TELEKOM AUSTRIA

Step back and look at this Annual Report from a distance.

Annual Report 2006

There is more to it than meets the eye…

… so it's good to trust a partner with a clear focus on the essentials. We never turned a blind eye as far as the terms of our expansion in eastern and south-eastern Europe were concerned. We left that to others. We have not budged an inch from our strategic corporate goal of a business policy, which only seizes opportunities for expansion that enhance shareholder value. We always look twice before we act, in the interest of our shareholders. This Annual Report, which takes a tongue-in-cheek look at optical illusions to show the importance of keeping things in their true perspective, is dedicated to them.

With revenues of approximately EUR 4.8 billion, Telekom Austria is not only the largest telecommunications company in Austria, it is also one of the leading corporations in the country, supplying approximately 13 million customers in Austria and abroad with high-quality fixed line and mobile communications services and products.

The wireline segment focuses mainly on the Austrian market and comprises the fixed line activities of the Telekom Austria Group. The wireless segment encompasses all Group's mobile communications activities and in addition to its subsidiaries in Austria, Bulgaria, Croatia, Slovenia and Liechtenstein, it will set up greenfield operations in the Republic of Serbia and the Republic of Macedonia in 2007. Thanks to this successful internationalization, the international activities of the Telekom Austria Group accounted for 32% of total revenues and 28% of adjusted EBITDA in 2006.

On the Vienna Stock Exchange the Telekom Austria share is one of the most heavily-traded stocks. Based on the successful business performance in 2006 – earnings per share rose by 41.7% to EUR 1.19 – the Management Board will request the Annual General Meeting to raise the dividend payment from EUR 0.55 to EUR 0.75 per eligible share. After an annual performance of 7%, total shareholder return in the 2006 financial year amounted to approximately 10%. Since the IPO in November 2000, Telekom Austria shareholders have reaped an average total shareholder return of 17% per year.

Key Figures of the Telekom Austria Group

Key Data – Operational	Dec. 31, 2006	Change in %	Dec. 31, 2005	Dec. 31, 2004
Wireline (in '000s)				
Fixed access lines	2,642.6	-5.7	2,801.9	2,906.7
• Thereof ADSL wholesale	122.3	15.6	105.8	85.2
• Thereof ADSL retail	571.3	21.9	468.5	298.4
Total ADSL lines	693.6	20.8	574.3	383.6
Fixed access channels	3,240.7	-5.6	3,433.7	3,570.7
Internet customers in Austria	1,505.8	5.7	1,424.2	1,187.0
Customers Czech On Line	148.2	-21.1	187.9	247.1
Wireless				
Customers (in '000s)				
• in Austria	3,630.5	7.0	3,392.2	3,273.6
• in Bulgaria	4,267.9	18.7	3,594.2	-
• in Croatia	1,912.3	18.6	1,612.9	1,308.6
• in Slovenia	420.9	17.0	359.6	363.3
• in Liechtenstein	4.8	14.3	4.2	3.5
Total	10,236.4	14.2	8,963.1	4,949.0
Employees – at year-end [1]	15,428	-1.1	15,595	13,307

Key Data – Financial (in EUR million)	2006	Change in %	2005	2004
Telekom Austria Group [2]				
Operating revenues	4,759.6	9.0	4,365.2	4,042.9
of which generated abroad (in %)	31.9	-	25.4	18.7
Operating income	772.4	24.6	619.7	469.5
Adjusted EBITDA [3]	1,906.8	8.4	1,758.5	1,585.5
of which generated abroad (in %)	28.3	-	19.2	10.7
Net income	561.8	37.4	408.9	220.4
Operating free cash flow [4]	910.1	-19.5	1,130.9	1,037.3
Cash flow generated from operations	1,589.9	-2.9	1,637.7	1,319.2
Capital expenditures [3]	996.7	58.8	627.6	548.2
Net debt [3]	3,169.0	1.8	3,113.7	2,129.8
Equity	2,823.5	-3.3	2,918.8	2,798.4
Equity ratio (in %)	37.3	-	37.9	41.9
Adjusted EBITDA margin (in %) [3]	40.1	-	40.3	39.2
Net debt to equity (in %)	112.2	-	106.7	76.1
Return on Invested Capital – ROIC (in %) [3]	10.0	-	8.2	5.1
Return on Equity – ROE (in %) [3]	19.6	-	14.3	8.0

Key Data – Stock Exchange	2006	Change in %	2005	2004
Earnings per share in EUR	1.19	41.7	0.84	0.44
Market capitalization as of Dec. 31, in EUR billion	10.15	6.8	9.50	6.98
Stock price as of Dec. 31 in EUR	20.30	6.8	19.00	13.95
Stock price – high in EUR	21.09	7.9	19.55	14.40
Stock price – low in EUR	16.66	20.2	13.86	9.80
Dividend per dividend-bearing share in EUR	0.75 [5]	36.4	0.55	0.24

1 Full-time employees

2 The consolidated financial results for 2005 include the financial results of Mobiltel for the period July 12, 2005 to December 31, 2005. The financial results of Mobiltel are not included in the results for 2004.

