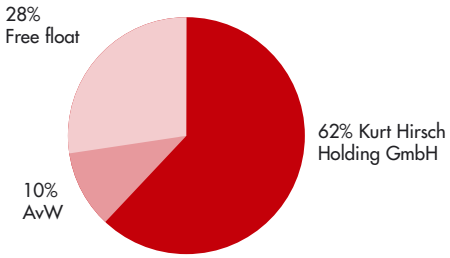
Development of the share price from 1. 7. 2005 to 30. 6. 2006 in €

Trading Volume

The capital market honored this turnaround with growing interest on the part of investors, which also provided key support for the outstanding development of the share price.
The number of HIRSCH Servo shares traded on the Vienna Stock Exchange more than doubled from 85,000 in the 2004 calendar year to a total of 175,000 in 2005. This trend also continued into the first half of 2006, with the trading volume of the entire previous year topped by the end of June.

Shareholder Structure

HIRSCH Servo AG has capital stock of € 3,635,000, which is divided into 500,000 bearer shares. The HIRSCH Servo share is traded in the Standard Market Auction segment of the Vienna Stock Exchange as well as over-the-counter on the Stuttgart Stock Exchange and, since April 2006, also on the Berlin-Bremen Stock Exchange.
HIRSCH Servo AG has a stable shareholder structure: 62% of the shares are owned by Kurt Hirsch Holding GmbH, and 10% by the AvW Group, while the remaining 28% represent free float that is held by institutional investors in Austria and other countries, private shareholders, management and treasury stock.



Dividend Policy

The new dividend policy that was announced by HIRSCH Servo AG in the previous year will allow shareholders to profit from the sound development of earnings. It is based on long-term growth and calls for an annual distribution of approximately 30% of profit on ordinary activities. The Managing Board will recommend that the Annual General Meeting approve a dividend of € 3.20 per share for the 2005/06 Business Year, which reflects a yield of 3.6% based on the June 30, 2006 share price of € 87.99. This dividend recommendation includes the targeted distribution of roughly 30% of profit on ordinary activities at € 2.80 as well as a bonus of € 0.40 per share for the successful turnaround.

Investor Relations

During the 2005/06 Business Year investor relations activities in the HIRSCH Servo Group focused on:

- The organization of contacts for the Managing Board with institutional investors and financial analysts
- Preparation of the first sustainability report
- Fulfillment of the basic requirements to re-enter the Prime Market segment of the Vienna Stock Exchange.

Regular, proactive, broad-based, understandable and timely information with equal treatment for all relevant stakeholder groups was an important objective in the past and will remain a primary goal for the 2006/07 Business Year.

At an event in October 2005 and on Girls Day in April 2006, the HIRSCH Servo Group opened its doors in Glanegg to the public and gave interested visitors a look behind the scenes.

The Managing Board held more than 40 individual discussions and several conferences with institutional investors and financial analysts from Austria, Germany and Switzerland to present the new strategy for HIRSCH Servo and explain the development of the Group.

The goal to create a long-term increase in value and earnings was supported by the publication of the first sustainability report on the HIRSCH Servo Group in March 2006.

Open house

Girls Day

VÖNIX INDEX MEMBER 06/07

The Group's commitment to sustainable development was confirmed by the inclusion of the HIRSCH Servo share in the VÖNIX Sustainability Index, which is comprised of publicly traded Austrian companies that demonstrate leadership in the areas of social and ecological performance. The VÖNIX Index is issued by VBV-Pensionskasse AG and VINIS GmbH. (www.voenix.at)

The HIRSCH Servo Share

In order to ensure the greatest possible transparency and service as well as provide up-to-date facts and figures on the HIRSCH Servo Group, a wide variety of information such as this annual report, the sustainability report, ad hoc announcements, press releases and press reports, stock exchange and quarterly data, forecasts and financial calendars are provided in the Internet under www.hirsch-gruppe.com. Investors can also order an electronic newsletter to receive information on the HIRSCH Servo Group automatically by e-mail.

Outlook: Advance to the Prime Market

In order to increase the attractiveness of the HIRSCH Servo share for current stockholders as well as new international investors, the Company plans to follow three years in the Standard Market Auction by re-entering the top segment of the Vienna Stock Exchange – the Prime Market – at the end of 2006 if the market climate remains favorable. Sound growth perspectives based on successful positioning in Central and Eastern Europe, an attractive dividend policy and the return to the Prime Market segment of the Vienna Stock Exchange should further increase turnover in the Company's shares.

Financial Calendar

October 11, 2006: Press conference and analysts meeting on results for 2005/06

October 31, 2006: Press release on first quarter results for 2006/07

November 20, 2006: 11th Annual General Meeting

November 23, 2006: Ex-dividend day

November 30, 2006: Payment of dividend

February 5, 2007: Press release on second quarter results for 2006/07

April 30, 2007: Press release on third quarter results for 2006/07

Sept. 14, 2007: Press release on preliminary results for 2006/07

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Stock Exchange Data		2002/03	2003/04	2004/05	2005/06
Share price as of 30. 6.	€	41.00	45.75	36.99	87.99
Share price – high	€	53.56	51.00	48.22	96.00
Share price – low	€	33.00	31.50	36.50	36.67
Share price – average	€	43.16	42.70	40.78	57.76
Market capitalization as of 30. 6.	T€	20,500	22,875	18,495	43,830
Earnings per share	€	3.0	1.7	3.99	7.44
P/E ratio as of 30. 6.		14	27	9	12
P/E ratio average price		14	25	10	8
Dividend	T€	1,021	534	534	1,552 [1]
Dividend per share	€	2.1	1.1	1.1	3.2 [1]
Dividend yield[2]	%	5.1	2.4	3.0	3.6 [1]
Payout ratio[3]	%	68.8	64.9	27.6	42.3

[1] Recommendation to the Annual General Meeting
[2] Basis: price on June 30.
[3] Basis: net income for the year

Corporate Governance

The HIRSCH Servo Group is dedicated to sustainability, and adheres to the principles of corporate governance. The Managing Board and the Supervisory Board have declared their support for the goals of the Austrian Corporate Governance Code, and are committed to managing the Company to create a sustainable increase in value and earnings and also ensure a high degree of transparency for all stakeholder groups.

The information required by the Austrian Corporate Governance Code can be found under the relevant subjects in the annual report, management report or on our homepage.

The Austrian Corporate Governance Code comprises 80 rules that are subdivided into three categories. The first category, L-Rules (Legal Requirements), represent binding legal regulations and compliance is mandatory.

The second category, C-Rules (Comply or Explain), must be followed or reasons must be provided for any deviation. The HIRSCH Servo Group explains the reasons for its deviation from C-Rules in detail under www.hirsch-gruppe.com/Unternehmen/Corporate Governance.

The R-Rules (Recommendation) have a non-binding recommendation character, and companies may deviate from these rules without explanation.

The Austrian Corporate Governance Code was revised in 2005 and the new version took effect on January 1, 2006. The Managing Board and the Supervisory Board intend to deal with the new code at length during the 2006/07 Business Year.

Group Management Report

The Economic Environment

During the period from July 2005 to June 2006 the global economy was characterized by growth, above all in China, as well as rising energy prices and higher interest rates. Share prices showed steady improvement, but shifted to a phase of correction in May 2006.

The operating environment for the EPS Processing Segment is determined primarily by the general climate in Europe, which showed a lasting improvement over the previous year in a number of sectors.

In the area of EPS packaging, the basis for further sales volume growth in Eastern Europe was provided by the continued relocation of white goods producers from Western to Eastern Europe, the growing interest of major Asian companies in investments in Eastern Europe, the rising purchasing power of the East European population and the production of new and larger generations of household appliances and television sets (air conditioners, plasma- and LCD-screens).

Sales of EPS insulating materials are driven by new construction activity and the renovation of older buildings as well as the steadily increasing demand of consumers for better insulation and thicker materials. For this reason, rising energy prices, new legal regulations to improve the energy efficiency of buildings and a noticeable upturn in the construction industry beginning in 2006 – also in the German-speaking countries – have had a positive impact on demand. EUROMAP* forecasts indicate that the EPS market, which totaled roughly 1,350,000 tons in 2005, will grow by an average of 65,000 tons per year over the next decade. The EPS Processing Segment of the HIRSCH Servo Group was able to increase sales volumes by 47% to 13,100 tons during the 2005/06 Business Year (2004/05: 8,900 tons).

In contrast to the generally improving economic climate across Europe, the situation in Hungary deteriorated. Government policies led to a devaluation of the forint, which had a negative impact of T€ 656 on the Hungarian subsidiaries. Fluctuations in other exchange rates were able to offset this development to a large extent, and resulted in a net charge of € 0.65 million to Group results.

Production volumes in the EPS processing branch are rising worldwide, and this trend will form the basis for a steady improvement in revenues for the Machinery and Plant Engineering Division. The reserved investment activity that was noted in 2004/05 turned to a clear positive trend at the start of 2006, supporting two-digit growth rates for the European machinery and plant construction sector.

Forecasts for 2006/07 call for a further increase in the demand for EPS packaging and insulating materials as well as continued strong investment in machinery and equipment at the 2005/06 level, based on stable to rising energy prices and higher interest rates.

* Source: European Committee of Machinery Manufacturers for the Plastics and Rubber Industries, 2006

Development of Business in 2005/06

	2002/03 in € mill.	2003/04 in € mill.	2004/05 in € mill.	**2005/06 in € mill.**
Revenues	55.9	56.6	57.2	68.7
Operating profit (EBIT)	3.1	2.3	2.4	6.6
Profit on ordinary activities	2.2	1.7	1.4	4.6
Net income	1.5	0.8	1.9	3.6
Balance sheet total	46.7	54.3	56.4	72.3
Net debt	11.9	16.1	21.3	30.1
Cash flow from operating activities	4.4	2.1	4.4	5.2
ROCE	6.5 %	3.5 %	5.8 %	10.2 %
ROS	3.9 %	2.9 %	2.5 %	6.7 %
Capital expenditure	3.4	5.2	9.5	12.4
Depreciation and amortization (excl. goodwill)	3.0	3.1	3.3	3.5
Research and development expenses	1.6	1.4	1.5	1.0
Employees (average for the year)	381	409	417	478

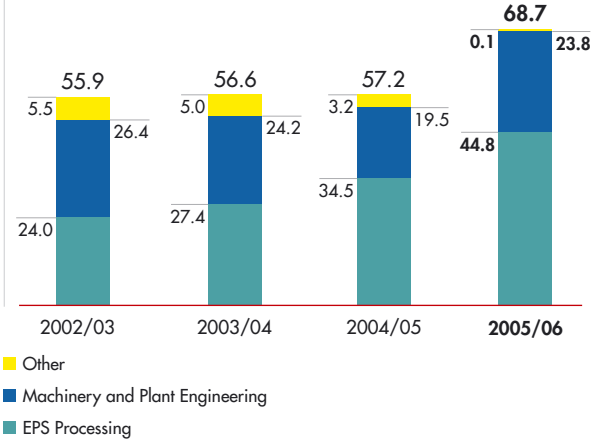
Revenues

Group revenues rose by € 11.5 million to a historical high of € 68.7 million (2004/05: € 57.2 mill.).

The EPS Processing Segment recorded an increase of 30% (2004/05: +26%) in revenues to € 44.8 million. This figure includes revenues from the newly acquired companies, and represents 65% (2004/05: 60%) of total revenues reported by the HIRSCH Servo Group. Revenues generated by the Packaging Division grew by 21% to € 24,9 million, while the Insulating Division registered a plus of 42% to € 19,9 million. The newly acquired Polyform s.r.o. in Slovakia made a valuable contribution to this growth. The development of revenues is supported by over one thousand customers. The largest customer is responsible for 13% of revenues and the most important single product has a share of 5.4% - this structure combines to represent a sound distribution of risk.

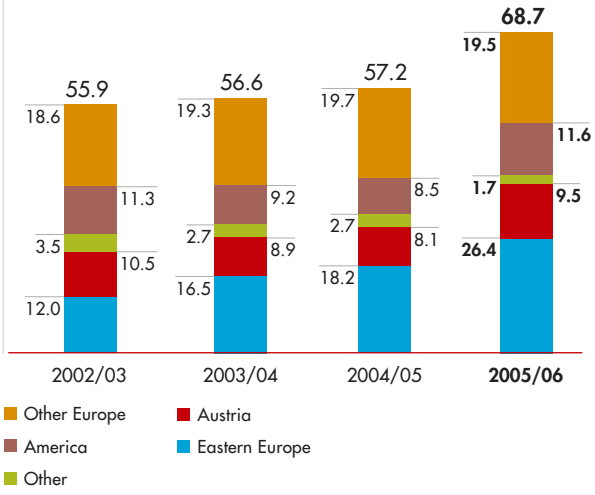
Revenues in the Machinery and Plant Engineering Division rose by 22% to € 23.8 million (2004/05: € 19.5 mill.), with both the Shape Molding Equipment and Block Molding Equipment Business Units contributing equally to this growth. In addition to third party sales, the Machinery and Plant Engineering Division also sells to other companies in the HIRSCH Servo Group. Intercompany sales rose to € 3.7 million in 2005/06 (2004/05: € 2.8 mill.). The Machinery and Plant Engineering Division generates revenues with roughly 400 customers per year, which represent pure project sales and involve a different group of customers each year. The most important single product has a share of 14%.

Revenues by division in € million



The increasing expansion of the EPS production network in Eastern Europe has shifted the structure of revenues in favor of this region. Revenues generated in Eastern Europe rose by 44% to € 26.4 million (2004/05: € 18.2 mill.) and represent 38% of total revenues recorded by the Group.

Revenues by region in € mill.



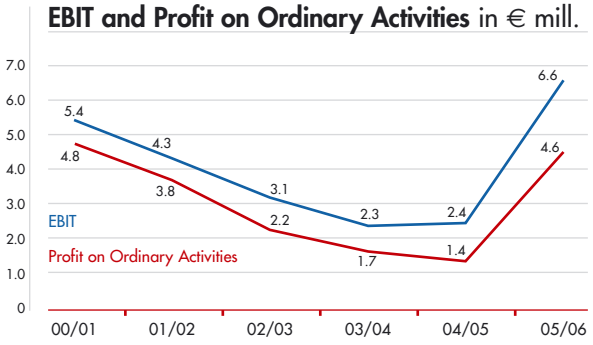
The sales activities of the HIRSCH Servo Group are designed to achieve lasting growth in revenues through a focus on:

- EPS – the material of the future ("a material with fantasy")
- Diversification of the customer structure
- Development of partnerships with international customers
- Growth markets such as packaging and insulating materials (1 kg EPS converted to insulating materials saves approx. 3.7 liters of heating oil per year)
- Growth regions such as Eastern Europe

Earnings

Operating profit (EBIT) increased 177% to € 6.6 million for the 2005/06 Business Year (2004/05: € 2.4 mill.). This development was based on revenue growth in both segments, the sale of the Presentation Systems Division in 2004/05 and the implementation of broad-based cost reduction measures in the Machinery and Plant Engineering Division, above all in the Block Molding Equipment Business Unit. The previous EBIT record for the HIRSCH Servo Group was set in 2000/01 with € 6.4 million according to the accounting regulations defined in the Austrian Commercial Code, which is roughly € 1 million higher than the comparable figure under IAS.

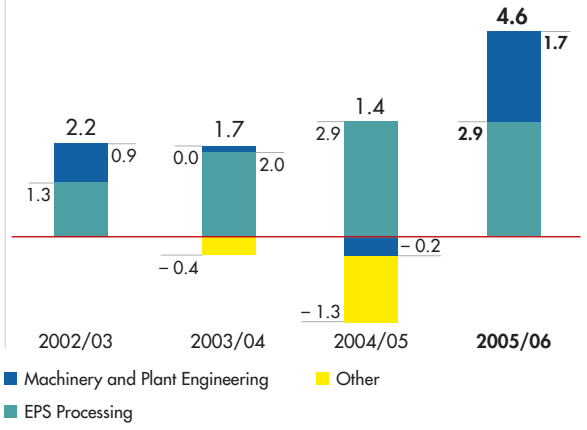
EBIT and Profit on Ordinary Activities in € mill.



The increase in amortization and depreciation from € 3.3 million in the previous year to € 3.5 million for 2005/06 reflects € 0.5 million in non-recurring impairment charges to property from the past year as well as higher depreciation of € 0.7 million as a result of new investments.

Profit on ordinary activities rose by 221% to € 4.6 million (2004/05: € 1.4 mill.), which represents the best results since 2000/01.

Profit on ordinary activities by division in € mill.



In addition to the receipt of subsidies, especially for research and development, which flow directly to income before tax in the relevant business year, tax benefits in Poland will have a favorable impact on earnings by reducing the Group's tax burden over the coming years. Investment subsidies improve earnings throughout the entire depreciation period for the relevant asset. Since subsidies generally represent non-recurring payments and not long-term income, they are not included in our investment decisions.

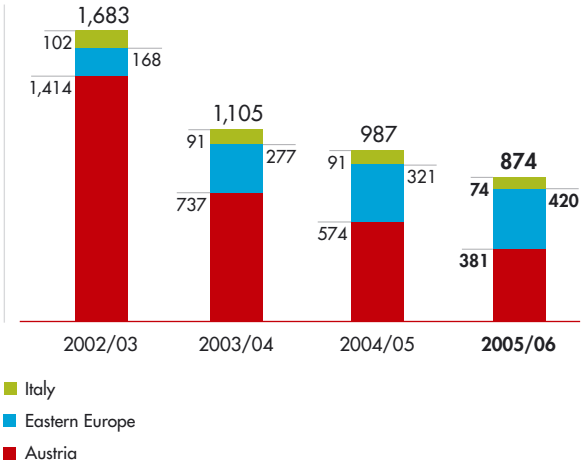
Subsidies by country

in T€	02/03	03/04	04/05	05/06
Austria				
For research and development	282	133	194	82
For employee training	11	23	21	46
Investment subsidies	0	0	0	310
Eastern Europe				
Future tax relief Investment subsidies	42	167	972	237
Total	**335**	**323**	**1,187**	**675**

Net income increased 87% to € 3.6 million (2004/05: € 1.9 mill.). The deferred taxes of € 0.65 million that were capitalized in 2004/05 remained nearly unchanged on the balance sheet due to the positive development of business in the Polish subsidiary. Earnings per share improved to € 7.44 (2004/05: € 3.99).

An analysis of taxes paid, including other taxes and duties recognized to the income statement, shows a strong reduction over the last four years. The HIRSCH Servo Group always complies with legal guidelines and acknowledges its responsibility to society. This includes the continued location of Group headquarters in Austria, despite more attractive tax conditions in other countries. The changes in taxes paid resulted primarily from a reduction in the Austrian corporate tax rate from 34% to 25%, the implementation of Group taxation as of July 1, 2004 and more favorable tax regulations in Eastern Europe.

Taxes paid by region



Group Management Report

The management of the HIRSCH Servo Group creates a solid foundation for long-term financial growth through:

- Investment decisions that are based on years of experience, conservative calculation methods and the incorporation of social, cultural and ecological values
- The timely development of organizational structures to reflect the needs of the market and thereby avoid a "growth shock" to the greatest extent possible
- The direction and development of employees based on profit-oriented criteria
- The early identification of risk through professional monitoring and limitation of the potential impact on Group results to a minimum level.

Management met or clearly exceeded all goals announced for the 2005/06 Business Year in the last annual report.

Asset and Financial Position

The balance sheet total rose by € 16.0 million over the prior year to € 72.3 million. This development was supported by investments to existing plants and in Romania as well as the initial consolidation of the companies acquired in Slovakia and growth in revenues.

Property, plant and equipment remained stable, representing 56.8% of total assets as of June 30, 2006 (30. 6. 2005: 57.0%). Equity covers property, plant and equipment by 57% (30. 6. 2005: 64%).

Working capital (inventories + trade receivables – trade payables) rose by € 3.4 million to € 16.8 million (30. 6. 2005: € 13.4 mill.), and had a turnover of 89 days (30. 6. 2005: 86 days). The increase in turnover resulted from the initial consolidation of the Slovakian companies, which were acquired during the reporting year.

Equity increased by € 2.9 million to € 23.5 million (30. 6. 2005: € 20.6 mill.), whereby inflows of € 3.6 million from net income were partly offset by a dividend distribution of € 0.5 million. The equity ratio declined to 32% (30. 6. 2005: 37%).

Net debt totaled € 30.1 million as of June 30, 2006 (30. 6. 2005: € 21.3 mill.). The major contributing factors to the change in net debt are shown in the following table:

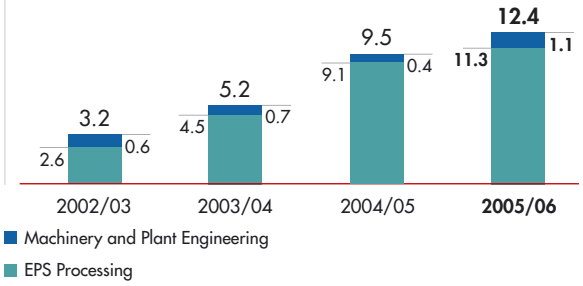
Net debt as of 30. 6. 2005	21.3
– Net income for the year	3.6
– Depreciation and amortization	3.7
+ Increase in working capital	3.4
+ Investments and initial consolidations	12.9
+ Dividend	0.5
– Other effects	0.7
Net debt as of 30. 6. 2006	30.1

Long-term funds (equity plus non-current liabilities) cover non-current assets by 124% (30. 6. 2005: 124%). Cash flow from operating activities financed 55% (30. 6. 2005: 45%) of investments, excluding acquisitions.

Investments and Acquisitions

The HIRSCH Servo Group spent a total of € 12.4 million on investments and acquisitions during the reporting year (2004/05: € 9.5 mill.). Over 90% of this amount was directed to the EPS Processing Segment. Activities focused on the acquisition of companies in Slovakia (in particular Polyform s.r.o.) and the expansion of capacity at these plants as well as the purchase of property and construction of a plant in Wroclaw (PL) for € 2.2 million, the greenfield investment in Cluj (RO) for € 2.5 million and investments of € 2.2 million in the Austrian companies. The projects in Austria also included the construction of an innovation center to concentrate the research and activities of the two business segments.

Investments by division[1] in € mill.



[1]) The investments made in other areas are immaterial, and are included under the Machinery and Plant Engineering Segment.

Investments in plant, property and equipment were distributed among the various asset groups as follows: € 1.6 million for land and buildings (2004/05: € 4.9 mill.), € 3.4 million for technical equipment and machinery (2004/05: € 3.5 mill.), € 1.5 million for furniture, fixtures and office equipment (2004/05: € 0.9 mill.) and € 3.2 million of construction in progress (2004/05: € 0.0 mill.). Additions of € 2.7 million (2004/05: € 0.2 mill.) were also made to intangible and financial assets.

Return on capital employed (ROCE), which shows the profitability of interest-bearing capital used by the company and thereby also a major part of investments, rose to 10.2% (2004/05: 5.8%), whereby the high level of construction in progress on the balance sheet date had an impact of 0.5%. The ratio of NOPAT to capital employed is calculated here, and the target of 7% for 2005/06 was exceeded by a substantial margin.

Research and Development

The HIRSCH Servo Group spent € 1.0 million on research and development during the reporting year (2004/05: € 1.5 mill.).

These funds were used primarily to develop the new PREEX 6000 XXL pre-expander, which represents an addition to the successful PREEX 3000 and PREEX 6000 series that has been sold more than 100-times to customers throughout the world.

A new HSW generation was also developed through the combination of two internationally recognized technologies (HE-transfer and HS-shuttle). This new technology makes it possible to combine complicated structures made of EPS with a wide variety of materials such as foils and metal parts, and also guarantees reliable processing and saves both time and energy.

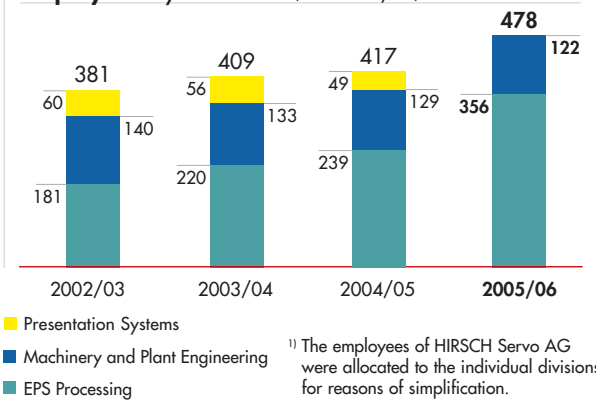
Research and development expenses decreased to 1.5% of revenues (2004/05: 2.7%) and will tend to decline further over the coming years despite the founding of the innovation center and related increase in research and development activities. This is due to the substantial growth in revenues recorded by the EPS Processing Segment, which carries out virtually no development work.

Social Responsibility

The employees of HIRSCH Servo represent the Group's most important capital. Their skills, know-how and commitment make us successful. For this reason the satisfaction, motivation and continuous development of our employees is one of our most important goals. Equal opportunity in all areas is an integral part of our working environment, just as adequate and attractive compensation.

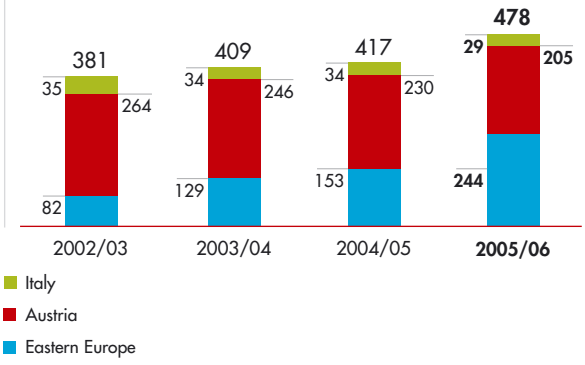
The HIRSCH Servo Group employed an average workforce of 478 in 2005/06 (2004/05: 417). This total comprises 325 wage employees (2004/05: 276), 146 salaried employees (2004/05: 136) and 7 apprentices (2004/05: 5). The increase over the prior year level was related exclusively to the EPS Processing Segment. Additional hiring covered an average of 91 employees in Eastern Europe and 26 in Austria.

Employees by division[1] (Av. for the year)

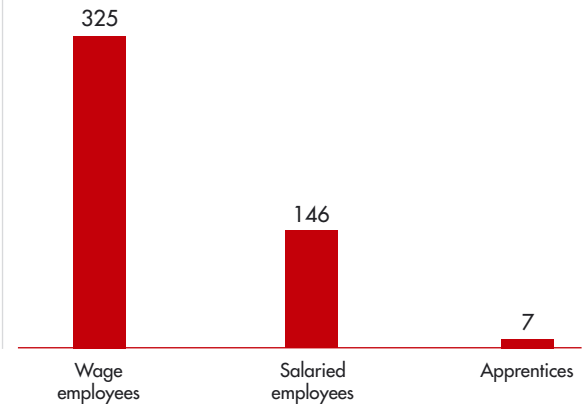


[1] The employees of HIRSCH Servo AG were allocated to the individual divisions for reasons of simplification.

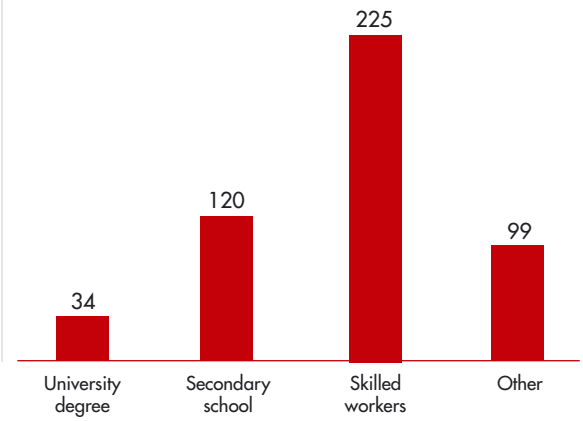
Employees by region (Av. for the year)



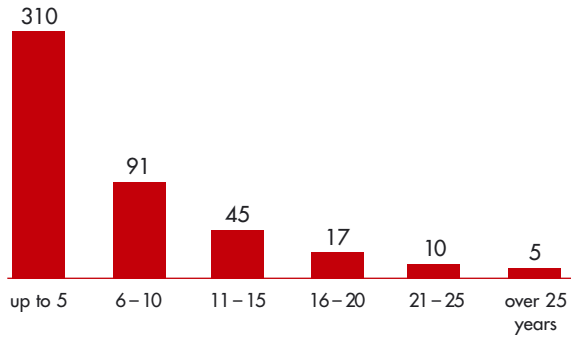
Ratio of salaried/wage employees



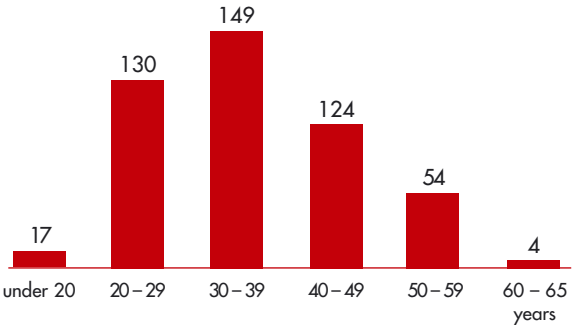
Qualification structure



Length of service



Age structure of employees

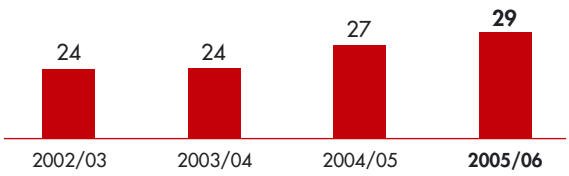


The growth of the HIRSCH Servo Group in recent years is also reflected in the length of service. Approximately 80% of the workforce was hired during the last 10 years.
It should be noted that employees who have been with HIRSCH Servo for many years continue to play an important role in the success of the Group. The largest number of employees, or 31%, are between 30 and 40 years old and 30% are younger than 30. The average age is 36 years.

Employee turnover in the HIRSCH Servo Group totaled 20% for the 2005/06 Business Year (2004/05: 23%). In particular, turnover is high at our locations in Eastern Europe. Our facility in Austria recorded turnover of 7% for the reporting year (2004/05: 7%).

Equal opportunity is a fixed element of personnel policies in the HIRSCH Servo Group. The number of women working in the Machinery and Plant Engineering Division is low for traditional reasons (9%), but we expect an increase in female candidates in the future because of the growing number of highly qualified women who are entering technical professions. The number of women in the EPS Processing Segment totaled 34% in 2005/06.

Share of women in %



Workplace health and safety

The protection of health and on-the-job safety have top priority in the HIRSCH Servo Group. Trained internal and external safety experts are responsible for the definition and implementation of standards and protection of workplace safety. External specialists in industrial medicine provide regular consulting on medical issues. All our plants meet the legal limits for emissions and ambient air quality standards, and also meet the latest regulations for offices and non-work areas.

Sick days, work accidents

	02/03	03/04	04/05	05/06
Total sick days	2,262	2,740	3,789	4,156
Per employee	5.9	6.7	9.1	8.7
Lost days through work accidents	202	125	605	446

The decline in sick days during the 2005/06 Business Year was due chiefly to a reduction in the number of severe accidents. Unfortunately two employees were injured during loading activities and one employee fell so severely while entering a public bus on his way to work that multiple operations were required, which resulted in a total of roughly 500 sick days in 2004/05.

The HIRSCH Servo Group employed six handicapped persons during the 2005/06 Business Year. We believe we have made an important contribution to social responsibility through the integration of these men and women in daily business life.

Training

HIRSCH Servo places high value on well-trained, capable and motivated employees, who represent a key factor for the long-term success of the business. Training programs help the Group to meet its goal of finding and retaining the best employees. The HIRSCH Servo Group invested a total of T€ 52 in training programs during the 2005/06 Business Year (2004/05: T€ 38). This figure does not include the cost of internal training, which represents the major part of these activities because of the characteristics of business operations. Training programs for the reporting year focused on leadership and project management skills as well as foreign languages. During the past year numerous employees took part in professional qualification courses and the number of training positions for apprentices was doubled.

External training

	02/03	03/04	04/05	05/06
Training costs in T€	21	24	38	52
Seminar days	392	194	586	226

Compatibility of family and profession

A sustainable personnel policy also includes actions to improve the harmony between family and professional life. Modern information and communication technologies create a good basis for the development of innovative forms of work. In the spring of 2005 HIRSCH Servo started the "Workplace" pilot project that is designed to lead to greater flexibility, above all for salaried employees. After the positive conclusion of the test phase during the third quarter of 2005, this project was expanded to cover the entire company. The HIRSCH Servo Group supports family-friendly personnel policies through appropriate initiatives in connection with its business operations.

Performance brings rewards

All employees of the HIRSCH Servo Group are paid above the minimum wage specified in collective bargaining agreements.

Regular information is provided to employees through e-mail and info-boards and in part through quarterly events.

The annual employee appraisal, which was introduced in the Machinery and Plant Engineering Division in 2004/05, provides employees and managers with an opportunity for regular and open communications. These discussions analyze the focal points of work, set goals for professional and personal development and also include an evaluation of the employee's performance by his/her supervisor.

Good relations with neighbors

The HIRSCH Servo Group opened its doors in Glanegg to the public in October 2005 and gave over 300 interested visitors a glimpse behind the scenes of business operations. We are one of the most important economic drivers for this region with roughly 100 employees from the district of Feldkirchen. In addition to our headquarters in Austria, we also work to achieve recognition as a reliable and attractive employer at all our other locations.

Customer satisfaction

The HIRSCH Servo Group is a strategic partner for international companies that focus on Central, Eastern and Southeastern Europe as well as a provider of solutions for more than 1,400 customers who are represented in regional markets and individual countries.

Our responsibility for quality has been certified according to ISO 9001:2000 at all plants in our EPS Processing Segment, where we conduct regular standardized audits.

In the Machinery and Plant Engineering Division, we commissioned the University of Klagenfurt to carry out a customer satisfaction analysis during the first half of the 2005/06 Business Year. The results were extremely favorable with a total satisfaction rating of over 90%.

ZERTIFIKAT

Hirsch Porozell GmbH
Glanegg
Österreich

ISO 9001: 2000

Produktion, Handel und Vertrieb von EPS-Formteilen, EPS-Dämmstoffen und Systemplatten für die Fußbodenheizung

ISO Certificate

Ecology

EPS as the focus of our activities has a variety of ecological advantages over other comparable materials. For many years we have directed our efforts to the further development of this material and the creation of new applications. In the Machinery and Plant Engineering Division the optimization of energy efficiency, protection of resources and a long life cycle for the equipment we produce are a focal point of our development work.

Raw materials from nature

EPS is a chemically neutral and non-water soluble, and does not give off any water-soluble materials that could lead to the contamination of ground water, soil or air. EPS products are free of harmful chlorofluorocarbons (FCKW) and plasticizers (phthalates). EPS does not rot, but in crushed form increases the aeration of the rotting process in landfills or composting.

Recycling

EPS can be recycled as a finished material or raw material, utilized in thermal processes or disposed with no problems. The recycling of used EPS packaging and production waste has been an integral part of operations at EPS processing plants for many years. Materials are returned to processors by traders or through collection points. In simple preparation processes these materials are either sent back into the production cycle or processed into new products. One successful example is the range of HIRSCH Thermozell lightweight concrete products, which are made of EPS recycling material and used in individual processing especially for the renovation of older buildings and the leveling of floors or subflooring. Ground EPS is also used as an additive to improve substrates and soil, as a component in composting, as a filter material for pipe drainage and a filler material in drainage application. A simple melting process transforms EPS products into Polystyrene, a compact material that can be used in the production of injection molded components (e. g. video cassettes).

EPS can be deposited in private and commercial landfills or incinerated in waste treatment plants without problems. At the standard temperature of approx. 1,000°C EPS products can be incinerated without residue into carbon dioxide and water. This is due to the high energy content of EPS, which acts as additional fuel source (1 kg EPS saves 1.2 – 1.4 l of heating oil). The incineration of EPS products releases minimal quantities of halogen compounds, but this does not have a measurable impact on the composition of flue gases. The resulting toxicity is lower than the incineration of other organic materials such as wood or paper.

Conclusion: The recycling or correct disposal of EPS products does not have any impact on the environment. In addition, the high energy content of these products can be commercially utilized in waste treatment plants.

International recycling agreement

Austria is a leader in the recycling of EPS packaging and an initiator of the International Recycling Agreement.

In 1992 EPS producers throughout the world approved the International Recycling Agreement, which was signed by Germany, Japan, Austria and the USA. Since that time the number of signatory countries has risen to 30. Kurt Hirsch played a key role in this process as a representative of the HIRSCH Servo Group and the Association of Austrian EPS Processors through his commitment to the recycling of EPS packaging long before the enactment of packaging regulations in Austria.

The International Recycling Agreement commits signatories to:

- Include EPS packaging from imported goods in national recycling programs
- Support and expand the recycling of used EPS packaging
- Develop an international information network for EPS recycling.

The results of this increased international cooperation are reflected in the highest rate in the world for the recycling of a packaging material – 45%.

"Austria has once again demonstrated that a small country can work together with the major nations of the world", commented Kurt Hirsch, member of the Managing Board of the HIRSCH Servo Group. "Based on national production, Austria is a leader in the international arena with a recycling rate of more than 80%. The international cooperation of the EPS packaging industry was underscored by the founding of the International EPS Alliance (www.inepsa.org) in 2000. This primary objective of this association is to support joint activities between the individual organizations in North America (AFPR, www.epsmolders.org), Asia (AMEPS, www.ameps.org) and Europe (EUMEPS, www.eumeps.org).