3 For definitions see glossary

4 Defined as adjusted EBITDA less capital expenditures

5 According to proposal to the Annual General Meeting

At a Glance

Increase in revenues by 9.0% to EUR 4,759.6 million

Increase in EBITDA by 8.4% to EUR 1,906.8 million

Approximately 120,000 ADSL net adds safeguard the 51.2% broadband market share

Number of customers in the wireless segment rises by 14.2% to approximately 10.2 million

Market entry through acquisition of a third license in the Republic of Serbia in November 2006 and in the Republic of Macedonia in 2007

Outlook 2007

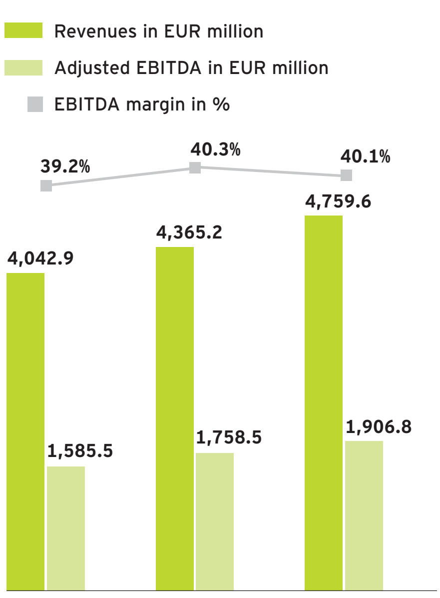
Sustained fierce competition in both segments

Stable development of revenues and net income

Capital expenditures grow by approximately 18% due to investments in the Republic of Serbia and of Macedonia

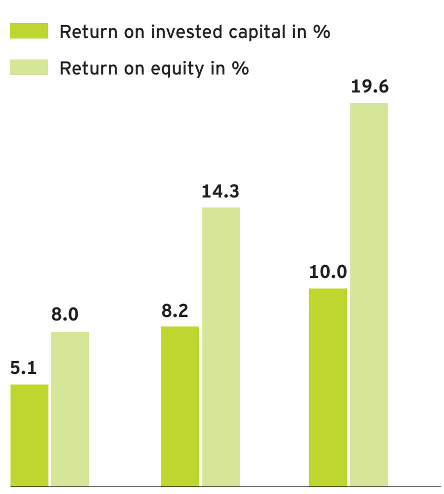
Cash use policy to be updated on Capital Market Day in April 2007

Revenues Rise by 9%, EBITDA margin virtually stable

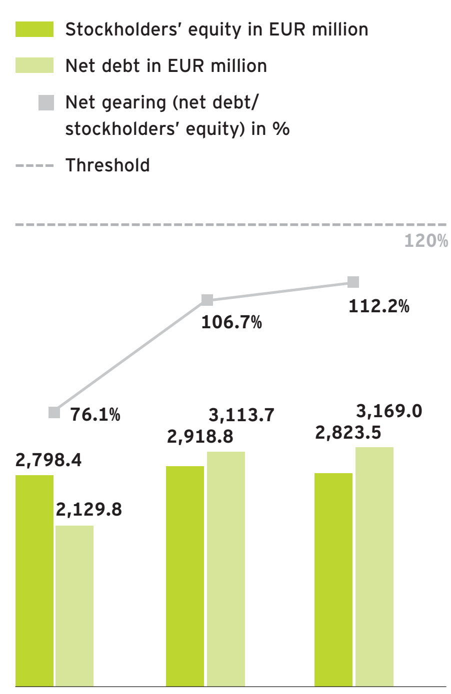


Further Increases in Profitability
Earnings per share rise from EUR 0.84 to EUR 1.19

Proposed dividend rises to EUR 0.75 per share



Net Gearing Ratio below 120% despite expansion projects and increased shareholder remuneration



Annual Report 2006

Introduction by the Management Board

Dear Shareholders,

Just like the illustrations in this year's Annual Report, there is more to Telekom Austria's performance in 2006 than meets the eye. We have persistently continued our growth trend throughout the year and thus, we are proud to present another excellent set of financial results.

The successful integration of Mobiltel enabled us to push ahead with our value-oriented expansion strategy in 2006. Moreover, the acquisition of a mobile communications license in the Republic of Serbia and Macedonia as well as the agreement to acquire the alternative provider eTel towards year-end, will allow us to continue along this path in future. Of course, we would have also liked to win the auction for Mobi63 in the Republic of Serbia, for the mobile communications license in Slovakia, and the tender for Telekom Srpske. But we could not have justified paying a price which would not permit long-term growth in shareholder value. You may rest assured that we will continue to act just as responsibly in future.