EPS Recycling Conference 1993 in London

International EPS Alliance
www.epsrecycling.org

Alliance of Foam Packaging Recyclers
www.epspackaging.org

European Manufacturers of Expanded Polystyrene
www.eumeps.org

Asian Manufacturers of Expanded Polystyrene
www.ameps.net

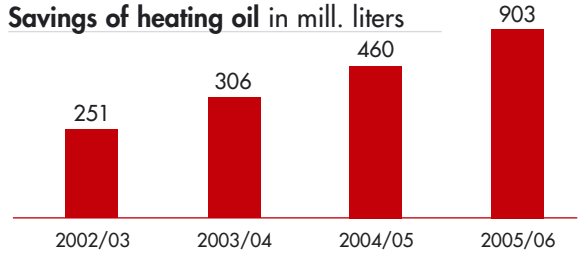
Use of Resources

In order to support the sustainable creation of value, we place great importance on the quality and careful utilization of raw materials in the production process.
Our EPS Processing Segment uses EPS raw materials to produce packaging and insulation.

Use of EPS raw materials

in mill. kg	02/03	03/04	04/05	05/06
Austria	3.8	3.7	4.3	5.0
Eastern Europe	1.9	3.6	4.6	8.1
Total	**5.7**	**7.3**	**8.9**	**13.1**

The raw materials used by HIRSCH to produce EPS insulation make an important contribution to the conservation of resources. The following graph shows the quantity of heating oil that is saved by the use of EPS. (Basis: insulated single family house, period: 50 years, souce: G.P.H. Polystyrene)



The EPS packaging made by HIRSCH protects all types of consumer goods with a total weight of roughly 84 million kilograms on their way to consumers. The value of the goods protected by EPS totaled approximately € 2.6 billion in the 2005/06 Business Year.

The most important materials used in the Machinery and Plant Engineering Division are steel, aluminum and specialty steel.

in tons	02/03	03/04	04/05	05/06
Steel	442	461	408	519
Aluminium	109	112	110	146
Specialty steel	36	39	27	37

Direct use of energy

	02/03	03/04	04/05	05/06
Electricity in GWh	8.3	10.0	11,0	13.7
Natural gas in GWh	38.5	38.4	48.8	55.2
Heating oil [1] in GWh	0.0	10.7	0.0	0.0
Long-distance heating in GWh	0.0	0.0	0.7	3.9

[1] The plant in Wroclaw generated steam with heating oil at the time of acquisition; in 2004/05 this process was also converted to natural gas.

Steam is required for the processing of EPS. It is generated in special equipment from water and natural gas or long-distance heating.

A comparison of the use of primary energy in relation to the volume of raw materials processed shows a significant reduction in use per kg of EPS.

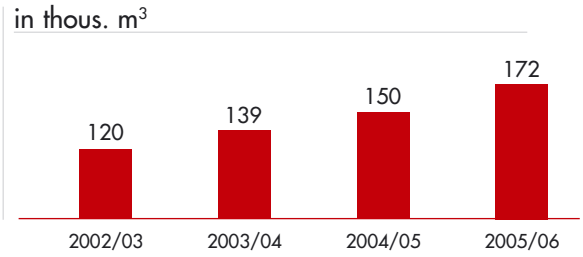
	02/03	03/04	04/05	05/06
kW/h electricity per kg EPS	1.47	1.37	1.23	1.04
kW/h energy for steam generation per kg EPS	6.78	6.74	5.55	4.50

Use of water

	02/03	03/04	04/05	05/06
in thous. m^3	137	154	167	184
Liters of water/kg EPS	24.0	21.1	18.7	13.8

The total amount of water used includes quantities requires for production (steam) as well as drinking water.

Total quantity of water used



The major part of the exhaust steam that results from EPS processing is returned to the heating process as energy through heat exchangers. This covers nearly the entire heating requirements for both production and office facilities. Only the steam that results from the cooling cycle is released.

Comparison of pentane emissions

Pentane, the fuel gas used in EPS production, is a pure hydrocarbon, which is classified as a so-called volatile organic material and results in the creation of ground-level ozone under special weather conditions.
However, the "EU-Risk Assessment of n-Pentane"[1] indicates that pentane has no direct toxic impact on the environment.

[1] Issued by SCTEE (Scientific Committee on Toxicity, Ecotoxicity and the Environment) in December 2002

The following summary demonstrates that EPS processing in Europe is responsible for 0.2% of the total emissions of volatile organic materials. It also shows that the fueling of automobiles releases twice the amount of pentane as is emitted by the European EPS processing industry.

EU-25 emission of volatile organic materials, total[2]: .... 10,700,000 t/year

EU-25 pentane emissions from fueling (auto):..... 80,000 t/year

EU-25 pentane from EPS[3]:..... 27,000 t/year

Pentane from processing HIRSCH Servo Group 2004/05: .....390 t/Jahr

[2] Source: CAFE Working Group IIASA, Laxenburg, 10. Nov. 2004
[3] Source: SCTEE R043_0210_env_hh, Norway, Draft Oct. 2002

Recyclable materials

in tons	02/03	03/04	04/05	05/06
Pallets	119	153	187	275
Cartons	87	111	136	200
Foils	16	24	31	51
Aluminum scrap	5	6	6	8

All EPS waste is recycled. The resulting granulate is either returned to the production process or used as an additive in our Thermozell® products.

Transportation

	02/03	03/04	04/05	05/06
Trucks in mill. km	1.3	1.5	1.5	2.0
Rail in mill. km	0.06	0.04	0.03	0.03
Sea cargo in tons	433	414	367	461
Air cargo in tons	44	32	48	54

In contrast to the standard industry presentations, the above table also shows the kilometers recorded by trucks for the transportation of building materials.

EPS products are comprised of 98% air. The relationship of volume to transportation costs is so unfavorable that EPS cannot be economically transported beyond a radius of 300 km. For this reason, local production facilities are becoming more important. There is a growing trend toward the production of EPS packaging close to customer locations.

The information on air and sea cargo relates only to the Machinery and Plant Engineering Division.

Group Management Report

Risk Report

In the previous business year HIRSCH Servo began to systematically develop risk management activities in the Group. The goal is to identify potential risks that may arise during the conduct of business activities at an early point in time, analyze these risks, and recommend and implement suitable preventive and protective measures. From the current point of view, there are no risks that could endanger the continued existence of the Group. The overall responsibility for the monitoring of risk management is carried by the Managing Board, which appointed a risk manager for the HIRSCH Servo Group during the past year. Operating risks are monitored by the management of the individual companies, and selected individual risks are handled by staff departments at the Group level.

Market risks

The Group's core business, EPS processing, is subject to seasonal fluctuations and earnings are in part dependent on the weather. The sale of insulating materials is influenced by construction activity which, in turn, varies with weather conditions. Packaging for refrigerators, for example, is sold primarily during the spring and summer. In order to avoid earnings fluctuations to the greatest degree possible, we pursue a strategy of product diversification. Specific market situations can also have a negative impact on price levels, which require the regular monitoring of price strategies.

Procurement risk

The HIRSCH Servo Group purchases significant quantities of raw materials to produce EPS components, and the supplies and prices of these raw materials are determined by international markets. In order to minimize risk, the Group monitors procurements markets continuously, compiles reserves for certain items and includes price adjustment clauses in customer contracts wherever possible.

Financial risk

Liability risks, above all in the machinery and plant construction area, are offset as far as possible by the careful design of contracts and exact performance of services in accordance with legal norms and standards.

Credit risk

Credit risk, or the risk of delayed payment by the contract partner, is considered to be low because of the Group's customer structure as well as policies to cover risk. Where applicable, the Group obtains government export guarantees or bank guarantees to reduce the risk of uncollectible payments. The credit risk connected with investments of cash, cash equivalents and securities is limited by the fact that the Group only deals with financial partners who can demonstrate a good credit standing. The amounts shown for primary financial instruments on the balance sheet represent the maximum credit and collection risk. Valuation adjustments were recorded to reflect all existing risks, and management believes that no other credit risks will occur.

Interest rate risk

Management estimates the financial impact of interest rate fluctuations on Group financial assets and liabilities to be minimal.

Foreign exchange risk

Foreign exchange risks are carried primarily by the customer. Foreign exchange risks in foreign

subsidiaries will be reduced almost completely over the coming business years through the conversion to euro financing. The conversion of HIRSCH Porozell Kft., which maintains its accounting records in Hungarian forint and recorded a loss of € 0.6 million in 2005/06, is scheduled for December 2006. In specific cases, forward exchange contracts are concluded to hedge the risk associated with receivables denominated in foreign currencies (primarily USD). There were no outstanding foreign exchange contracts as of the balance sheet date.

Liquidity risk
Liquidity risk represents the risk of being able to raise the necessary funds to meet obligations at any time. The Group's financing policy is based on long-term planning, and is centrally managed and monitored. The Group ensures that sufficient liquid funds are available and that necessary financing through lines of credit is guaranteed.

Disclaimer: forward-looking statements
This annual report contains statements and forecasts that are related to the future development of the HIRSCH Servo Group. If the assumptions on which these forecasts are based do not occur, actual results may differ from the results expected at this time. This annual report does not represent a recommendation to buy or sell shares in HIRSCH Servo AG.

Outlook on 2006/07

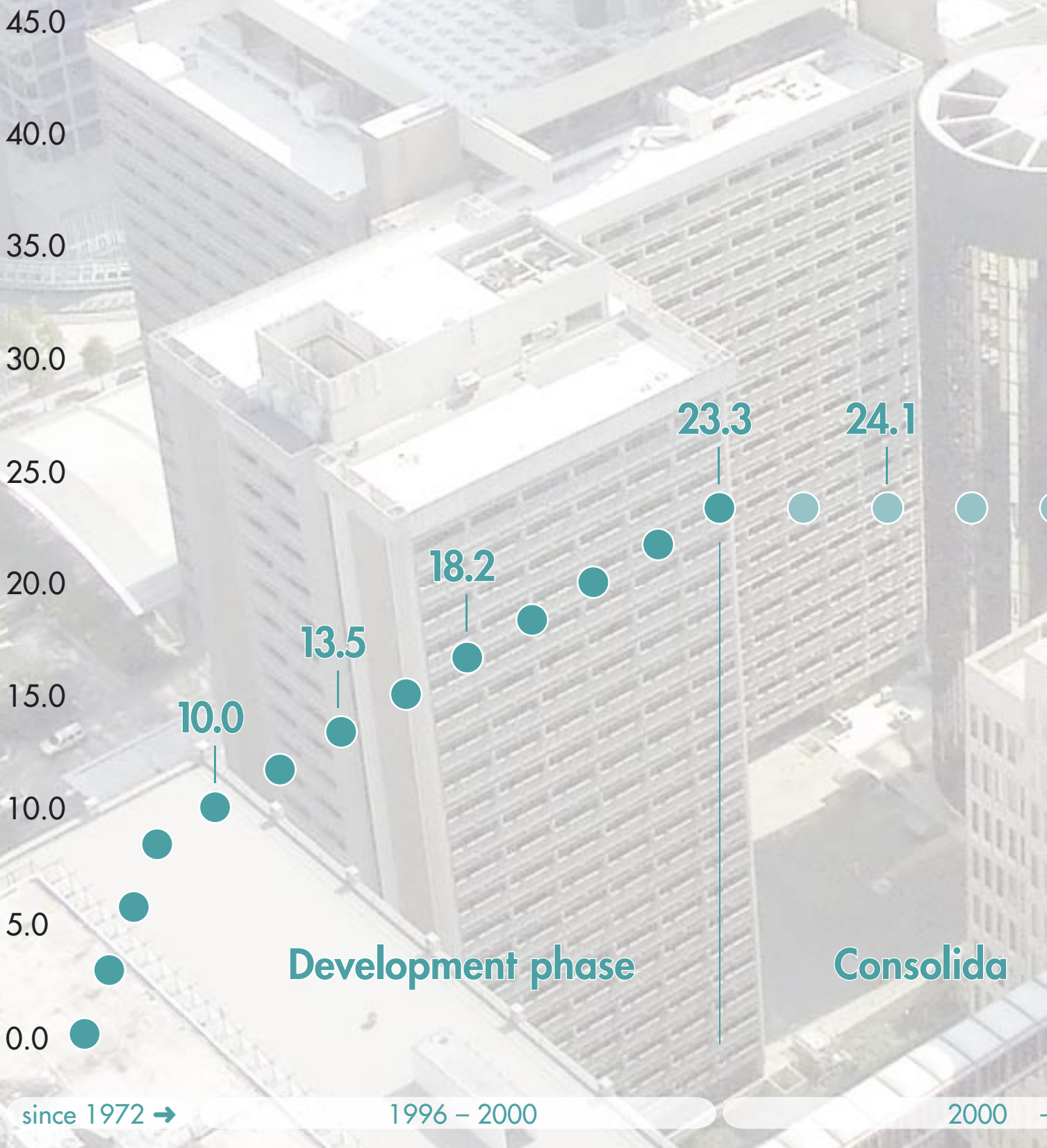
In the last annual report, forecasts for the 2005/06 Business Year called for an increase in profit on ordinary activities to € 3.3 million and an improvement in earnings per share to € 4.60. The estimates and projections announced during the course of the year were met in full.

For 2006/07 management expects an increase of 15% in net income, earnings per share and profit on ordinary activities over the 2005/06 levels, in other words earnings per share are projected to reach € 8.60 and profit on ordinary activities € 5.3 million. Plans to improve profit on ordinary activities are based on revenue growth in the EPS Processing Segment following recent acquisitions and investments in expansion as well as the avoidance of further foreign currency losses in Hungary and measures to optimize internal processes in both areas of business. No major changes are expected in the economic environment, and the record high level of orders in the Machinery and Plant Engineering Division as of August 2006 indicate that earnings should at least reach the prior year level.

HIRSCH Servo also expects to increase revenues in the EPS Processing Segment by at least 15%. This volume of business is largely secured, above all through long-term contracts in Poland.

HIRSCH Servo AG plans to re-enter the Prime Market Segment of the Vienna Stock Exchange at the end of 2006 if market conditions remain favorable. The improvement in basic indicators, attractive dividend policy and inclusion in the Prime Market should have a positive impact on stock exchange turnover.

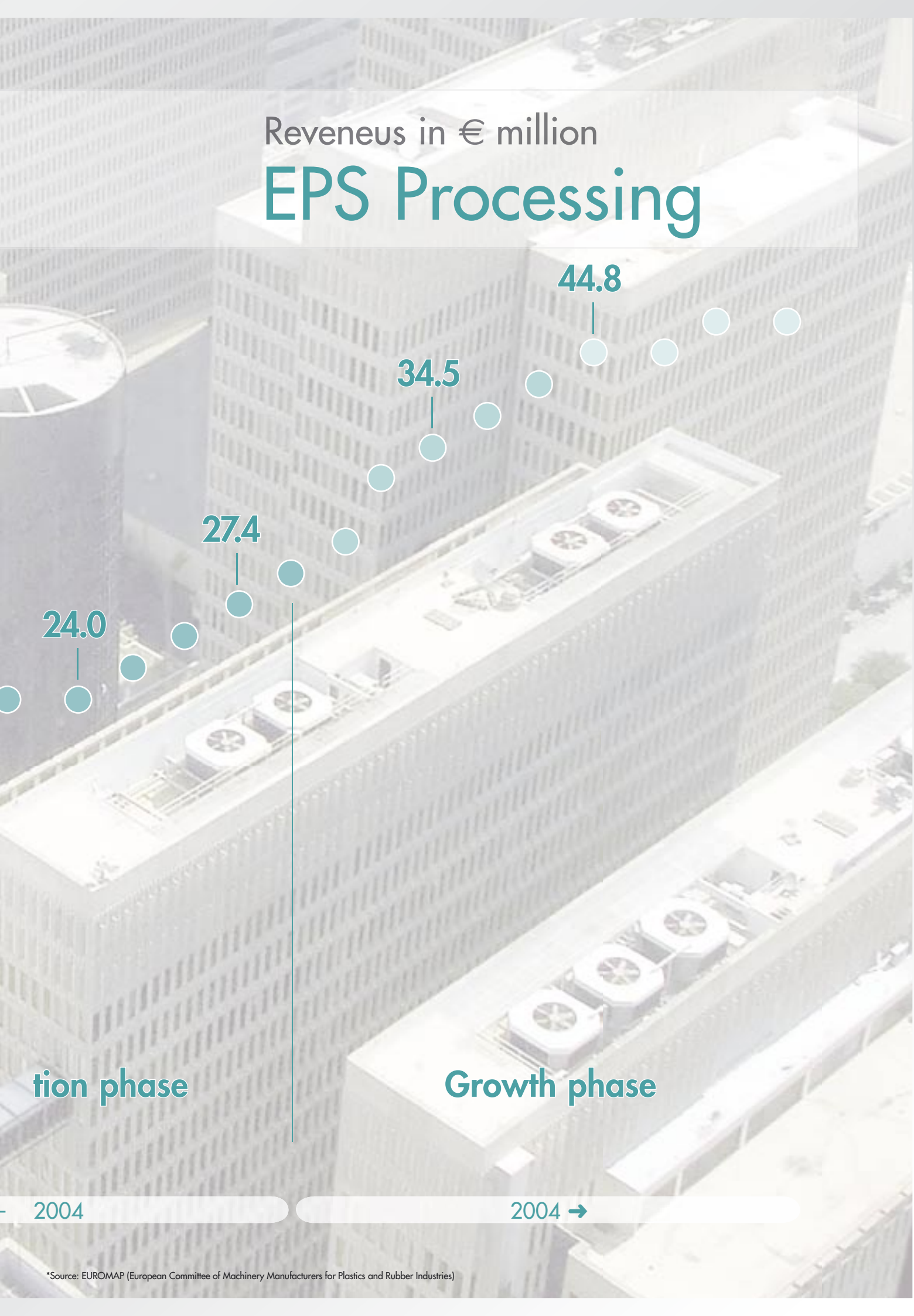
HIRSCH is growing faster than the market in Europe[1]!



[1]) EPS processing has increased by at least 10% per year in recent years and will continue to match this dynamic pace of growth in the future. EUROMAP* estimates for the European market call for a plus of roughly 4%.