In addition to our acquisition efforts, 2006 was also marked by important changes in Telekom Austria's management. As announced, Heinz Sundt resigned from his position as Chief Executive Officer upon conclusion of the Annual General Meeting in May 2006, and our Chief Financial Officer, Stefano Colombo, did not seek an extension of his mandate which expires at the end of March 2007. We would like to take this opportunity to extend our warmest thanks to them for their services to the Telekom Austria Group. The Supervisory Board has appointed Hans Tschuden as the new Chief Financial Officer for a five year period commencing on April 1, 2007. As the Chief Financial Officer of a publicly listed company, he possesses outstanding expertise and the experience necessary for this position.

In close consultation with the Supervisory Board, we continued work on plans to restructure and streamline the Telekom Austria Group, which will be presented to the Annual General Meeting in May 2007. The two segments, wireline and wireless, will operate under the umbrella of a lean holding company, focusing on meeting customer needs and fulfilling their operational tasks. The wireline segment operates in the largely stagnant Austrian market and its strategic goal is to safeguard cash flow generation, while at the same time developing new product areas. The number of fixed access lines is to be secured by attractive broadband Internet offers, innovative products such as aonDigital TV, optimized processes and the further development of infrastructure towards an ALL-IP network.

The wireless segment expects to see moderate growth in Austria and will therefore fully exploit the potential offered by its international markets. While we will benefit from the increasing importance of data communications, we are also responding to the trend toward discount brands with the no-frills brands "bob" in Austria and "tomato" in Croatia. The purchase of the third mobile communications license in the Republic of Serbia for EUR 320 million marks yet another important step in the Group's expansion. The launch of operations is planned for Q2 2007 and we expect positive EBITDA and free cash flow to be achieved in 2009. In February 2007, we also won the third mobile communications license in Macedonia. Notwithstanding the difficult environment in which the two segments operate, Telekom Austria Group revenues rose by 9.0 % to EUR 4,759.6 million. Operating income increased by 24.6 % to EUR 772.4 million due to a slight decline in operating expenses and stable depreciation and amortization charges. Adjusted EBITDA improved

From left to right:
Rudolf Fischer, Boris Nemsic, Stefano Colombo

by 8.4 % to EUR 1,906.8 million. Net income rose by 37.4% to EUR 561.8 million due to the consolidation of Mobiltel and one-off tax benefits. Cash flow generated from operations fell slightly by 2.9% to EUR 1,589.9 million compared to the previous year due to higher working capital requirements. Higher capital expenditures and increased share buy-backs led to a 1.8% increase in net debt to EUR 3,169.0 million despite strong cash flow.

Revenues in the wireline segment were down 0.2% to EUR 2,119.5 million, due to declining voice telephony and reductions in mobile termination charges for mobile communications networks. With 119,300 net adds, broadband Internet access once again reported positive development. Operating income from the wireline segment rose by 36.3% to EUR 92.8 million. Higher employee costs led to a 7.6% reduction in adjusted EBITDA to EUR 729.4 million, with the adjusted EBITDA margin falling from 37.2% to 34.4%. In 2006 the wireless segment profited from Mobiltel's first full-year contribution and saw revenues improve by 16.8% to EUR 2,902.6 million, with all international subsidiaries contributing to this development. Operating income from the wireless segment rose by 23.2% to EUR 677.1 million. Adjusted EBITDA increased by 21.5% to EUR 1,175.4 million, and the adjusted EBITDA margin rose from 38.9% to 40.5%.

On the capital market, a number of factors, including the discussion of EU plans to regulate roaming traffic, impacted the performance of the Telekom Austria share. Nevertheless, in a year-on-year comparison, the price of the share rose by 7%, representing a total price increase of 126% since the IPO in November 2000. Thanks to this improved result, we will request the Annual General Meeting to increase the dividend by 36.4% to EUR 0.75 per eligible share. At the Capital Market Day, we will announce a revision of our cash use policy for 2007. In 2007, we expect a stable development of revenues compared to the previous year due to falling wholesale prices for international roaming. The adjusted EBITDA margin will decline by approximately 1.5 percentage points due to the reduction in roaming prices referred to above and due to operating expenses in connection with the launch of operations in Serbia and Macedonia. Despite falling depreciation, amortization and impairment charges, we also expect a slight decline in operating income. Adjusted for a one-off tax effect in the second half of the year 2006, we expect net income in 2007 to remain almost stable. Our strategy of expansion remains focused on eastern and southeastern Europe. We will continue to monitor developments in Bosnia Herzegovina, but also await other opportunities in this target region.

Only if we identify opportunities and risks early on will we be able to reap success in the market place and there can be no doubt that we have done exactly this in 2006. We would like to take this opportunity to thank the employees and executives of the Telekom Austria Group for their contribution to this success. And we would also like to thank you, our shareholders, for the trust you have placed in us.

Sincerely,

Boris Nemsic, Chairman of the Management Board
Rudolf Fischer, Vice Chairman of the Management Board
Stefano Colombo, Chief Financial Officer

Management Board

Boris Nemsic – Chairman of the Management Board
Boris Nemsic, born in 1957, earned his diploma as an electrical engineer at the Sarajevo Technical University in 1980. In 1990, he was awarded a doctorate by the Vienna University of Technology. After employment at Ascom and Bosch Telekom in Austria, Germany and Switzerland, he was hired as head of network planning at mobilkom austria. In November 1998, he took over as Managing Director of the Croatian subsidiary Vipnet d.o.o. In May 2000, Boris Nemsic was appointed CEO of mobilkom austria. As of July 2002, he was also appointed to the Management Board of the Telekom Austria Group where he was responsible for the wireless segment. On May 24, 2006, Boris Nemsic also assumed the position of Chairman of the Management Board of Telekom Austria in addition to his responsibility for the wireless segment.

Rudolf Fischer – Vice Chairman of the Management Board
Rudolf Fischer was born in 1953. After finishing his studies at the Vienna University of Economics and Business Administration, Mr. Fischer began his career at Alcatel Austria. From 1989 to 1993, he was head of AOSA, a joint venture between Siemens AG and Alcatel Austria. In 1994, he was appointed Chairman of the Board of United Telecom Investment B.V. in the Netherlands. Between 1996 and 1998, he was President of LTOA, an association of local telecommunications operators in Hungary. In November 1998, Rudolf Fischer became a member of the Management Board of Telekom Austria. In November 2001, he was appointed Chief Operating Officer (COO) of the wireline segment. On May 24, 2006, Mr. Fischer assumed the position of Vice Chairman of the Management Board in addition to his responsibility for the wireline segment.

Stefano Colombo – Chief Financial Officer until March 31, 2007
Stefano Colombo was born in 1961. After graduating from Luigi Bocconi University in Milan, he joined the corporate finance department of Mediobanca in 1986. In 1990, Mr. Colombo became assistant to the CFO of the chemicals corporation Enimont and, in 1994, was appointed Chief Financial Officer of Olivetti Telemedia. From 1996 to 1999, he served as Managing Director of Carrera Optyl in Linz, Austria, a sub-division of the Italian eyeglass producer Safilo. In 1999, he became Chief Financial Officer of the Marcolin eyeglass company. In April 2000, Stefano Colombo was appointed Chief Financial Officer of Telekom Austria. Mr. Colombo will continue to serve the company in this capacity until March 31, 2007, after which he will be available as a consultant.

Hans Tschuden – Chief Financial Officer as of April 1, 2007
Hans Tschuden was born in 1958. He graduated from the Vienna University of Economics and Business Administration and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberg Group, first as controller, then, from 1993, as head of Wienerberger Rohrsysteme GmbH in Vienna. From 1995 he served as managing director of Keramo Wienerberger N.V. in Belgium before moving to Steinzeug Abwassersysteme GmbH in Cologne in 1998. In 1999, he became a member of the Wienerberger Management Committee and, in May 2001, joined the Management Board of Wienerberger AG as CFO. In October 2006 Hans Tschuden was appointed CFO of Telekom Austria, effective as of April 1, 2007.

Report by the Supervisory Board

Ladies and Gentlemen,

In 2006, Telekom Austria continued its growth and internationalization strategy focused on a sustainable increase in shareholder value and, at the same time, successfully defended its market and innovation leadership in Austria. The very favorable development of financial results in previous years reached a new record level in the reporting year.

In addition to the continuing focus on expansion, 2006 also saw changes at the top management level in line with the new holding structure. Boris Nemsic was appointed Chairman of the Management Board of Telekom Austria effective May 24, 2006, and Rudolf Fischer Vice Chairman of the Management Board. Both management mandates were extended until April 30, 2011. Based on the new holding structure, which provides for a transparent and future-oriented Group structure with two operational units under the umbrella of a lean management holding company, the Supervisory Board drew up a qualification profile for the Chief Financial Officer. The Personnel and Nomination Committee was asked to make the necessary preparations for filling this position.

At a meeting of the Supervisory Board on October 23, 2006, Hans Tschuden was appointed to succeed Stefano Colombo, effective April 1, 2007, for a period of five years. Mr. Tschuden is a respected financial expert with in-depth knowledge of south-eastern Europe.

There were also a number of changes to the Supervisory Board in 2006: Peter Mitterbauer, Harald Sommerer and Otto G. Zich retired from the Supervisory Board. The election of Wolfgang C. Berndt and Hans Jörg Schelling at the 2006 Annual General Meeting further strengthened the expertise of the Supervisory Board in the areas of Corporate Governance and Marketing. Following his election to Parliament, Hans Jörg Schelling resigned from the Supervisory Board in February 2007.