Reveneus in € million

EPS Processing



*Source: EUROMAP (European Committee of Machinery Manufacturers for Plastics and Rubber Industries)

EPS Processing

EPS Processing	2002/03 in € mill.	2003/04 in € mill.	2004/05 in € mill.	2005/06 in € mill.
Revenues	24.0	27.4	34.5	44.8
Operating profit (EBIT)	1.9	2.5	3.4	4.6
Profit on ordinary activities	1.2	2.0	2.9	2.9
Net income	0.9	0.6	3.5	2.4
Balance sheet total	23.6	29.6	38.7	51.9
Net debt	4.9	7.9	15.7	24.4
Cash flow from operating activities		2.1	2.0	2.2
ROCE		6.9%	11.5%	9.4%
ROS	4.6%	7.3%	8.4%	6.5%
Investments	2.6	4.5	9.1	11.3
Amortization and depreciation (excl. goodwill)	2.0	2.2	2.0	2.8
Research and development expenses	0.5	0.3	0.5	0.2
Employees (average for the year)	181	220	239	356

The production of EPS packaging and insulating materials

1 Raw materials

EPS or expandable polystyrene, which is better known under the brand name Porozell®, is a plastic product that results from the processing of crude oil. It is produced by chemical companies and delivered to EPS processors. EPS has the consistency and appearance of sugar, and is made up of approx. 94% of the elements carbon and water and 4 to 6% of pentane as a foaming agent. Pentane is a hydrocarbon that is found in nature and has no harmful effects on the environment. EPS is chemically neutral and non-water soluble, and does not give off any water-soluble materials that could lead to the contamination of ground water, soil or air. EPS products are free of harmful chlorofluorocarbons (FCKW) and plasticizers (phthalates).

2 Pre-expansion process

The EPS raw material is warmed with steam in a pre-expander at a temperature of approx. 100° C until the beads reach the desired density. During this process each individual bead expands to roughly fifty-times its original volume.

1 kg EPS raw material makes 50 l of pre-expanded material

3 Storage

The pre-expanded EPS beads are stored in ventilated fabric silos. When the pre-expanded material – which is still comprised of loose beads – cools, it gains the required mechanical stability through the absorption of air.

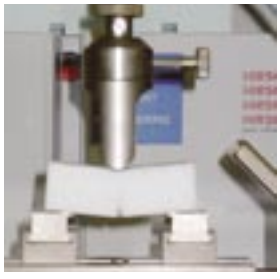
4 Fitting of the mold on the shape molding machine

Special aluminum forms are required to make the desired end product from the pre-expanded material. These molds are mounted on the shape molding machines.

5 Production of parts

The pre-expanded stored beads are suctioned into the aluminum molds, expanded with steam for a second time, fused into their final shape and then cooled. The finished EPS parts are comprised of up to 98% air and are therefore very light, so the machine operator can stack them easily.

6 Quality Assurance



In order to guarantee the recognized HIRSCH quality, the finished products are regularly tested according to quality control criteria (incl. breakage tests).

7 Outgoing warehouse

The finished parts are stored in the warehouse for "just-in-time" delivery.

8 Shipment of finished products

The ratio of volume-value to transportation costs is so unfavorable that EPS cannot be economically shipped over a radius of more than 300 km. All HIRSCH production facilities are therefore located in close proximity to customers and, in some cases, deliveries are made directly across the street.

9 Recycling

The recycling of used EPS packaging and production waste has been an integral part of operations at EPS processing plants for many years. Materials are returned to processors by traders or through collection points. In preparation processes these materials are either put back into the production cycle or processed into new products. One successful example is the range of HIRSCH Thermozell lightweight concrete products, which are made of EPS recycling material and used in individual processing – especially to level floors in the renovation of older buildings or as insulating non-flammable sub-flooring.

EPS Processing

Insulating Products

1 HIRSCH Porozell **Perimeter insulating boards** are used to protect walls and floors in rooms that are located directly on the ground. These boards are produced with EPS shape molding machine. The surface of these products features drainage grooves in a diamond pattern on one side. The ship-lap guarantees thermal insulation with no heat bridge – with convincing benefits:

– Extremely low water absorption through perfect fusion of the particle foam (EPS)
– High compression strengths through high density
– 10% better thermal insulation than ordinary EPS foam sheets

2 Thermozell **Lightweight concrete** is a pre-mixed cement-bonded material that contains EPS granulate. When mixed with water, the result is a load-bearing lightweight concrete with excellent thermal insulating properties. Thermozell lightweight concrete meets construction regulations, and plays an important role in improving the energy balance of buildings with its proven insulating properties. Thermozell lightweight concrete is non-flammable, light, frost-resistant, water-resistant and load-bearing.

At an air temperature of 20° C and 65% relative humidity, Thermozell lightweight concrete can be walked on within four hours and reaches its moisture balance after 48 hours, depending on the exact mixture used. The wide variety of applications ranges from the leveling of height differences, pipelines and sanitary lines as well as foundations for dry flooring, bathtub and shower bases up to insulation for swimming pools, winter gardens, patios and balconies.

3 POLYFORM HIRSCH Porozell **EPS block products** made of expanded Polystyrene are well suited for the insulation of interior and exterior walls, roofs, ceilings and floors as protection against heat and cold as well as impact sound. The cost-benefit ratio of HIRSCH block products illustrates one of the most cost-efficient ways of minimizing heating and energy costs. In order to meet the different requirements of various building components, HIRSCH block products can be produced with different properties (heat conductivity, compression strength, water vapor diffusion rate, thickness).

4 HIRSCH Porozell **Blades for swimming pools** made of expanded Polystyrene are also used in the modular construction of swimming pools according to the "Lego method". Under this method the blocks are simply interlocked and the voids between the insulating panels are filled with concrete.

5 HIRSCH Porozell **ICFs** stands for Insulating Concrete Forms and is an innovative construction system that involves the delivery of expanded Polystyrene building blocks with metal or plastic reinforcements to the construction site where they are filled with concrete. This construction system has been highly successful in North America and Canada – in 2004 60,000 ICF single family houses were built with ICFs and the growth rate has reached 25% per year – where by the advantages lie in low energy requirements through integrated insulation (EPS), protection and resistance against natural disasters (tornados, floods etc.) and cost savings during construction through fast assembly. HIRSCH Servo also expects growing interest in this attractive market segment in Europe over the coming

years because of the steady rise in energy costs and related programs to improve energy efficiency.

6 HIRSCH Porozell **System boards for underfloor heating** represent the ideal insulation for every type of flooring – for intermediate storey ceilings with impact sound protection as well as cellar ceilings and ceilings adjoining unheated rooms, the ground or outside air. Twenty years of experience and over 20 million m^2 of flooring underscore the benefits: reduced floor height, exact holding of heating pipes, lower screed requirements, fast assembly and better regulation.

EPS Processing

Packaging Products

EPS benefits, EPS protection

More and more fragile goods are transported over longer and longer distances, then reloaded and placed in temporary storage. For this reason, packaging has not only become an integral part of marketing strategies but, especially transport packaging, is now an absolute necessity. The economic and ecological loss from transportation damage is enormous. Roughly 70% of this damage could be prevented through improved, specially designed transport and sales packaging. The benefits of EPS for producers, retailers and consumers are contrasted with comparatively low use of raw materials and energy. In summary, packaging made of EPS is not only economical, but also environmentally compatible.

Protection for products

Why use EPS for packaging?

The basic concept behind every good packaging is the greatest possible protection of products during transport and storage, including protection against mechanical stress, temperature fluctuations, humidity and other external factors. Of course, the cost of the packaging itself and its transportation as well as the disposal of the packaging after delivery or purchase by the final consumer also play a role. Since packaging made of EPS is comprised of 98% air, it is one of the lightest packaging materials with densities of 20 kg/m³. Special logistics systems have been developed for the return and recycling of used EPS packaging – and thereby complete the life cycle of this product.

Trend to high creativity and colors

Special design requirements are no problem for EPS. For example, plug-in, rotating or tongue and groove connections are easy to produce.

EPS packaging can be manufactured in a wide range of colors. Antistatic additives and individual lacquers for high conductivity can be used to create products for the transportation of special goods.

Packaging that knows no limits

The broad range of product characteristics and individual adaptability of EPS make it possible to develop economic solutions for demanding packaging applications. These solutions vary widely by product and branch, depending on the desired protective function.

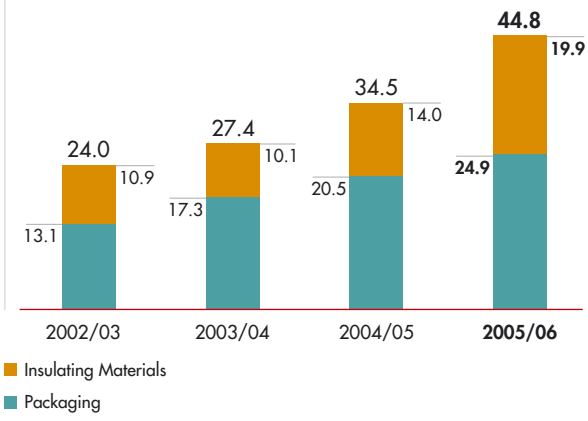
- **Packaging for foodstuffs** such as fish, fruit, vegetables, seafood, cheese, meat etc.
- **Protective and transport packaging** for glass, appliances (computers, televisions, kitchen appliances), medicines, beverages, precision devices, electronic components, furniture, etc.
- **Additional EPS applications** in the manufacture of crash helmets, children's car seats, life preservers and surf boards as well as packaging for advertising, thermal insulating boards, system components, artwork, hobby utensils etc.

Protection for man

Revenues and Earnings

The EPS Processing Segment reported an increase of 30% in revenues to € 44.8 million for the reporting year (2004/05: € 34.5 mill.). The growth in revenues over the past three years totaled 87%.
Revenues in the Packaging Division rose by 21% to € 24.9 million (2004/05: € 20.5 mill.). The good utilization of capacity in Poland is guaranteed by the conclusion of several long-term agreements with strategic partners.
The Insulating Division reported an increase of 42% in revenues to € 19.9 million (2004/05: € 14.0 mill.), whereby roughly 50% of this growth resulted from the acquisition of Polyform s.r.o.

Revenues – EPS Processing in € mill.

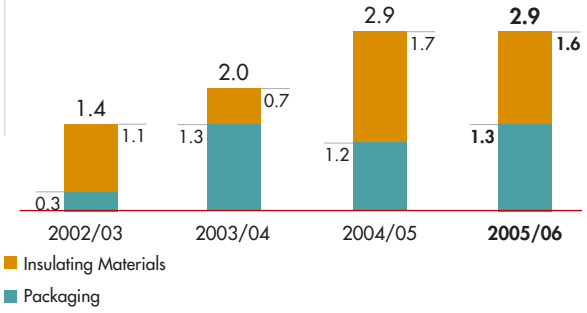


The EPS Processing Segment closed the year with profit on ordinary activities of € 2.9 million, which reflects the 2004/05 level. Operating profit for the segment (EBIT) reached a new high of € 4.6 million and topped the previous record of € 4.0 million from 2001/02 by a clear margin. This development represents an impressive improvement in operating performance.

The Packaging Division increased profit on ordinary activities almost parallel to the growth in revenues, or by 8% to € 1.3 million (2004/05: € 1.2 mill.) in spite of a currency translation loss of € 0.6 million. The Insulating Materials Division recorded a slight decline in profit on ordinary activities to € 1.6 million (2005/06: € 1.7 mill.).

Negative factors such as rising raw material prices, start-up costs for block production in Romania and an unfavorable product-revenue structure were offset by higher revenues and the share of earnings from the newly acquired Polyform s.r.o.

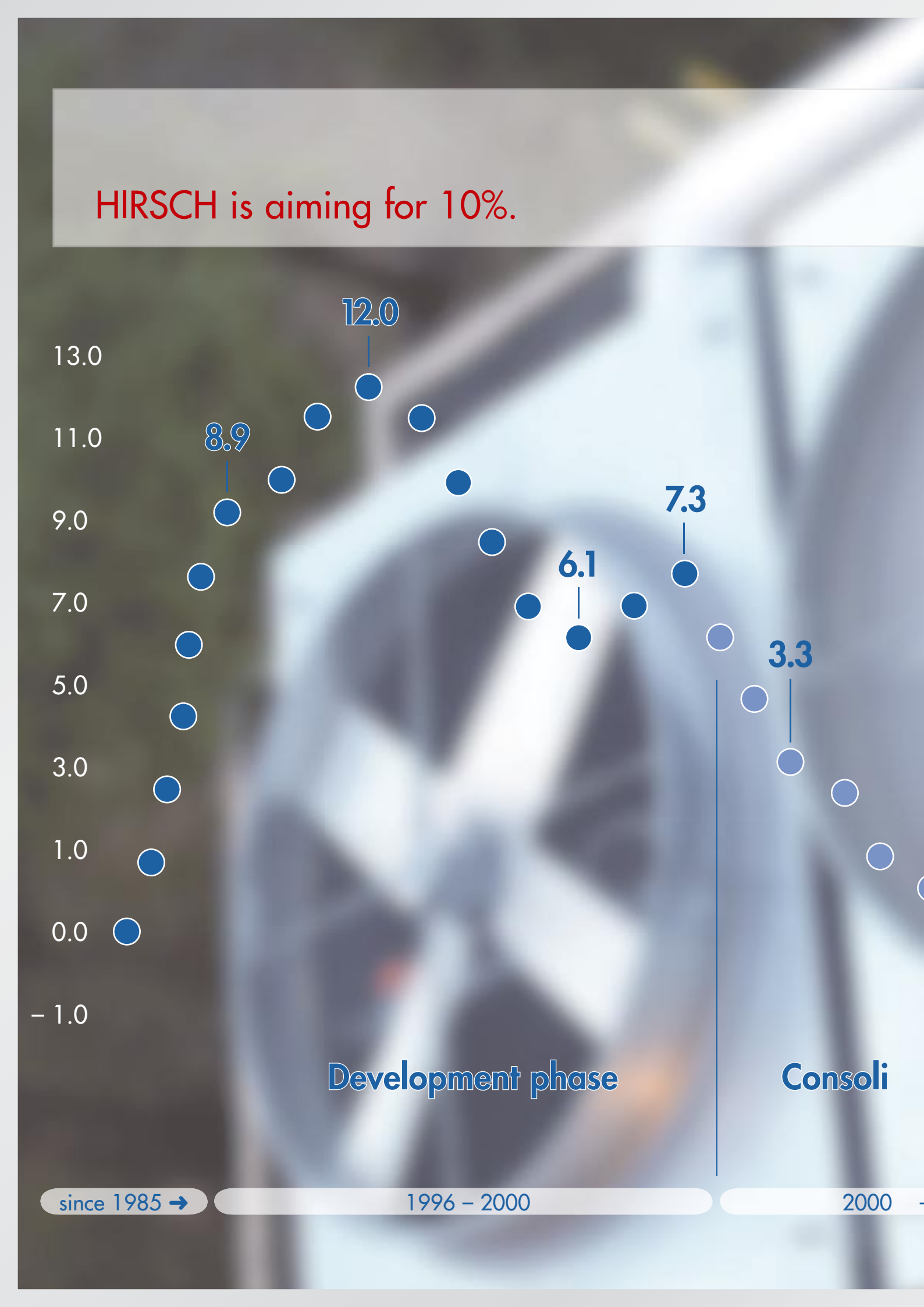
Profit on ordinary activities –
EPS Processing in € mill.



Outlook

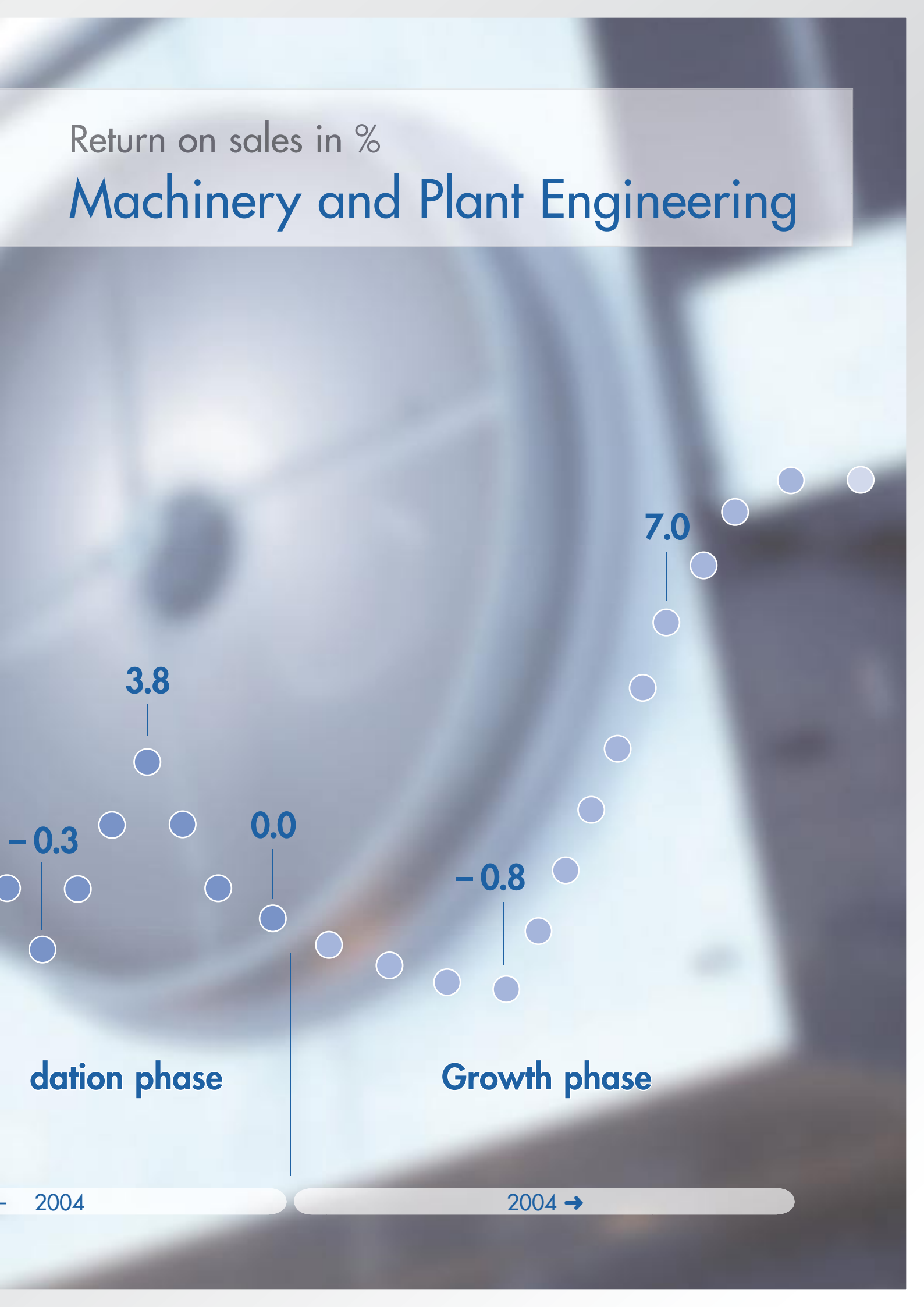
The EPS Processing Segment exceeded the outlook presented in the last annual report, which called for an increase of 10% in revenues and moderate improvement in earnings. The forecasted improvement in earnings was also realized with an increase of 37 % in segment EBIT.
Based on existing contracts and long-standing relationships with our customers as well as the rising demand for insulating materials and investments completed in previous periods, we expect to record a 15% increase in revenues and earnings during the 2006/07 Business Year.
The HIRSCH Servo Group is also pursuing a number of projects, above all in Eastern Europe, which could lead to further improvement in earnings.