The continuation of the value-oriented expansion strategy and the personnel decisions outlined above required frequent meetings of the Supervisory Board and its committees. The business development and strategic focus of the Telekom Austria Group was discussed extensively at nine meetings of the Supervisory Board, five meetings of the Audit Committee established in compliance with US law, one meeting of the Audit Committee established under Austrian law, three meetings of the Personnel Committee and a strategy workshop. Particular attention was devoted to expansion projects in the wireless segment in Serbia, Bosnia Herzegovina, Slovakia, Macedonia and Kosovo, and the acquisition of eTel in the wireline segment. Other discussions focused on strategically positioning and asserting the two segments in Austria, risk management and internal control systems.

The role of a financial expert for the Audit Committee which was performed by Harald Sommerer until his resignation, and is now filled by Rainer Wieltsch. Wolfgang C. Berndt was voted on to the Audit Committee for the first time, providing a valuable addition to this body with his many years of experience on the supervisory boards of several international companies. In the year under review, the Audit Committee focused on the internal control system for financial reporting which has now been implemented throughout the Group. Other Audit Committee activities included monitoring the integrity of the financial statements, the quality, independence and performance of the auditors, and the functioning of internal audit controls. In 2006, the Audit Committee also carried out a self-evaluation for the first time. The Chairman of the Audit Committee provided the other members of the Supervisory Board with regular and detailed reports on the Committee's work.

The Supervisory Board of Telekom Austria is strongly committed to compliance with the Austrian Corporate Governance Code and responsible company management and control aimed at sustained value creation. According to the criteria laid down by the Supervisory Board of Telekom Austria, six of the eight share-holder representatives are deemed to be independent. Telekom Austria possesses effective corporate governance mechanisms which comply with the strict US standards, and is therefore well prepared for the introduction of similar regulations in the European Union.

The annual financial statements of Telekom Austria AG and the consolidated financial statements were audited by KPMG Austria Wirtschaftsprüfungs- und Steuerberatungs GmbH and received unqualified opinions. The management report and the group management report are consistent with the annual financial statements and consolidated financial statements. After prior consultation with the Audit Committee established under Austrian law, and extensive discussions and review, the Supervisory Board approved the 2006 annual financial statements in accordance with § 125 Para. 2 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee (US law) and the Audit Committee (Austrian law) and after detailed discussion and review, the Supervisory Board approved the consolidated financial statements prepared in accordance with § 245 of the Austrian Enterprise Code pursuant to IFRS, the reconciliation report pursuant to the Austrian Enterprise Code, the reconciliation report pursuant to U.S. GAAP, the management report and the group management report.

The Supervisory Board gave its assent to the Management Board's proposal to pay a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to offer my sincere thanks to the management and employees for their loyalty and commitment. In particular, I would like to thank the former Chief Executive Officer, Heinz Sundt, who retired in May 2006, and the retiring Chief Financial Officer, Stefano Colombo, who have both per-formed such excellent work for the company.

I would also like to thank all Telekom Austria customers and shareholders for their confidence and support and, at the same time, ask for their continued loyalty in the future.

Peter Michaelis
Chairman of the Supervisory Board
Vienna, March 2007

Members and Committees of the Supervisory Board

Name / First Appointed	Other Supervisory Board Positions and Comparable Functions	Independent Pursuant to Rule 53 of the Austrian Corporate Governance Code	Annual General Meeting at which Mandate Ends
Peter Michaelis / 28.6.2001 Chairman	**Outside the Group:** OMV AG, Austrian Airlines AG, Österreichische Post AG, APK-Pensionskasse AG	Yes (Not, however, to Rule 54 of the Austrian Corporate Governance Code)	2008
Edith Hlawati / 28.6.2001 Vice Chairwoman		Yes	2008
Rainer Wieltsch / 12.6.2002	Austrian Airlines AG, OMV AG, Austrian Research Centers GmbH, Österreichische Post AG, Bundesrechenzentrum GmbH	Yes	2008
Johann Haider / 4.6.2003	**Within the Group:** Ennskraftwerke AG, Steweag-Steg GmbH, Verbund-Austrian Hydro Power AG, Verbund-Austrian Power Grid AG, Verbund-Austrian Power Trading AG, Verbund-Austrian Thermal Power GmbH, Energie Klagenfurt GmbH, KELAG – Kärntner Elektrizitäts-AG **Outside the Group:** Siemens AG Österreich	Yes	2008
Stephan Koren / 17.9.1999	**Within the Group:** Bawag PSK Leasing GmbH, PSK Versicherung AG, easybank AG, Österreichische Verkehrskreditbank AG, uni venture Beteiligungs AG **Outside the Group:** Österreichische Post AG, Wiener Stadtwerke Holding AG, Bausparkasse Wüstenrot AG, Omnimedia Werbegesellschaft mbH, Österreichische Lotterien Gesellschaft mbH, Austria Wirtschaftsservice GmbH		2008
Wilfried Stadler / 15.7.2005	**Within the Group:** VBV Anlagenvermietungs- und Beteiligungs AG **Outside the Group:** ATP Planungs- und Beteiligungs-AG, Die Furche – Zeitschriften–Betriebsgesellschaft m.b.H., TRODAT Holding GmbH, WIENSTROM GmbH	Yes	2008
Harald Stöber / 4.6.2003	**Outside the Group:** Deutsche Messe AG Hannover		2008
Wolfgang C. Berndt / 23.5.2006	Cadbury Schweppes PLC, Lloyds TSB Group PLC, Lloyds TSB Bank PLC, GfK AG, Institute For The Future	Yes	2008