HIRSCH is aiming for 10%.



Return on sales in %

Machinery and Plant Engineering



Machinery and Plant Engineering

Machinery and Plant Engineering	2002/03 in € mill.	2003/04 in € mill.	2004/05 in € mill.	**2005/06 in € mill.**
Revenues	26.4	24.2	19.5	23.8
Operating profit (EBIT)	1.1	0.2	0.1	1.9
Profit on ordinary activities	0.9	0.0	– 0.2	1.7
Net income	0.5	– 0.1	– 0.2	1.2
Balance sheet total	18.4	20.3	15.9	19.6
Net debt	5.2	6.4	4.3	4.3
Cash flow from operating activities		– 0.6	2.7	3.0
ROCE		0.4%	0.3%	12.6%
ROS	3.8%	0.0%	– 0.8%	7.0%
Investments	0.5	0.6	0.5	1.1
Amortization and depreciation (excl. goodwill)	0.9	0.7	0.7	0.7
Research and development expenses	1.1	1.1	1.0	0.8
Employees (average for the year)	140	133	129	122

Energy efficiency of HIRSCH machines creates a key competitive advantage

HIRSCH Machinery and Plant Engineering in Austria is one of roughly 30 suppliers of automatic shape molding equipment, molding tools and pre-expanders in the world, and ranks in the middle of this listing based on the number of machines produced. HIRSCH Machinery and Plant Engineering in Italy is one of 20 international producers of block molds and insulating material presses as well as cutting, packaging and recycling equipment, and ranks fifth according to deliveries. Both companies have established a reputation for high quality products and have held a leading position in the premium EPS machinery segment for many years. This standing underscores the reliability and long service life of HIRSCH machines as well as the comprehensive range of services, high standard of innovation and substantial problem-solving expertise. Following a change in the division's strategy during the 2004/05 Business Year, work is now concentrating on a niche policy that is directed to technically innovative and demanding areas, instead of standard products whose prices cannot complete with suppliers from the Far East.

In order to further expand its international technology leadership and combine the research and development activities of the EPS Processing Segment and the Machinery and Plant Engineering Division, HIRSCH Servo opened a new € 1 million innovation center at Glanegg in September 2005. Research projects will focus on the development of new energy-saving and ecologically promising technologies and machinery, which are increasing in importance due to the steadily rising cost of energy.

Products and new developments in shape molding equipment

The first new development from the innovation center – the PREEX 6000 XXL pre-expander – was introduced in December 2005 and has already been sold six times. In June 2006 the second new development – the energy-efficient HSW shape molding machine generation – was presented to the public.

PREEX 6000 XXL pre-expander

HSW 2000 shape molding machine

1,000th machine delivered

HIRSCH Maschinenbau GmbH, which is headquartered in Glanegg, has positioned itself on the international market over the past 20 years as a know-how leader with revolutionary innovations for the EPS processing industry.

Milestones set by the division include the development of the vacutrans® vacuum pre-expander in 1987, the improvement of transfer technology in 1988, the introduction of shuttle technology with integrated stacking and automatic insert systems in 1994, the first equipping of a batch block pre-expander with patented multi-pass unit in 2001, the development of HIRSCH skin molding technology for the foil laminating of EPS products in 2003, the introduction of the new PREEX 6000 XXL pre-expander in 2005 and the new energy-efficient HSW shape molding machine generation in 2006. In March of this year the efforts of the 90-member team in Glanegg were crowned with the delivery of the 1,000th machine (a HS 1400 shape molding machine) to a long-standing customer in Massachusetts/USA.

Molds in record time

In order to meet customer demands, HIRSCH Maschinenbau has cut the delivery time for selected molds to only eight days – an absolute record. This reduction from the standard industry schedule of four weeks was made possible by the Group's innovative production and organization processes as well as the many years of experience of HIRSCH Maschinenbau experts.

HIRSCH Maschinenbau GmbH is the only supplier of innovative machinery and mold construction technology for the processing of EPS into shape molded parts and insulating materials that has also gained substantial know-how through its own EPS processing activities. This experience

Machinery and Plant Engineering

and competence guarantees that shape molding equipment and molds are coordinated to work together in production processes. Molds play an important role in ensuring product quality and have a major influence on product costs.

High-speed processing center for molds

Focus on customers

During the first half of the reporting year, a professional customer satisfaction analysis was carried out in Europe, the USA and Canada together with the University of Klagenfurt. The results were extremely favorable with a total satisfaction rating of over 90%, which confirms the leading market role of HIRSCH Maschinenbau according to nearly all defined criteria. This survey also identified opportunities for improvement in various areas (e. g. foreign language capabilities, access in spite of different time zones). They have been followed up in project groups.

Products in the Block Molding Equipment Business Unit

During the past year this business unit demonstrated the preference of both traditional and new markets for a single source supplier, e.g. the planning and delivery of a complete plant by the same company.

Above all in the area of construction products (production of EPS insulating boards), the objective is to produce large volumes in a minimum of space. For this reason, high degree of automation is also required in low-wage countries – to guarantee quality and throughput performance.

The HIRSCH Italia Monolith and Oyster block molding machines can produce up to 20 blocks per hour in outstanding quality. HIRSCH Italia also holds the record for the largest block form ever produced: a block from this form has a volume of nearly 20m^3!

Together with its partner companies, HIRSCH Italia offers a complete product line: blockmolds, silos, automatic block storage, cutting equipment with automatic stacking, packaging and loading onto pallets.

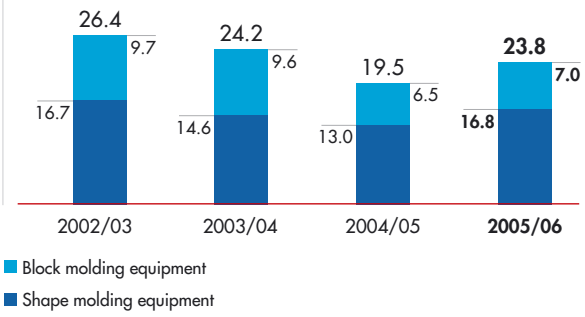
Installation of a blockmold with silo

Revenues and Earnings

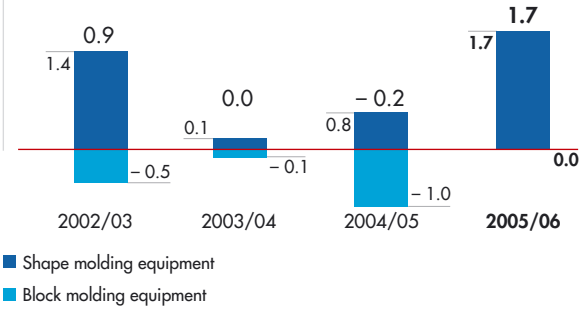
Revenues in the Machinery and Plant Engineering Division rose by 22% to € 23.8 million for the 2005/06 Business Year (2004/05: € 19.5 mill.). The inclusion of machinery deliveries to the HIRSCH Servo Group (total of intercompany and external sales) would raise this figure to a record level of € 27.4 million. This performance was supported by strong growth in revenues recorded by the Shape Molding Equipment Business Unit, which closed the best year in its history with roughly 100 machines sold (including intercompany sales). The reserved investment behavior that was noted among customers for the Block Molding Equipment Business Unit in 2004/05 continued through December 2005 and then turned clearly positive at the start of 2006, resulting in an increase of 14% in revenues for the reporting year.

Profit on ordinary activities recorded by the Machinery and Plant Engineering Division rose by more than € 1.8 million to € 1.7 million (2004/05: € – 0.2 mill.), whereby the most significant improvement in earnings was realized by the Block Molding Equipment Business Unit as the result of an extensive cost savings program.

Revenues – Machinery and Plant Engineering in € mill.



Profit on ordinary activities – Machinery and Plant Engineering in € mill.



Outlook

The turnaround announced in the 2004/05 Annual Report was successfully completed during the reporting year. The Block Molding Equipment Business Unit met its goal to break even, while the Shape Molding Equipment Business Unit generated ROS of 10% and clearly exceeded its target of 8%. For 2006/07 management does not expect an increase in revenues above the record prior year level for the Shape Molding Equipment Business Unit, but an improvement in the return on sales should allow profit on ordinary activities to match the prior year figure. The forecast for profit on ordinary activities in the Block Molding Equipment Business Unit is positive because of the current record order backlog.

... Glanegg. This packaging specialist has just landed a prestigious contract. Sanyo has chosen Hirsch as its Styrofoam supplier for the upcoming production of air conditioners in Hungary. ...

... Greater transparency. Hirsch has apparently shifted its focus to more directness. ... We kept our distance when it became increasingly apparent that the company was trying to hide the problems with its machinery construction division. ... The presentation of annual results this week gave us an opportunity to revise this opinion. ...

The innovation center opened by Hirsch Servo AG at Glanegg in mid-October has brought first results: under the motto "Expanding with ideas" a new worldwide innovation in pre-expanders was presented. The Preex 6000 XXL represents an addition to the successful Preex 3000 and Preex 6000 series, which have been sold more than 100-times throughout the world and form the benchmark for the branch..

Glanegg. The Hirsch Servo Group, which is located in Glanegg, sees the year as a "successful turnaround". Profit on ordinary activities increased more than tenfold from € 0.2 million to € 2.3 million for the first half of 2005/06 and total revenues rose by 22% to € 31.8 million.

Hirsch fischt Sanyo

Kleine Zeitung, 30. 07. 2005

Hirsch Servo ist wieder eine Überlegung wert

Wirtschaftsblatt, 08. 10. 2005

Expandiert erfolgreich mit Ideen: Hirsch Servo

Kronen Zeitung, 09. 12. 2005

Hirsch lässt Rumänien nicht kalt

Kleine Zeitung, 30. 07. 2005

Hirsch profita

Wirtschaftsblatt, 2

Halbjahresbilanz

Hirsch S mit Posi

Neue Kärntner Tagesze

Hinter den Kulissen der Hirsch Servo...

Neue Kärntner Tageszeitung, 15. 10. 2005

Eine Million für Kügelchen

Neue Kärntner Tageszeitung, 09. 09. 2005

Hirsch Servo hebt Prognosen an

Börse Express, 31. 1. 2006

Hirsch Servo profitierte vo Energiepreise

Wirtschaftsblatt, 1. 2. 2006

... Glanegg. Little air-filled plastic beads are worth an investment of one million euros to the Hirsch-Servo Group. ...

... Glanegg, Cluj. Romania, a country with a population of 23 million, is expected to join the EU in the coming years. And the construction branch needs insulating materials since the high cost of energy is leading Romanians to better insulate their houses. ... Hirsch is investing three million euros to construct a plant for the production of insulating materials in the city of Cluj (pronounced: "Klooch"), Transylvania, and is thereby entering a new market ...

... Glanegg. Yesterday over 300 interested visitors took advantage of an opportunity to look behind the scenes of the Hirsch Servo Group in Glanegg at an open house. The one million euro innovation center was also inaugurated, and will concentrate research activities in Glanegg. ...

Glanegg. HIRSCH Servo AG recorded an increase in profit on ordinary activities from EUR 0.2 million to EUR 2.3 million for the first half of 2005/06 and a plus of 22% in revenues from EUR 26.0 million to EUR 31.8 million. Developments during the first six months have led the company to raise its forecasts for the full year. ...

Glanegg. High energy prices and a cold wave – events couldn't have been better for Hirsch Servo. The Group's main segment of business, EPS (expandable Polystyrene) processing, recorded high demand for insulating materials during the first half of 2005/06. The utilization of capacity at the packaging plant in Poland was also high. This led to an increase of 62 percent in profit on ordinary activities for this segment to EUR 2.1 million. ...

Financial Statements for 2005/06 HIRSCH Servo Group

The Hirsch Servo Group announces the acquisition of the Slovakian Polyform, a producer of EPS insulating materials. "High energy prices are leading to stronger demand for insulating materials, and Polyform represents an important addition to our production network for EPS processing in Central, Eastern and Southeastern Europe." ...

Hirsch Servo AG presents audited results.

Glanegg. A premiere in the Carinthian corporate landscape: Hirsch Servo AG, the packaging producer from Glanegg, has become the first company in Carinthia to present an audited sustainability report, which was evaluated and approved by the Austrian Institute for Sustainable Development. ...

Klagenfurt. Hirsch Servo, the publicly traded Carinthian packaging producer, has received another major contract as a result of its eastern expansion. The Polish subsidiary Hirsch Porozell was selected by Electrolux, the Swedish manufacturer of household appliances, to provide EPS packaging for kitchen ranges...

Glanegg. The share of this Carinthian EPS processor and machinery constructer Hirsch Servo hit a new all-time high of € 85 yesterday. With a gain of 78.5 percent since the start of the year, this security is currently one of the top performers on the Vienna Stock Exchange. ...

n kauft
able Polyform
4. 1. 2006

Großauftrag für Hirsch in Polen
Neue Kärntner Tageszeitung, 11. 3. 2006

Hirsch Servo hebt Gewinnziel an
Wirtschaftsblatt, 3. 5. 2006

Servo
itivtrend
itung, 11. 1. 2006

Hirsch Servo sollte uns noch einige Freude machen
Wirtschaftsblatt, 2. 2. 2006

Kärnten-Prämiere im nachhaltigen Wirtschaften
Kleine Zeitung, 14. 04. 2006

Ökologie & Ökonomie
Neue Kärntner Tageszeitung, 28. 4. 2006

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en

Wiener Börse HIS
HIRSCH SERVO
Börsen-Kurier, 23. 3. 2006

Hirsch auf dem Sprung in die Elite
Wirtschaftsblatt, 3. 5. 2006

1,000th machine. Hirsch Maschinenbau GmbH, a subsidiary of Hirsch Servo AG, delivered its 1,000th machine in its 20th year of operations. This HS 1400 shape molding machine is on its way to a long-standing customer in Massachusetts/USA. ...

With the publication of its first sustainability report, the Hirsch Servo Group has underscored its goal to create a long-term increase in value and earnings. "Forecasts call for a further rise in energy costs. This, in turn, will increase the focus on the ecological advantages of EPS products and lead to higher demand", explained Hirsch Servo CEO Kurt Hirsch. ...

Our latest recommendation for Hirsch Servo in early October – "Hirsch Servo is worth a second look" – has been confirmed by the market in an impressive manner. The share was trading slightly above EUR 40 at that time, but broke the EUR 50 mark in mid-January and is now closing in on a plus of 50 percent for roughly four months following the announcement of excellent half-year results (the financial year ends on June 30).

Glanegg. The publicly traded Hirsch Servo will shift to the Prime Market, the top segment of the Vienna Stock Exchange, later this year. As the company indicated, most of the requirements have already been met. The share has gained roughly 100 percent within a period of 12 months. ...

Balance Sheet

	Note	30. 6. 2006 T€	30. 6. 2005 T€
Assets			
A. Non-current assets			
I. Intangible assets	5.1.	3,181	884
II. Property, plant and equipment	5.1.	35,931	29,245
III. Investment property	5.1.	1,554	1,589
IV. Financial assets	5.2.	409	405
V. Deferred tax assets	5.3.	1,792	1,487
VI. Receivables and other assets	5.5.	137	283
		43,005	**33,893**
B. Current assets			
I. Inventories	5.4.	9,582	8,436
II. Receivables and other assets	5.5.	18,909	13,237
III. Cash and cash equivalents	5.6.	836	796
		29,327	**22,469**
Total Assets		**72,332**	**56,362**
Equity and Liabilities			
A. Equity			
I. Capital stock	5.7.	3,635	3,635
II. Additional paid-in capital	5.7.	6,766	6,766
III. Treasury stock	5.7.	– 900	– 900
IV. Translation reserve		– 77	108
V. Retained earnings		14,054	10,982
VI. Minority interest	5.8.	0	– 2
		23,478	**20,589**
B. Non-current liabilities			
I. Long-term borrowings	5.9.	22,843	15,529
II. Deferred taxes	5.3.	742	378
III. Provisions for severance compensation and service anniversary bonuses	5.10.	2,262	1,891
IV. Public subsidies	5.11.	1,558	1,438
		27,405	**19,236**
C. Current liabilities			
I. Short-term borrowings	5.9.	8,062	6,535
II. Provisions for taxes		713	120
III. Other provisions	5.12.	1,295	890
IV. Trade payables and other liabilities	5.13.	11,379	8,993
		21,449	**16,537**
Total Equity and Liabilities		**72,332**	**56,362**

Statement of Capital and Reserves

	Capital stock	Additional paid-in capital	Treasury stock	Translation reserve	Retained Earnings	Subtotal	Minority interest	Total
	T€	T€	T€	T€	T€	T€	T€	T€
Balance on 1. 7. 2004	3,635	6,766	– 900	93	9,531	19,125	2	19,127
Other changes	0	0	0	0	49	49	0	49
Currency translation adjustment	0	0	0	15	0	15	0	15
Results recognized directly in equity	0	0	0	15	49	64	0	64
Net income	0	0	0	0	1,936	1,936	– 4	1,932
Total results for the period	0	0	0	15	1,985	2,000	– 4	1,996
Dividend	0	0	0	0	– 534	– 534	0	– 534
Balance on 30. 6. 2005	**3,635**	**6,766**	**– 900**	**108**	**10,982**	**20,591**	**– 2**	**20,589**
Balance on 1. 7. 2005	3,635	6,766	– 900	108	10,982	20,591	– 2	20,589
Currency translation adjustment	0	0	0	– 185	0	– 185	0	– 185
Results recognized directly in equity	0	0	0	– 185	0	– 185	0	– 185
Net income	0	0	0	0	3,605	3,605	2	3,607
Total results for the period	0	0	0	– 185	3,605	3,420	2	3,422
Dividend	0	0	0	0	– 534	– 534	0	– 534
Balance on 30. 6. 2006	**3,635**	**6,766**	**– 900**	**– 77**	**14,054**	**23,478**	**0**	**23,478**

Income Statement

	Note	2005/06	2004/05
		T€	T€
1. Revenues	6.1.	68,724	57,198
2. Increase or decrease in inventories		286	933
3. Own work capitalized		3,312	2,625
4. Other operating income	6.2.	996	1,346
5. Cost of materials and services	6.3.	– 36,802	– 32,150
6. Personnel expenses	6.4.	– 14,839	– 14,415
7. Amortization and depreciation	6.5.	– 3,538	– 3,329
8. Other operating expenses	6.6.	– 11,575	– 9,838
9. Operating profit		**6,566**	**2,370**
10. Financial results classified into		– 1,397	– 1,079
Interest income / expense		42	184
Income / expenses arising from securities		15	128
Currency translation gains / losses	6.7.	– 649	67
11. Proceeds on the disposal of assets and liabilities for discontinuing operations		0	– 242
12. Profit on ordinary activities		**4,577**	**1,428**
13. Income taxes	6.8.	– 970	505
14. Net income		**3,607**	**1,933**
Thereof attributable to:			
Shareholders of parent company		3,605	1,936
Minority interests		2	– 3