Members of the Supervisory Board delegated by the Works' Council

Wilhelm Eidenberger / 30.4.2001	
Markus Hinker / 15.7.2005	**Within the Group:** Telekom Austria Personalmanagement GmbH
Walter Hotz / 9.12.2003	
Michael Kolek / 20.3.2002	**Within the Group:** Telekom Austria Personalmanagement GmbH **Outside the Group:** APK Pensionskasse AG, Österreichische Industrieholding AG
Franz Kusin / 6.8.2004	

Committees

Personnel and Nomination Committee: Peter Michaelis (Chairman), Edith Hlawati, Michael Kolek
Chairing and Remuneration Committee: Peter Michaelis (Chairman), Edith Hlawati
Audit Committee: Rainer Wieltsch (Chairman), Wolfgang C. Berndt, Michael Kolek

Members who Retired / Retirement Date

Peter Mitterbauer / 23.5.2006
Hans Jörg Schelling / 6.2.2007
Harald Sommerer / 24.6.2006
Otto G. Zich / 23.5.2006

Committees of the Supervisory Board and their Responsibilities

The Supervisory Board of Telekom Austria comprises up to ten members who are elected by the Annual General Meeting and up to five employees who are delegated by the Works' Council. Employee codetermination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria. According to the Articles of Association of Telekom Austria, individuals can be elected to the Supervisory Board up to the age of 65.

In order to carry out its work effectively and in compliance with legal requirements, the Supervisory Board has set up three committees as provided for by the Articles of Association.

- Audit Committee (which also carries out the tasks of the Audit Committee required by the Sarbanes-Oxley Act)
- Chairing and Remuneration Committee
- Personnel and Nomination Committee

Average attendance at the committee meetings in 2006 was 100%, and at the meetings of the Supervisory Board over 85%. No member of the Supervisory Board attended fewer than 50% of Supervisory Board meetings.

The **Audit Committee** supports the Supervisory Board in monitoring the integrity of the financial statements, the quality, independence and performance of the auditors, and the effectiveness of internal audit controls. The duties and powers of the Audit Committee are laid down in separate guidelines. The **Chairing and Remuneration Committee** is responsible for the contracts and remuneration of members of the Management Board, including the setting of targets and monitoring the achievement of goals for the calculation of performance-related salary bonuses. It is also responsible for the corporate governance process within the Supervisory Board. Furthermore, the Chairing Committee is also authorized to make decisions on matters of urgency. The **Personnel and Nomination Committee** deals with appointments to the Management Board and, in 2006, was requested to find a successor for the retiring Chief Financial Officer.

Criteria for the Independence of Supervisory Board Members

On February 10, 2006, the Supervisory Board laid down guidelines to determine the independence of Supervisory Board members of Telekom Austria pursuant to Rule 53 of the Austrian Corporate Governance Code. Accordingly, a member of the Supervisory Board is deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the member's behavior.

It is the responsibility of each member of the Supervisory Board of Telekom Austria AG elected by the Annual General Meeting to declare their independence according to the criteria defined. The Supervisory Board must also judge whether it and its committees contain a sufficient number of independent members (Rules 39 and 53 of the Austrian Corporate Governance Code). According to Rule 54 of the Austrian Corporate Governance Code, the Supervisory Board of Telekom Austria must include at least two independent shareholder representatives who are not shareholders with a stake of more than 10% or who represent such shareholders' interests. In compliance with Rules 39 and 53, the Supervisory Board established that the Supervisory Board and its committees had a sufficient number of independent members. Telekom Austria also complies with Rule 54 for companies with more than 50% free float as the Supervisory Board has not just two, but five independent members.

Remuneration Report

Remuneration of the Management Board

In 2006, remuneration expenses for the members of the Management Board amounted to EUR 1.4 million (2005: EUR 1.5 million), plus bonuses of EUR 1.6 million (2005: EUR 1.3 million) and benefits derived from the Stock Option Program amounting to EUR 3.4 million (2005: EUR 0.9 million). The total remuneration received by members of the Management Board, broken down into non-variable and variable components, is shown on page 134 of the Consolidated Financial Statements.