Earnings per share (basic and diluted) in €	6.9.	7,44	3,99
Average number of shares outstanding		485.000	485.000
Earnings per share for continuing operations in €		7,44	4,48

Cash Flow Statement

	2005/06			2004/05
	Before initial consolidation	Initial-consolidation	After initial-consolidation	T€
Profit on ordinary activities[1)]	4,577	0	4,577	1,428
Adjustments for:				
– Taxes paid	– 317	– 311	– 628	– 815
+ Amortization and depreciation	3,754	0	3,754	3,329
+ Increase (– decrease) in non-current provisions	372	– 1	371	– 78
– Gain (+ loss) on the disposal of non-current assets	96	0	96	41
– Gain (+ loss) on deconsolidation	0	0	0	249
Subtotal	**8,482**	**– 312**	**8,170**	**4,154**
– Increase (+ decrease) in non-current receivables	146	0	146	0
– Increase (+ decrease) in inventories	– 1,146	719	– 427	– 886
+ Increase (– decrease) in receivables and other assets	– 5,672	763	– 4,909	1,981
+ Increase (– decrease) in public subsidies	120	– 31	89	120
+ Increase (– decrease) in trade payables and other liabilities	2,386	– 854	1,532	– 703
+ Increase (– decrease) in current provisions	405	– 34	371	– 367
+/– Currency translation adjustments	196	0	196	51
Cash flow from operating activities	**4,917**	**251**	**5,168**	**4,350**
+ Increase (– decrease) in non-current liabilities and liabilities to financial institutions	8,841	– 859	7,982	3,634
– Distributions to shareholders	– 534	0	– 534	– 534
Cash flow from financing activities	**8,307**	**– 859**	**7,448**	**3,100**
– Investments in non-current assets	– 13,572	607	– 12,965	– 9,507
+ Cash inflow from the disposal of non-current assets	393	0	393	359
– Investments in financial assets and investment property	– 4	0	– 4	0
– Cash outflow from the sale of subsidiaries	0	0	0	– 109
Cash flow from financing activities	**– 13,183**	**607**	**– 12,576**	**– 9,257**
Change in cash and cash equivalents				
+ Cash and cash equivalents at the beginning of the year			796	2,603
–/+ Change in cash and cash equivalents			40	– 1,807
Cash and cash equivalents at the end of the year			**836**	**796**

	2005/06 T€	2004/05 T€
1) includes: interest expense	1,326	1,008
interest income	42	181

Changes in Fixed and Financial Assets

2005/06 Business Year	Acquisition and Production Cost					
	Balance on 1. 7. 2005 T€	Foreign exchange T€	Change in consolidation T€	Additions T€	Disposals T€	Transfers T€
I. Intangible assets						
1. Concessions, industrial property rights as well as related licenses	3,110	– 3	1,377	137	32	21
2. Development costs	435	0	0	0	0	0
3. Goodwill	0	0	1,202	0	0	0
4. Prepayments	0	0	1	3	4	0
	3,545	**– 3**	**2,580**	**140**	**36**	**21**
II. Property, plant and equipment						
1. Land, rights to land and buildings, including buildings on land owned by third parties						
a) Value of land	2,172	– 40	11	33	0	– 9
b) Value of buildings	21,176	– 237	723	794	0	810
2. Technical equipment and machinery	19,462	– 201	1,471	2,044	493	1,111
3. Other equipment, furniture, fixtures and office equipment	4,657	– 41	543	1,319	702	191
4. Prepayments and construction in progress	635	– 2	36	5,300	0	– 2,124
	48,101	**– 521**	**2,785**	**9,490**	**1,195**	**– 21**
III. Investment property						
1. Land, rights to land and buildings, including buildings on land owned by third parties						
a) Value of land	642	0	0	0	0	0
b) Value of buildings	1.639	0	0	0	0	0
	2.281	**0**	**0**	**0**	**0**	**0**

2004/05 Business Year	Acquisition and Production Cost					
	Balance on 1. 7. 2004 T€	Foreign exchange T€	Reclassifi-cation T€	Additions T€	Disposals T€	Transfers T€
I. Intangible assets						
1. Concessions, industrial property rights and similar rights and advantages as well as such licenses	3,563	30	0	51	551	18
2. Development costs	234	0	0	201	0	0
3. Goodwill	4,332	0	0	0	4,332	0
	8,129	**30**	**0**	**252**	**4,883**	**18**
II. Property, plant and equipment						
1. Land, rights to land and buildings, including buildings on land owned by third parties						
a) Value of land	2,366	17	– 642	0	0	431
b) Value of buildings	18,563	58	– 1,639	147	265	4,311
2. Technical equipment and machinery	16,682	77	0	305	819	3,217
3. Other equipment, furniture, fixtures and office equipment	4,639	17	0	561	911	351
4. Advance payments and construction in progress	719	13	0	8,242	11	– 8,328
	42,969	**182**	**– 2,281**	**9,255**	**2,006**	**– 18**
III. Investment property						
1. Land, rights to land and buildings, including buildings on land owned by third parties						
a) Value of land	0	0	642	0	0	0
b) Value of buildings	0	0	1,639	0	0	0
	0	**0**	**2,281**	**0**	**0**	**0**

	Depreciation						Net Value	
Balance on 30. 6. 2006 T€	**Balance on 1. 7. 2005** T€	**Foreign exchange** T€	**Change in consolidation** T€	**Additions** T€	**Disposals** T€	**Balance on 30. 6. 2006** T€	**Balance on 30. 6. 2006** T€	**Balance on 30. 6. 2005** T€
4,610	2,526	– 3	0	354	32	2,845	1,765	583
435	134	0	0	87	0	221	214	301
1,202	0	0	0	0	0	0	1,202	0
0	0	0	0	0	0	0	0	0
6,247	**2,660**	**– 3**	**0**	**441**	**32**	**3,066**	**3,181**	**884**
2,168	14	0	0	14	0	29	2,139	2.158
23,266	4,933	– 27	108	803	0	5.816	17,451	16.243
23,394	10,752	– 94	897	1,740	213	13,083	10,311	8.709
5,967	3,157	– 17	417	722	499	3,780	2,187	1.500
3,844	0	0	0	0	0	0	3,844	635
58,638	**18,856**	**– 138**	**1,422**	**3,279**	**712**	**22,707**	**35,931**	**29.245**
642	0	0	0	0	0	0	642	642
1.639	692	0	0	34	0	726	912	947
2.281	**692**	**0**	**0**	**34**	**0**	**726**	**1.554**	**1.589**

	Depreciation						Net Value	
Balance on 30. 6. 2005 T€	**Balance on 1. 7. 2004** T€	**Foreign exchange** T€	**Additions** T€	**Disposals** T€	**Transfers** T€	**Balance on 30. 6. 2005** T€	**Balance on 30. 6. 2005** T€	**Balance on 30. 6. 2004** T€
3,110	2,767	7	293	541	0	2,526	583	796
435	47	0	87	0	0	134	301	187
0	4,331	0	1	4,332	0	0	0	1
3,545	**7,145**	**7**	**381**	**4,873**	**0**	**2,660**	**884**	**984**
2,172	2	0	13	1	0	14	2,158	2,365
21,175	4,569	2	670	126	– 183	4,933	16,243	13,994
19,462	10,053	10	1,391	702	0	10,752	8,709	6,628
4,657	3,270	3	556	671	0	3,157	1,500	1,370
635	0	0	0	0	0	0	635	719
48,101	**17,894**	**15**	**2,630**	**1,500**	**– 183**	**18,856**	**29,245**	**25,076**
642	0	0	0	0	0	0	642	0
1,639	0	0	509	0	183	692	947	0
2,281	**0**	**0**	**509**	**0**	**183**	**692**	**1,589**	**0**

Notes to the Financial Statement

1. General Information

1.1. HIRSCH Servo AG is recorded in the Company Register of the Provincial Court in Klagenfurt under Number 117300 a. The headquarters of the corporation are located in A-9555 Glanegg 58.

1.2. The principle business of the HIRSCH Servo Group lies in the area of EPS systems technology. The **EPS Processing Segment** converts expandable polystyrene (EPS) into components for a wide range of applications. The **Machinery and Plant Engineering Division** develops and sells machine technology for the processing of EPS throughout the world.

2. Consolidation Range

The following subsidiaries were included in the consolidated financial statements through full consolidation as of June 30, 2006:

Company	**Headquarters**	**30. 6. 2006** Stake in %	**30. 6. 2005** Stake in %
Besitz- und Vermietungs GmbH, Glanegg	Austria	99.97	99.97
HIRSCH Porozell GmbH, Glanegg	Austria	100.00	100.00
HIRSCH Maschinenbau GmbH, Glanegg	Austria	100.00	100.00
Thermozell Entwicklungs- und Vertriebs GmbH, Glanegg	Austria	100.00	100.00
KURT HIRSCH Kft., Sárvár	Hungary	100.00	100.00
HIRSCH Porozell Kft., Jászfényszaru	Hungary	100.00	100.00
HIRSCH Italia S.r.l., Albavilla	Italy	100.00	99.50
HIRSCH Porozell s.r.o., Podolínec	Slovakia	100.00	0.00
Polyform s.r.o., Podolínec	Slovakia	100.00	0.00
HIRSCH Porozell S.r.l., Cluj-Napoca	Romania	100.00	0.00
HIRSCH Porozell Sp. z o.o., Wroclaw	Poland	100.00	100.00

3. Business Combinations

Acquisition of Polyform S.r.o. and HIRSCH Porozell S.r.o.
The HIRSCH Servo Group acquired 100% of the shares in Polyform s.r.o., which is located Slovakia, as of January 23, 2006. This firm is specialized in the production of insulating materials. This transaction also included the takeover of the stake in the Schaumaplast-Polyform s.r.o joint venture. On February 23, 2006 the remaining shares in Schaumaplast were purchased, and the name of the company was changed to HIRSCH Porozell s.r.o,a producer of EPS packaging.
These additions to the consolidation range generated revenues of T€ 3,326 from the date of initial consolidation to the end of the reporting year.
The changes in the consolidation range had the following effect on the consolidated balance sheet as of the acquisition date:

	Assets T€		**Liabilities** T€
A. Non-current assets	3,943	A. Non-current liabilities and provisions	4,537
B. Current assets	1,482	B. Current liabilities and provisions	888
Total	**5,425**		**5,425**

With the exception of the acquired customer base and trademark rights, no revaluations were made during the initial consolidation. There were no liabilities from the acquisition of companies as of June 30, 2006.

4. Significant Accounting Policies

4.1. General accounting principles

These consolidated financial statements were prepared in accordance with the guidelines set forth in International Accounting Standards (IAS) as applied in the EU, and were released for publication by the Supervisory Board in a meeting on September 20, 2006. The Austrian legislature reacted to the trend toward international accounting with the enactment of the Consolidated Financial Statements Act ("Konzernabschlussgesetz") in March 1999. In accordance with this law, consolidated financial statements and a group management report that are prepared in keeping with international accounting standards release the reporting company from the obligation to prepare consolidated financial statements under Austrian law. HIRSCH Servo AG has elected to use this option and prepare its consolidated financial statements in accordance with IFRS. All standards and related interpretations applicable to the reporting year were applied in the current version. The amended standards that are mandatory for business years beginning on or after January 1, 2006 were not applied retrospectively.

The annual financial statements of all companies included in the consolidated financial statements were prepared as of the Group closing date on June 30, 2006. The consolidated financial statements were prepared in thousand euros. The income statement was prepared in accordance with the method under which "total costs" are shown.

4.2. Significant impact of new accounting standards

The consolidated financial statements for the 2005/06 Business Year were prepared in accordance with the modified standards that were issued by the International Accounting Standards Board (IASB) in December 2003 as part of the project to revise International Financial Reporting Standards, and which apply to financial years beginning on or after January 1, 2005. The following revised standards replace the earlier versions of these standards: IAS 1 (Presentation of Financial Statements), IAS 2 (Inventories), IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), IAS 17 (Leases), IAS 21 (The Effects of Changes in Foreign Currency Exchange Rates), IAS 24 (Related Parties Disclosures), IAS 27 (Consolidated and Separate Financial Statements), IAS 28 (Investments in Associates), IAS 31 (Interest in Joint Ventures), IAS 33 (Earnings per Share) and IAS 40 (Investment Property).

During the reporting year the HIRSCH Servo Group applied the following standards, which were revised by the IASB and adopted by the EU: IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), which apply to financial years beginning on or after January 1, 2005.

IFRS 3 (Business Combinations) was issued as a replacement for IAS 22 (Business Combinations). This new standard requires business combinations to be accounted for by the purchase method, and prohibits the use of the pooling of interests method. Under the purchase method all identifiable assets, liabilities and contingent liabilities must be recognized at fair value as of the point of acquisition. Goodwill is no longer amortized on a regular basis, but is subjected to an impairment test. IFRS 3 must be applied to all business combinations for which the agreement date is on or after March 31, 2004. For goodwill and intangible assets acquired through a business combination prior to March 31, 2004, this standard is to be applied with the first financial year that begins on or after March 31, 2004.

In connection with the publication of des IFRS 3, the revised versions of Standards IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) were also issued. The most important amendments include the requirement for an annual assessment of goodwill and intangible assets with an indefinite useful life to identify any possible evidence for impairment. If events or a change in circumstances indicate possible impairment, the impairment test must be performed more frequently. The reversal of impairment losses to goodwill is prohibited. Intangible assets that are expected to provide a company with cash inflows for an indefinite period should be recognized with an indefinite useful life. Ordinary amortization is not permitted. The revised standards apply to goodwill and intangible assets that were acquired through business combinations for which the agreement date is on or after March 31, 2004 as well as all other goodwill and intangible assets for financial years beginning on or after March 31, 2004. Goodwill acquired in prior years was not amortized in 2005/06, but was subjected to an impairment test that confirmed the value of these assets.

The amendment to IAS 19 (Employee Benefits) creates an additional option that permits the immediate recognition of actuarial gains and losses arising from defined benefit pension commitments. This option provides for the recording of actuarial gains and losses outside the income statement on a statement of total recognized gains and losses. In addition, the amendment requires (a) the disclosure in the financial statements of a contract between a multi-employer plan and the participating employees, which indicates how a surplus will be distributed or a deficit will be financed as well as (b) how defined benefit pension commitments will be recognized in the financial statements of the companies participating in the plan and (c) any additional disclosure requirements that the companies must meet. This amendment applies to all financial years beginning on or after January 1, 2006. This standard was not applied precociously by the HIRSCH Servo Group.

International Financial Reporting Interpretations Committee (IFRIC) 4 (Determining whether an Arrangement Contains a Lease) defines the agreements that may be accounted for as leases in accordance with the requirements defined in IAS 17 (Leases). IFRIC 4 applies to financial years beginning on or after January 1, 2006. The application of this standard did not have an effect on the asset, financial or earnings position of the HIRSCH Servo Group.

The amendment of IAS 39 (Financial Instruments: Recognition and Measurement), which applies to financial years beginning on or after January 1, 2006, concerns the application of the fair value option to financial assets and liabilities, and was not applied precociously by the HIRSCH Servo Group.

IFRS 5 (Non-Current Assets held for Sale and Discontinued Operations) requires assets that are held for sale to be measured at the lower of carrying value and fair value, less costs to sell. This Standard also defines the conditions for the classification of a component of a business as a discontinuing operation. IFRS 5 applies to financial years beginning on or after January 1, 2005. As of the closing date on June 30, 2006 the HIRSCH Servo Group had no discontinuing operations. The expenses arising from discontinuing operations in prior years were not reclassified.

IFRS 7 (Financial Instruments: Disclosures) applies to financial years beginning on or after January 1, 2007, and expands the scope of reporting for financial instruments. This IFRIC was not applied precociously by the HIRSCH Servo Group.

4.3. **Consolidation methods**

The purchase method is used to account for business combinations. Under this method, the acquisition cost of purchased net assets is compared with the fair value of these net assets on the date of acquisition. Any difference between the acquisition cost and the fair value of acquired net assets is recognized as goodwill.

All receivables and liabilities, revenues, other income and expenses arising from transactions between companies included at full consolidation are eliminated.

Interim profits arising from the sale of goods or provision of services between Group companies are also eliminated.

4.4. **Foreign currency translation**

Translation of foreign company financial statements

The local currency is the functional currency for all subsidiaries. The financial statements of the foreign subsidiaries HIRSCH Porozell Kft., Sárvár, HIRSCH Porozell Sp. z o.o., Wroclaw, HIRSCH Porozell s.r.o., Podolínec, Polyform s.r.o., Podolínec, and HIRSCH Porozell S.r.l., Cluj-Napoca, were translated according to the modified current rate method in accordance with IAS 21.

Assets and liabilities were translated at the rate in effect on the balance sheet date, income and expenses at the average rate for the year. The following exchange rates were used:

	Closing rate in €		Average rate for the year in €	
	30. 6. 2006	30. 6. 2005	2005/06	2004/05
100 Hungarian forint	0.355	0.404	0.393	0.406
100 Slovakian krone	2.609		2.659	
1 Romanian Leu	0.280		0.276	
1 Polish zloty	0.247	0.248	0.255	0.238

Transactions in foreign currencies

Transactions in foreign currencies are translated at the rate in effect on the date of the transaction. Monetary items are valued at the rate in effect on the balance sheet date; non-monetary items are valued at historical rates. Differences arising from the translation of foreign currency transactions are recognized to the income statement.

4.5. **Intangible assets**

Goodwill

Goodwill arising from business combinations is initially recognized at cost, which is defined as the excess of the cost of the business combination over the acquirer's interest in the fair value of identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested at least once each year or more frequently if events or changes in circumstances indicate that the carrying value of the asset could be impaired.

Other intangible assets

Acquired intangible assets are valued at cost less accumulated amortization, which is calculated on a straight-line basis over the estimated useful lives of the individual assets. These useful lives range from 4 to 10 years.

4.6. **Property, plant and equipment**

Property, plant and equipment are valued at purchase or production cost, less ordinary depreciation. Production cost includes direct expenses and a proportional share of material and manufacturing overheads. General administrative and selling expenses are not capitalized. Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the individual assets. In the event of permanent impairment, an impairment loss is recognized in accordance with IAS 36.

The following useful lives form the basis for ordinary depreciation:

Buildings	10 – 33 years
Technical equipment and machinery	3 – 10 years
Furniture, fixtures and office equipment	3 – 10 years

Maintenance expenditures are recorded as expenses of the period in which they occur.

4.7. **Investment property**

Investment property is valued at acquisition or production cost as of the date of purchase. In subsequent years, the carrying value of these assets is determined in accordance with the cost model after the deduction of accumulated depreciation and/or accumulated impairment losses. Ordinary depreciation is calculated on a straight-line basis over a useful life of 10 to 33 years.

4.8. **Public subsidies**

Asset-based investment subsidies are recognized as non-current liabilities, and released to profit or loss over the useful life of the relevant asset.

Earnings-based subsidies that are dedicated to cover expenses are generally recognized to the income statement during the period in which they were granted.

4.9. **Financial assets**
Financial assets are comprised of shares in subsidiaries and available-for-sale securities. These items are recorded in accordance with IAS 39, whereby the initial recognition is made at cost and subsequent measurement reflects fair value. Any changes in value are recorded direct in equity, with no recognition to profit or loss.

4.10. **Inventories**
Inventories are recorded at purchase or production cost or the lower net realizable value, with valuation based primarily on the moving average price method. The production cost of finished goods and work in process includes direct expenses as well as a proportional share of material and manufacturing overheads. Production cost does not include the cost of debt or administrative and selling expenses. Appropriate write-downs are recorded to reflect the risk arising from length of storage or impairment in value, and are based on inventory turnover.

4.11. **Construction contracts**
Income on the production of custom-order machinery by HIRSCH Italia S.r.l. is recognized using the percentage of completion method in accordance with IAS 11, if the requirements of this standard are met. The stage of completion is based on the relationship between costs incurred up to the balance sheet date and the total estimated costs for the project. The calculations are made so as to ensure a loss-free valuation.

Trade receivables resulting from the percentage of completion method are shown as a separate item under receivables from construction contracts (see 5.5.). Costs are reported under the relevant primary category of expenses (materials, personnel).

4.12. **Cash and cash equivalents**
Cash on hand and deposits with financial institutions are valued at the exchange rate in effect on the balance sheet date.

4.13. **Receivables and other assets**
Receivables and other assets are stated at nominal value less any necessary impairment losses. Receivables denominated in a foreign currency are valued using the average exchange rate on the balance sheet date.

4.14. **Provisions**
Provisions are recorded in accordance with IAS 37 when the Group has a present legal or constructive obligation as a result of a past event and its is probable that an outflow of resources will be required to settle this obligation, and a reliable estimation of the amount of the obligation is possible.

4.15. **Provisions for severance compensation and service anniversary bonuses**
The provisions for severance compensation and service anniversary bonuses represent long-term obligations to employees, which are calculated using actuarial methods (projected unit credit method) in accordance with IAS 19. The present value of the defined benefit obligation is computed based on the length of service and expected future wage or salary increases. Any actuarial gains/losses (difference between planned and actual additions to the provisions) are recognized immediately. The Group also has commitments to provide defined benefit pension plans for individual employees, which are based on employment contracts. Contributions are recognized to profit or loss in the year in which they are due and payable.

4.16. **Financial liabilities**
Liabilities are stated at nominal value or the repayment amount, if different. Liabilities denominated in a foreign currency are valued using the average exchange rate on the balance sheet date.

4.17. **Leases**

In accordance with IAS 17, a lease that transfers substantially all the risks and rewards incident to ownership of an asset is classified as a finance lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership of an asset.

4.18. **Revenues**

Revenues are recognized when risk is transferred to the customer, whereby rebates and other deductions are subtracted from this amount. Revenues on construction contracts as defined in IAS 11 are recognized in accordance with the percentage of completion method (also see 4.11.)

4.19. **Borrowing costs**

Borrowing costs are generally recognized in the period in which they are incurred. Borrowing costs that can be directly allocated to the purchase, construction or production of a qualified asset are capitalized as a part of acquisition or production cost. During the 2005/06 Business Year no interest expense was capitalized on investments in accordance with IAS 23 (2004/05: T€ 140).

4.20. **Income taxes**

Income taxes are recorded by the individual subsidiaries, and are based on income for the relevant business year. Temporary differences between the financial statements prepared for tax purposes and the IFRS consolidated financial statements are recognized as deferred taxes.

In accordance with IAS 12, deferred taxes are calculated on all temporary differences arising between the financial statements prepared for tax purposes and IFRS financial statements using the balance sheet liability method in keeping with local country tax rates (16 to 33%).

Deferred taxes are also calculated on tax loss carry-forwards and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused losses and unused tax credits can be utilized.

Temporary differences in the consolidated financial statements as of June 30, 2006 result primarily from provisions created for tax purposes (severance compensation and service anniversary bonuses), valuation adjustments and impairment losses on investments in other companies.

Deferred tax liabilities are shown as a separate item under non-current liabilities; deferred tax assets are recorded under non-current assets. Deferred tax assets are recognized at an amount equal to expected future taxable profit.

4.21. **Changes in the reporting of balance sheet items**

Beginning with the 2005/06 Business Year, the provisions for vacations and free time due to employees as well as invoices received after the closing date are recorded under other liabilities. An adjustment of T€ 815 was made to prior year data, which involved reclassifications from current provisions to trade payables and other liabilities (relating to the provisions for vacations and free time due to employees as well as invoices received after the closing date).

4.22. **Judgments and estimates**

In applying the various accounting and valuation methods, it was necessary to make future-oriented assumptions and estimates for non-current assets, valuation adjustments to inventories and receivables, provisions and deferred taxes. The actual figures that become known at a later date may differ from these assumptions and estimates. The principle of a true and fair view is also applied without limitation in the use of estimates.

All goodwill was tested for impairment in accordance with IAS 36. The benchmark for the impairment test was formed by the value in use, which was calculated as the discounted cash flows of the relevant cash-generating unit over a period of 9 years. The two Slovakian subsidiaries were designated as cash-generating units. The determination of the recoverable amount was based on forecasts for the 2006/07 Business Year; stable cash flows were assumed for the following years. The discount rate includes an appropriate premium for risk, and equals 11%.

The initial recognition of the newly acquired companies included a customer base for long-term business relationships. This customer base was estimated using the discounted cash flow method over a period of five years based on approved forecasts. In addition, this initial recognition also included the valuation of trademark rights based on discounted cash flows, a standard branch license fee of 2% and a period of 10 years. The discount rate for the trademark rights and customer base includes appropriate premiums for risk, and equals 11%.

5. Notes to the Balance Sheet

5.1. Non-current assets

The development of intangible assets, property, plant and equipment and investment property is shown on the schedule "Changes in Fixed and Financial Assets". The amounts shown under foreign exchange increases and decreases result from the use of different exchange rates to translate the assets of foreign companies at the beginning and end of the year.

The balance sheet item "investment property" includes land and buildings with a carrying value of T€ 1,554 (2004/05: T€ 1,589), which are not used in regular production. The property and buildings were rented out to tenants, and generated rental income of T€ 110 in 2005/06 (2004/05: T€ 27).

This investment property is measured at cost less accumulated depreciation. In 2004/05 the carrying value was assessed for evidence of impairment in connection with the initial reclassification and the lower value in use led to the recognition of an impairment loss totaling T€ 459 in that same year. The fair value as of June 30, 2006 reflects the carrying value. This amount is included under "other areas" in the segment report, which was prepared in accordance with IAS 14.

Research and development

In accordance with IAS 38, research and development costs are not capitalized but recognized immediately to profit or loss. Development costs are capitalized when the requirements defined by IAS 38 have been met. Development costs are amortized on a straight-line basis over a useful life of five years.

No development costs were capitalized in accordance with IAS 38 during the 2005/06 Business Year. Development costs of T€ 435 that were capitalized in the prior years were amortized as scheduled.

If an asset shows signs of impairment and the net selling price or value in use is less than the carrying value of the asset, an impairment loss is recognized to reduce the asset to the recoverable amount.

As of the balance sheet date, no property, plant or equipment was pledged as collateral (2004/05: T€ 290).

5.2. Financial assets

	2005/06 T€	2004/05 T€
Balance on 1. 7.	405	507
Additions	4	0
Disposals	0	– 103
Changes in market value	0	1
Balance on 30. 6.	**409**	**405**

Financial assets are comprised of securities (bonds) that serve primarily as coverage for the severance compensation provisions as required under Austrian law as well as other loans granted. As of the closing date on June 30, 2006 financial assets totaling T€ 994 were pledged.

5.3. Deferred tax assets and liabilities

Deferred tax assets and deterred tax liabilities are related to the following balance sheet items:

	2005/06 T€	2004/05 T€
Intangible assets	– 241	0
Property, plant and equipment	– 244	– 252
Unused tax credits	1,083	895
Financial assets	179	215
Inventories	33	36
Receivables and other assets	128	104
Provisions for severance compensation and service anniversary bonuses	117	82
Provisions	– 5	29
Deferred tax assets	**1,050**	**1,109**

Gross deferred tax assets and deferred tax liabilities total:

	2005/06 T€	2004/05 T€
Deferred tax assets	1,792	1,487
Deferred tax liabilities	– 742	– 378
Total	**1,050**	**1,109**

Deferred taxes of T€ 260 (2004/05: T€ 163) were not recognized on tax loss carryforwards because their use against future taxable profit is not sufficiently probable. The individual tax loss carryforwards are valid for an unlimited period of time. Unrecognized deferred tax assets relating to tax benefits total roughly € 5,0 mill. and can be utilized up to 2017.

5.4. **Inventories**

	2005/06 T€	2004/05 T€
Raw materials and supplies (purchase/prod. cost)	4,137	3,277
Raw materials and supplies (lower fair value)	1,960	2,510
Prepayments received	– 263	– 26
Raw materials and supplies	**5,834**	**5,761**
Work in process (purchase/prod. cost)	2,096	1,241
Prepayments received	– 404	– 686
Work in process	**1,692**	**555**
Finished goods and merchandise (purchase/prod. cost)	1,768	2,076
Finished goods and merchandise (lower fair value)	138	55
Prepayments received	– 226	– 208
Finished goods and merchandise	**1,680**	**1,923**
Prepayments made	**376**	**197**
Total	**9,582**	**8,436**

5.5. **Receivables and other assets**

	2005/06 T€	2004/05 T€
Non-current		
Trade receivables	0	80
Loans receivable	137	203
Total	**137**	**283**
Current		
Trade receivables	14,951	11,031
Receivables arising from construction contracts	876	353
Other receivables and assets	2,702	1,520
Prepaid expenses and deferred charges	380	333
Total	**18,909**	**13,237**

Receivables arising from construction contracts are related to production costs of T€ 773 (2004/05: T€ 281).
Other receivables and assets consist chiefly of credits with taxation authorities as well as a loan due from a supplier.

5.6. **Cash and cash equivalents**
This item is comprised of cash on hand and deposits with financial institutions.

5.7. Capital stock, additional paid-in capital and treasury stock

	Number of shares outstanding	Capital stock T€	Reserves T€	Treasury stock T€	Total T€
Balance on 1. 7. 2004	485,000	3,635	6,766	– 900	9,501
Changes	0	0	0	0	0
Balance on 30. 6. 2005	**485,000**	**3,635**	**6,766**	**– 900**	**9,501**
Balance on 1. 7. 2005	485,000	3,635	6,766	– 900	9,501
Changes	0	0	0	0	0
Balance on 30. 6. 2006	**485,000**	**3,635**	**6,766**	**– 900**	**9,501**

The capital stock of HIRSCH Servo AG equals T€ 3,635 and is fully paid in. It is divided into 500,000 shares of bearer stock.

In accordance with § 130 Par. 3 of the Austrian Stock Corporation Act, appropriated reserves shown in the individual financial statements of the parent company (June 30, 2006: T€ 6,257, June 30, 2005: T€ 6,257) and the statutory reserve (June 30, 2006: T€ 7, June 30, 2005: T€ 7) may only be used to cover negative retained earnings of the parent company. The unappropriated reserve totals T€ 56 (June 30, 2005: T€ 56). The maximum distribution may not exceed retained earnings (June 30, 2006: T€ 1,666, June 30, 2005: T€ 789) as reported in the individual financial statements of the parent company (HIRSCH Servo AG), which were prepared in accordance with local accounting regulations.

Recommendation for the distribution of profit

In accordance with the regulations set forth in the Austrian Commercial Code, the individual financial statements of the company form the basis for the recommendation on the distribution of profit. The individual financial statements of HIRSCH Servo AG show retained earnings of € 1,665,611.30 for the 2005/06 Business Year. The Managing Board recommends payment of a dividend of € 3.20 (2004/05: € 1.10) per share (or € 1,552,000.00 for 485,000 shares) and the carry forward of the remaining € 113,611.30.

5.8. Minority interest

	2005/06 T€	2004/05 T€
Balance on 1. 7.	– 2	2
Disposal	2	0
Net income for the period	0	– 4
Balance on 30. 6.	**0**	**– 2**

5.9. Financial liabilities

	2005/06 T€	2004/05 T€
Non-current		
Amounts due to financial institutions	22,843	15,529
Total	**22,843**	**15,529**
Current		
Amounts due to financial institutions	8,062	6,535
Total	**8,062**	**6,535**

The majority of financial liabilities carry variable interest rates.
The effective interest rates on financial liabilities are as follows:
Amounts due to financial institutions: 3.8 – 4.5%

The remaining terms of financial liabilities are as follows:

	2005/06 T€	2004/05 T€
Due within one year	8,062	6,535
Due between one and five years	18,418	9,832
Due after five years	4,425	5,697
Total	**30,905**	**22,064**

5.10. Provisions for severance compensation and service anniversary bonuses

a) Provisions for severance compensation

Severance compensation obligations were calculated using the projected unit credit method in accordance with actuarial principles. The values shown on the balance sheet reflect the defined benefit obligation.

These provisions developed as follows during the year:

		2005/06 T€		2004/05 T€
Balance on 1. 7.		1,515		1,760
Service cost	121		125	
Interest expense	71		71	
Actuarial gain/loss	178		– 116	
Expense recognized to the income statement		370		80
Severance payments		– 181		– 325
Balance on 30. 6.		**1,704**		**1,515**

The above costs were included under personnel expenses.

b) Provision for service anniversary bonuses

The provision for service anniversary bonuses was also calculated using the projected unit credit method.

	Balance on 1. 7. 2005 T€	Use T€	Reversal T€	Addition T€	Balance on 30. 6. 2006 T€
Provision for service anniversary bonuses	**376**	0	– 5	187	**558**

The above costs were included under personnel expenses.

The following parameters were used for the calculation under the projected unit credit method:

	2005/06	2004/05
Interest rate	4.75%	5.5%
Increase in wages/salaries	3.0%	3.8%
Employee turnover	0 – 15%	0 – 10%
Retirement age	62/62	60/65

5.11. **Public subsidies**

	Balance on 1. 7. 2005	Currency translation	Change in differences	Use	Addition consolidation	Balance on 30. 6. 2006
	T€	T€	T€	T€	T€	T€
Government subsidies	**1,438**	– 48	75	– 217	310	**1,558**

5.12. **Provisions**

	Balance on 1. 7. 2005	Use	Reversal	Addition	Balance on 30. 6. 2006
	T€	T€	T€	T€	T€
Provision for bonuses	188	– 177	– 11	245	245
Provision for commissions	80	– 77	– 3	117	117
Other provisions	622	– 308	– 218	837	933
Total	**890**	**– 562**	**– 232**	**1,199**	**1,295**

5.13. **Trade payables and other liabilities**

	2005/06	2004/05
	T€	T€
Trade payables	6,140	5,590
Other liabilities	2,632	2,250
Accrual for vacations and free time due to employees	933	746
Advance payments received on orders	1,635	267
Deferred income	39	140
Total	**11,379**	**8,993**

As in the prior year, all other liabilities are due and payable within one year – with the exception of the accruals for vacations and free time due to employees.

Other liabilities consist primarily of T€ 398 (2004/05: T€ 593) in taxes and T€ 714 (2004/05: T€ 789) of social security charges as well as wages, salaries and other duties.

5.14. **Contingent liabilities**

There were no off balance sheet risks as of the balance sheet date.

6. Notes to the Income Statement

6.1. **Revenues**

For detailed information, see section 8.1 of the notes (segment reporting). Revenues for the reporting year include revenues of T€ 876 (2004/05: T€ 353) from construction contracts in accordance with IAS 11 (see 4.11.).

6.2. Other operating income

	2005/06 T€	2004/05 T€
Income from the reversal of provisions	232	295
Reimbursement of energy tax	195	360
Subsidies for research and development projects	82	194
Income from the disposal of property, plant and equipment	140	28
Miscellaneous income	347	469
Total	**996**	**1,346**

6.3. Cost of materials and services

	2005/06 T€	2004/05 T€
Cost of materials	33,075	28,124
Cost of services	3,727	4,026
Total	**36,802**	**32,150**

6.4. Personnel expenses

	2005/06 T€	2004/05 T€
Wages	5,186	5,013
Salaries	6,196	5,936
Expenses for severance compensation and pensions	418	349
Expenses for legally required employee benefits	2,869	2,991
Other employee benefits	170	126
Total	**14,839**	**14,415**

Individual employment contracts for specific employees require the Group to make supplementary pension payments beginning at retirement. The related expenses for these defined contribution pension plans and employee pension funds totaled T€ 51 for the reporting year (2004/05: T€ 26) and are included in the expenses for severance compensation and pensions.

6.5. Depreciation, amortization and impairment charges

	2005/06 T€	2004/05 T€
On intangible assets	441	381
On property, plant and equipment	3,279	2,630
On investment property	34	509
Thereof impairment	0	459
Less subsidies	– 217	– 191
Total	**3,538**	**3,329**

6.6. Other operating expenses

	2005/06 T€	2004/05 T€
Non-income based taxes	247	171
Freight out	3,229	2,819
Travel	1,059	1,475
Commissions	1,039	806
Rent	316	467
Maintenance	448	481
Legal and consulting fees	1,153	987
Marketing	282	619
Individual valuation adjustments and uncollectible receivables	225	104
Insurance	360	415
IT costs	350	311
Research and development[1)]	124	103
Miscellaneous	2,743	1,080
Total	**11,575**	**9,838**

1) Research and development expenses of T€ 1,028 were recognized to the income statement for the 2005/06 Business Year (2005/05: T€ 1,516).

6.7. Financial results

Foreign exchange gains and losses for the 2005/06 Business Year include T€ 876 (2004/05: T€ 25) of foreign exchange losses and T€ 227 (2004/05: T€ 92) of foreign exchange gains.

6.8. Income taxes

	2005/06 T€	2004/05 T€
Current tax expense	1,172	333
Tax income resulting from the use of loss carryforwards for which no deferred tax assets were created and from tax allowances	– 267	– 381
Tax expense arising from losses for which no deferred taxes were recognized	120	163
Deferred tax expense/(income)	– 55	– 620
	970	**– 505**
Calculation to determine the effective tax rate for the Group:		
Profit on ordinary activities	4,577	1,428
Thereof theoretical tax expense (25%)	1,144	421
Differing foreign tax rates	– 56	– 93
Losses for which no deferred taxes were recognized	120	163
Changes in tax rates	– 14	64
Use of tax loss carryforwards for which no deferred taxes were recognized and of tax allowances	– 267	– 381
Subsequent tax accruals	0	– 99
Future tax relief	0	– 654
Non-temporary differences	43	74
Effective tax income (–) / expense (+)	**970**	**– 505**

6.9. **Earnings per share**

Basic and diluted earnings per share are identical, and were calculated as follows:

	2005/06	2004/05
Net income for the year (T€)	3,607	1,933
Weighted average number of shares outstanding	485,000	485,000
Earnings per share (€)	**7.44**	**3.99**

Earnings per share for the segment discontinued in the prior year equal € – 0,49.