Contingent upon the 100% achievement of the targets defined by the Supervisory Board, the bonus payments awarded to members of the Management Board amount to 100% of their gross annual salary. These targets are based equally on operational figures such as economic value added (EVA) or free cash flow generated from operations, and on the achievement of strategic objectives. The overall structure of the remuneration package for members of the Management Board is the responsibility of the Chairing and Remuneration Committee. A stock option program has also been set up for members of the Management Board and other executives. Detailed information is contained on pages 116-119 of the Notes to the Consolidated Financial Statements.

In addition to their regular remuneration, bonuses and stock options, members of the Management Board also receive a contribution to a voluntary pension plan amounting to 10% of their current gross annual salary. The amount of the severance payment which becomes due when they leave the company is based upon the length of their employment and is limited to one gross annual salary plus the bonus payment.

The members of the Telekom Austria Management Board have been appointed for the following terms:
Boris Nemsic: Up to April 30, 2011
Rudolf Fischer: Up to April 30, 2011
Stefano Colombo: Up to March 31, 2007
Hans Tschuden: April 1, 2007 to March 31, 2012

Remuneration of the Supervisory Board

The Annual General Meeting held on May 23, 2006 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairman and EUR 15,000 for all other shareholder representatives. All members of the Supervisory Board receive a meeting attendance allowance of EUR 220. Details of business relationships with members of the Supervisory Board are listed on page 98 of the Consolidated Financial Statements.

Auditor's Fees

The Audit Committee appoints the auditor and approves the audit fee after the choice of auditor has been approved by the Annual General Meeting. The expenses of the Telekom Austria Group for the annual audit of the 2006 financial statements amounted to EUR 4.0 million, compared with EUR 3.6 million in the previous year. The audit services also included providing an auditor's opinion on the internal system of controls for financial reporting as required by U.S. regulations. The cost of audit-related services decreased in the reporting year from EUR 0.4 million to EUR 0.1 million. Expenses for tax consultancy and other services amounted to EUR 0.4 million, compared with EUR 0.5 million in 2005.

Corporate Governance Report

At a Glance

New holding structure to be submitted to the Annual General Meeting in 2007

Auditors confirm effectiveness of internal control system

Telekom Austria complies with the Austrian Corporate Governance Code as amended

Corporate governance provides an effective framework for sustainable and transparent company management. In 2003, Telekom Austria therefore made a voluntary commitment to comply with the Austrian Corporate Governance Code. Furthermore, Telekom Austria has also established effective corporate governance mechanisms which comply with the strict US standards and is therefore optimally prepared for future corporate governance requirements at European level.

Cooperation Between the Management Board and Supervisory Board

Every year, the strategic focus of the Telekom Austria Group is agreed at a workshop held with the Management Board and Supervisory Board. During the year, the implementation of these strategic goals is discussed at the meetings of the Supervisory Board. Management reporting to the Supervisory Board is regular, informative and concise, and provides an update of the company's situation, including risk scenario. Within the financial reporting system, the Audit Committee, which since 2003 has also acted according to the requirements of the Sarbanes-Oxley Act, has played an important role. The Audit Committee and the chairman of the Supervisory Board also receive additional monthly reports on the development of the financial results.

Proposal for a Holding Structure for the Next Annual General Meeting

With the agreement of the Supervisory Board, the Management Board in December 2005 laid down the foundations for the establishment of a holding organization in order to create a transparent and future-oriented Group structure with two strong operational units under the umbrella of a lean management holding company. In 2006, the Supervisory Board made the personnel adjustments to pave the way for the implementation of the new Group structure. Furthermore, first steps were taken to legally separate the wireline and wireless segments.

Following a resolution passed by the Annual General Meeting in 2007, the wireline segment will receive a market-oriented structure. Holding functions will be carried out by Telekom Austria AG as a publicly listed corporation. In future, the wireline segment will operate as an independent company under the brand of Telekom Austria. The publicly listed holding corporation will hold interests in both mobilkom austria AG and the fixed line company. The Management Board will therefore recommend to the Annual General Meeting in May 2007 to spin off the current wireline segment from Telekom Austria AG into a newly founded stock company.

US Delisting and Deregistration from the SEC under Scrutiny

Owing to the low volume of Telekom Austria shares traded on the New York Stock Exchange and in light of the anticipated adoption in May of new rules on deregistration from the US Securities and Exchange Commission, Telekom Austria has decided to consider delisting. However, Telekom Austria will continue to attach great importance to stringent corporate governance mechanisms and high standards of reporting.

In 2006, the extended remit and frequency of meetings of the Audit Committee effectively supported the Supervisory Board in monitoring the integrity of the financial reporting, the quality, independence and performance of the auditors and the effectiveness of internal audit controls. The Disclosure Committee, to which the heads of the accounting, legal and investor relations departments belong, is responsible for ensuring accuracy and exhaustive external reporting. The Code of Ethics defines mandatory standards of ethical conduct for the Management Board and other executives in all Telekom Austria's business activities and can be viewed on the Telekom Austria website at www.telekom.at/ir

Telekom Austria's Whistleblower Directive enables all employees to report in confidence or anonymously any incidents concerning the integrity of the financial reporting. Such reports will then be investigated.