7. Notes to the Statement of Cash Flows

The cash flow statement was prepared according to the indirect method.
This statement shows the changes in Group cash and cash equivalents resulting from the inflow and outflow of funds during the reporting year, whereby a distinction is made between operating, investing and financing activities.

7.1. **Cash and cash equivalents**

This item comprises cash on hand and deposits with financial institutions.

8. Other Information

8.1. **Segment reporting**

8.1.1. Primary reporting segments – divisions

The Group is divided into the following divisions:

EPS Processing Segment:

- Production of shape molded components from expandable polystyrene (EPS) for various applications, primarily as transport protection for goods manufactured by the entertainment and household appliance industries, as well as insulating materials for the construction industry.
- Production of lightweight concrete from recycled EPS for flooring and construction companies.

Machinery and Plant Engineering Division:

- Development, production and sale of innovative machine technology for the EPS processing industry.

Segment Reporting

2004/05 Business Year	EPS Processing T€	Machinery and Plant Engineering T€	Presentation Systems T€	Other Areas T€	Group T€
Revenues	34,490	22,330	3,213	27	60,061
Group revenues	0	– 2,844	– 19	0	– 2,863
Third party revenues	34,490	19,486	3,194	27	57,198
Segment results	3,353	62	– 601	– 444	2,370
Financial results	– 433	– 225	– 242	– 42	– 942
Profit on ordinary activities	2,920	– 163	– 843	– 486	1,428
Segment assets	38,692	15,863	0	1,808	56,362
Segment liabilities	24,420	9,851	0	1,503	35,773
Capital expenditure (tangible and intangible assets.)	9,061	446	0	0	9,507
Ordinary depreciation and amortization (tangible and intangible assets.)	2,038	696	123	13	2,870
Impairment charges (to investment property)	0	0	0	459	459
Research and development expenses	514	1,002	0	0	1,516

2005/06 Business Year	EPS Processing T€	Machinery and Plant Engineering T€	Presentation Systems T€	Other Areas T€	Group T€
Revenues	44,842	27,447	0	110	72,399
Group revenues	– 1	– 3,674	0	0	– 3,675
Third party revenues	44,840	23,774	0	110	68,724
Segment results	4,591	1,912	0	62	6,566
Financial results	– 1,700	– 246	0	– 42	– 1,989
Profit on ordinary activities	2,891	1,666	0	20	4,577
Segment assets	51,883	18,590	0	1,859	72,332
Segment liabilities	32,456	12,856	0	3,543	48,855
Capital expenditure (tangible and intangible assets.)	11,256	1,115	0	0	12,371
Ordinary depreciation and amortization (tangible and intangible assets.)	2,793	710	0	34	3,538
Research and development expenses	199	829	0	0	1,028

8.1.2. Secondary reporting segments – geographical segments

The Group's sales regions are divided into six geographical segments: Austria, Eastern Europe, other Europe, America, Far East and other countries.

The following table shows the importance of the individual geographic segments:

	Revenues		Total assets		Capital expenditure	
	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€
Austria	9,532	8,106	30,082	28,032	2,460	896
Eastern Europe	26,362	18,248	36,395	23,708	9,903	8,097
Other Europe	19,472	19,635	5,855	4,622	8	268
America	11,579	8,479				
Far East	1,565	2,040				
Other countries	214	690				
Total	**68,724**	**57,198**	**72,332**	**56,362**	**12,371**	**9,261**

Revenues are classified according to the selling market. Total assets and capital expenditure are classified by the country in which the assets are physically located.

8.2. **Risk management**

The HIRSCH Servo Group began to direct its attention to the systematic management of risk during the reporting year. The goals of these activities are to identify potential risks that arise during the conduct of business at an early point in time, to assess the magnitude of these risks and to implement suitable preventive and protective measures. From the current point of view, there are no risks that could endanger the continued existence of the Group.

The full responsibility for the early identification of risk and introduction of suitable measures is carried by the Managing Board, which appointed a risk manager for the HIRSCH Servo Group during the reporting year. Operating risks are monitored by the managers of the local Group companies, while selected individual risks are handled by staff departments at the Group level.

Market risks

The Group's core business, EPS processing, is subject to seasonal fluctuations and earnings are in part dependent on the weather. The sale of insulating materials is influenced by construction activity which, in turn, varies with weather conditions. Packaging for refrigerators, for example, is sold primarily during the spring and summer. In order to avoid earnings fluctuations to the greatest degree possible, HIRSCH Servo pursues a strategy of product diversification. Specific market situations can also have a negative impact on price levels, which require the regular monitoring of price strategies.

Procurement risk

The HIRSCH Servo Group purchases significant quantities of raw materials to produce EPS components, and the supplies and prices of these raw materials are determined by international markets. In order to minimize risk, the Group monitors procurements markets continuously, compiles reserves for certain items and includes price adjustment clauses in customer contracts wherever possible.

Financial risk
Liability risks, above all in the machinery and plant construction area, are offset as far as possible by the careful design of contracts and exact performance of services in accordance with legal norms and standards.

Credit risk
Credit risk, or the risk of delayed payment by the contract partner, is considered to be low because of the Group's customer structure as well as policies to cover risk. Where applicable, the Group obtains government export guarantees or bank guarantees to reduce the risk of uncollectible payments.

The credit risk connected with investments of cash, cash equivalents and securities is limited by the fact that the Group only deals with financial partners who can demonstrate a good credit standing.

The amounts shown for primary financial instruments on the balance sheet represent the maximum credit and collection risk. Valuation adjustments were recorded to reflect all existing risks, and management believes that no other credit risks will occur.

Interest rate risk
Management estimates the financial impact of interest rate fluctuations on Group financial assets and liabilities to be minimal. The Group has a balanced financial structure that is safeguarded over the long-term, and held no derivative financial instruments to hedge interest rate risk as of the balance sheet date.

Foreign exchange risk
Foreign exchange risks are carried primarily by the customer. Foreign exchange risks in foreign subsidiaries will be reduced almost completely over the coming business years through the conversion to euro financing.

Forward exchange contracts are used in individual cases to hedge foreign currency receivables (chiefly in USD). There were no open foreign exchange contracts as of the balance sheet date.

Liquidity risk
Liquidity risk represents the risk of being able to raise the necessary funds to meet obligations as required at any time. The Group's financing policy is based on long-term planning, and is centrally managed and monitored. The Group ensures that sufficient liquid funds are available and that necessary financing from lines of credit are guaranteed.

8.3. **Acquisitions after the balance sheet date**
No acquisitions were made after the balance sheet date.

8.4. **Information on dealings with related companies and persons**
Dealings with closely related companies and persons as defined under IAS 24 ("related parties") are treated as third party transactions.
The shareholders of HIRSCH Servo AG as of the balance sheet date were Kurt Hirsch Holding GmbH (formerly: HIRSCH Green Innovationen GmbH), AvW Invest AG and others (free float).

Services were purchased from the following closely related companies or persons during the 2005/06 Business Year:

Company	Name	2005/06 T€	2004/05 T€
Jakobljevich, Grave & Vetter	Christian Grave	0	44
Gorton & Gorton	Georg Gorton	0	21
I.P.M. Consulting	Heinz Paar	0	23
Werner Kraus	Werner Kraus	2	34
Gorton & Gorton	Gorton & Gorton [1)]	54	91
Total		**56**	**213**

1) Legal advising by the firm Gorton & Gorton

The Group also made reimbursements for pre-financed operating expenses to Kurt Hirsch Holding GmbH (T€ 19), Kurt Hirsch (T€ 152) and the La.Lo.Li. private foundation (T€ 8).

The members of the Managing Board received compensation of T€ 1,080 for the 2005/06 Business Year (2004/05: T€ 590). Of this amount, T€ 492 represent fixed components, T€ 97 are performance-based components and special bonuses for the 2004/05 Business Year and T€ 491 are performance-based components for the 2005/06 Business Year. The calculation of the performance-based components is based on the development of profit on ordinary activities. Of total expenses for severance compensation and pensions, T€ – 1 (2004/05: T€ – 6) are related to the Managing Board. The cost of pensions is included in the fixed components of compensation, and the members of the Managing Board have no other related claims. Potential claims by the members of the Managing Board in the event of termination do not exceed legal regulations and are covered by provisions.

The members of the Supervisory Board received remuneration of T€ 98 for the 2005/06 Business Year (2004/05: T€ 23). Of this amount, T€ 8 were paid to the members of the Supervisory Board who resigned in September 2005.

8.5. **Financial instruments**

The following primary financial instruments are reported on the balance sheet: cash and cash equivalents (cash on hand, deposits with financial institutions), receivables and other assets, investments in other companies that are not consolidated, provisions (excluding tax provisions) and liabilities. The accounting principles governing the individual items are explained in the relevant sections of the notes.

Derivative financial instruments

As of the balance sheet date, the Group held no derivative financial instruments (forwards, futures, option or swaps).

Fair value

The carrying value of the primary financial instruments reflects fair value as of the balance sheet date.

8.6. **Financial obligations**

Obligations arising from rental and leasing contracts (operating leases as defined by IAS 17):

Rental and leasing contracts

	2005/06 T€	2004/05 T€
Due within one year	160	21
Due between one and five years	595	36

The strong increase in lease obligations was triggered by the acquisition of a subsidiary in Slovakia, which has relatively high lease commitments.

In addition, the Group has annual obligations of T€ 73 (2003/04: T€ 83) arising from rental and lease contracts that have an unlimited term.

8.7. **Employees**

The following table shows the average number of employees:

	2005/06	2004/05
Wage employees	332	281
Salaried employees	146	136
Total	**478**	**417**

8.8. **Subsequent events**

There were no significant events after the balance sheet date that could have an impact on these financial statements.

8.9. **Exempting information for the consolidated financial statements as per § 245 a of the Austrian Commercial Code**

8.9.1. The consolidated financial statements as of June 30, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS). These IFRS consolidated financial statements represent an exemption as set forth in § 245 a of the Austrian Commercial Code.

8.9.2. Additional information required by § 245 a Par. 1 Nr. 3 of the Austrian Commercial Code

Members of the Managing Board

The following persons served on the Managing Board during the 2005/06 Business Year:

Carsten Brinkmeier
Peter Grabuschnig
Kurt Hirsch

Members of the Supervisory Board

The following persons served on the Supervisory Board during the 2005/06 Business Year:

Georg Gorton	Chairman since November 9, 2005
Georg Wall	Vice-Chairman since November 9, 2005
Helmut Grienschgl	Since November 9, 2005
Axel Hirschberg	Since November 9, 2005
Michael Kaufmann	Since November 9, 2005

Werner Kraus resigned from the Supervisory Board on September 8, 2005; Christian Grave and Heinz G. Paar resigned on September 15, 2005.

Glanegg, September 19, 2006

The Managing Board

Kurt Hirsch Peter Grabuschnig Carsten Brinkmeier

Audit Report and Opinion

Auditor's report

„We have audited the consolidated financial statements of HIRSCH Servo AG, Glanegg for the fiscal year from July 1, 2005 to June 30, 2006. The Company's management is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the group is in accordance with the consolidated financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement and whether we can state that the management report for the group is in accordance with the consolidated financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the group as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the consolidated financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the group as of June 30, 2006 and of the results of its operations and its cash flows for the fiscal year from July 1, 2005 to June 30, 2006 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The management report for the group is in accordance with the consolidated financial statements."

Vienna, September 19, 2006

ERNST & YOUNG
Wirtschaftsprüfungsgesellschaft

Elfriede Baumann
Certified Public Accountant

Karl Fuchs
Certified Public Accountant

Recommendation for the Distribution of Profits

HIRSCH Servo AG closed the 2005/06 Business Year with retained earnings of € 1,665,611.30.

The Managing Board recommends the distribution of € 1,552,000.00 from retained earnings for the 2005/06 Business Year and the carry forward of the remaining € 113,611.30.

The dividend of € 3.20 per share, less a deduction of 25% for withholding tax, will be paid on November 30, 2006 through credit to the depository banks.

Disbursing institution: Bank Austria Creditanstalt AG

Glanegg, September 2006

The Managing Board

Kurt Hirsch | Peter Grabuschnig | Carsten Brinkmeier

Group Companies

Abbreviation	Company, Location	Stake			Consolidation
		Direct in %	Indirect in %	through	
	Austria				
HP	HIRSCH Porozell GmbH, Glanegg		100.00	B&V	VVK
B&V	Besitz- und Vermietungs GmbH, Glanegg	99.97			VVK
HM	HIRSCH Maschinenbau GmbH, Glanegg		100.00	B&V	VVK
Thzl	Thermozell Entwicklungs- und Vertriebs GmbH, Glanegg		100.00	HP	VVK
	Other countries				
KH Kft	KURT HIRSCH Kft., Sárvár/H		100.00	HP	VVK
HP Kft	HIRSCH Porozell Kft., Sárvár/H		99.90 0.10	HP KH Kft	VVK
HI	HIRSCH Italia S.r.l., Albavilla/I		100.00	HM	VVK
HThzl D	HIRSCH Thermozell GmbH, Munich/D		100.00	Thzl	VNK
HUSA	HIRSCH USA Inc., Atlanta/USA		100.00	HM	VNK
HPO	HIRSCH Porozell Sp. z o.o., Wroclaw/PL		100.00	HP	VVK
HSK	HIRSCH Porozell s.r.o./Slovakia		100.00	HP	VVK
Polif.	Polyform s.r.o./Slovakia		100.00	HP	VVK
HRO	HIRSCH Porozell S.r.l./Romania		100.00	HP	VVK

VVK = Subsidiary, full consolidation
VNK = Subsidiary, not consolidated

Our thanks to all employees

The Managing Board would like to thank each and every one of our employees for helping us to record a remarkable improvement in performance this year.

We would also like to introduce the apprentices in Glanegg who joined our company during the past year, and thank one special employee who has been with us for well over two decades.

A heartfelt welcome also goes out to our staff in the Slovakian and Romanian companies.

Armina Sulejmanovic

joined the financial accounting team as an apprentice in January 2006. During the first months she worked on the receipt and control of invoices, entries to the accounting system, bank transfers and back office. Miss Sulejmanovic sees a variety of different activities and international contacts as two of the most interesting parts of her job, and believes companies must move outside their home markets to be successful in the future. A good working climate and pleasure with her work are important for her job satisfaction. Her next goal may be certification as a financial accountant, in order to further expand the skills she is now learning.

Markus Verdnik, Florian Zeppitz and Gregor Kastler

work for HIRSCH Maschinenbau GmbH in the area of mold construction. Their training has focused to date on milling, turning, drilling, filing, grinding and the setting of nozzles. One factor they all have in common is the high value they place on qualified training, a good working climate and high safety standards. At a later time these three young men want to consider further training in CNC or technical drafting. They have learned a great deal through the international connections of the Group, and see HIRSCH Servo as a good employer for the future.

Reinhard Landsmann

is one of the five longest-serving employees in the Group with over 25 years of service. His career with the HIRSCH Servo Group began in the area of pre-expanding at HIRSCH Porozell GmbH, and he later moved to HIRSCH Maschinenbau GmbH as a fitter and welder in 1988. Mr. Landsmann values this regional company with its diversity and international outlook as well as the good teamwork with his colleagues and supervisors.

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Capital Market Information

Financial Calender

October	**11, 2006:**	Press and Analysts Conference
October	**31, 2006:**	Press release on First Quarter Results 2006/07
November	**20, 2006:**	11th Annual General Meeting
November	**23. 2006:**	Ex-dividend day
November	**30, 2006:**	Payment of dividend
February	**5, 2007:**	Press release on Second Quarter Results 2006/07
April	**30, 2007:**	Press release on Third Quarter Results 2006/07
September	**14, 2007:**	Press release Preliminary Results 2006/07

Information on the HIRSCH Servo Share

Registration number: AT000084975

Type of stock: bearer shares

Capital stock: € 3,635,000

Number of shares as of 30. 6. 2006: 500,000

Trade on: Vienna Stock Exchange, Standard Market Auction and Stuttgart Stock Exchange OTC and since April 2006 Berlin Bremen Stock Exchange OTC

Index: WBI, VÖNIX Sustainability Index

Vienna Stock Exchange Symbol: HIS

Reuters symbol: HISE.VI

Bloomberg symbol: HRCH AV

Datastream-symbol: O: HIR

Investor Relations

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Glossary

Carbon dioxide	Co_2 – a colorless and odorless gas that is generated by the burning of carbonaceous substances when sufficient oxygen is available
Capital employed	= Equity + minority interest + long-term provisions – deferred tax assets + net debt
Cash flow from operating activities	Indicator for the financial and earning power of a company. Cash flow from operating activities is comprised primarily of operating profit, depreciation and amortization, changes in working capital, taxes paid and increases/decreases in provisions.
Deferred taxes	Deferred taxes result from different values in individual company financial statements prepared according to tax regulations and commercial law and from consolidation procedures
Dividend	The net profit per share that is distributed by a stock corporation
Eastern Europe	Eastern Europe + Baltic States + Balkan
EBIT	Earnings before interest and tax; operating profit
EBITDA	Earnings before interest, tax, depreciation and amortization; operating profit before depreciation and amortization
Emission	Any discharge of materials, energy or radiation into the environment from a specific source
EPE	Expandable polyethylene
EPP	Expandable polypropylene
EPS	Expandable polystyrene, better known under various brand names such as Porozell® or Styropor®
Equity ratio	Equity divided by total assets
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Intangible assets	Intangible assets include concessions, industrial property rights, licenses, goodwill, patents, trademarks, brand rights, etc.
Kyoto Protocol	Additional protocol to the United Nations convention for protection of the climate
Net debt	Net total of financial liabilities, financial receivables and cash and cash equivalents
NOPAT	Net operating profit after tax; operating profit – taxes + adjusted taxes (tax effects from financial results)
P/E ratio	Price/earnings ratio; an indicator for the market value of a stock
Pentane	Liquid hydrocarbons, foaming agent
ROCE	Return on capital employed; net yield on capital employed
ROS	Return on sales; operating profit divided by sales
Shape molded components	Shape molded components serve as protection for man and products, and are also used as elements in equipment and motor vehicle construction.
Shape molding	Processing of EPS into packaging and shape molded components
Skin-molding	Foil coating
White goods	Household appliances such as washing machines, dishwashers, electric stoves, clothes dryers
Working capital	Working capital = inventories + trade receivables – trade payables

Cover photo: *Thermal imaging of an apartment building. The yellow-red areas show the higher heat loss from the poorly insulated sections of the building. The blue areas are protected by HIRSCH insulating materials.*

Imprint

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