The company attaches particular importance to the introduction and auditing of an internal control system for financial reporting (ICOSR). In 2005, Telekom Austria voluntarily commissioned the auditors to evaluate the ICOSR and, in 2006, implemented the recommendations and other improvement measures drawn up on the basis of this process. Both the detailed internal evaluation carried out as part of a management assessment and the extensive audit carried out by the auditors confirmed the effectiveness of the ICOSR. Due to the extensive implementation of the ICOSR throughout both segments, the Telekom Austria Group is well prepared for the anticipated introduction of a European Internal Control System within the framework of the 8th EU Audit Directive in 2008.

Further information regarding risk management at Telekom Austria is provided in the Management Report on pages 50-52.

The Form 20-F, a publication similar to the annual report only available in English, provides information in compliance with the guidelines of the US Securities and Exchange Commission (SEC) about the development of results and corporate risks as well as legal and regulatory aspects. It is available on the corporate website under www.telekom.at/ir

Compliance Guideline

Since the beginning of 2005, a uniform legal framework to prevent and combat misconduct by insiders and market manipulation has been in force in the EU; this framework has also been incorporated into the Austrian Corporate Governance Code. Telekom Austria has introduced group-wide mandatory compliance guidelines which meet both current Austrian and US capital market rules. Twenty-six classified units have been defined within the Telekom Austria Group. Regular workshops and training programs are organized to promote a strong understanding of compliance among the employees concerned. In addition, they are notified of specific blocking periods and trading prohibitions prior to the announcement of the annual and quarterly results. Organizational measures have also been put in place in the area of IT security and documentation of the distribution of sensitive data to prevent the misuse of insider information.

In accordance with the legal provisions and rules of the Corporate Governance Code, details of directors' dealings are published on the website under www.telekom.at/ir

Details about the shares held by the Management and the Supervisory Board are available in the table on the left.

Austrian Corporate Governance Code

Starting from the 2003 Annual Report, Telekom Austria has voluntarily committed to comply with the Austrian Corporate Governance Code. The amendments to the Code published in January 2006 have all been implemented at Telekom Austria. An evaluation carried out by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft confirms the correctness of Telekom Austria's published statements regarding compliance with the Code. The evaluation report is available on the corporate website under www.telekom.at/ir

The Code lays down 80 rules, of which 29 are based on existing mandatory requirements ("L Rules" – legal requirements) such as stock exchange or stock corporation law. Any deviation from the 45 "C Rules" (comply or explain) must be explained. Non-compliance with the remaining six rules ("R Rules" – Recommendations) must neither be disclosed nor explained. By making the following statements, Telekom Austria is also deemed to comply with the following "C Rules."

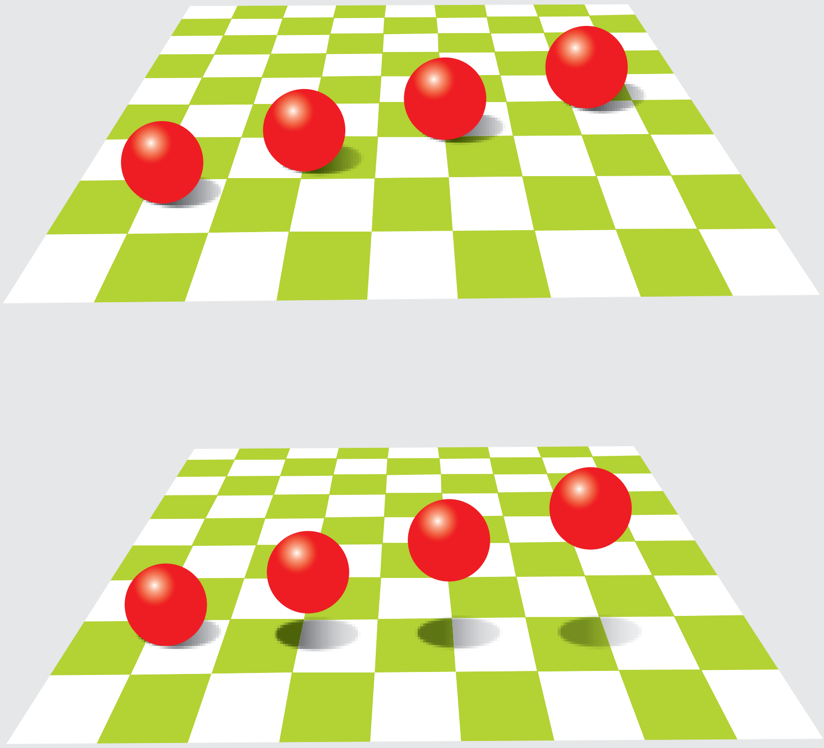
Rule 4:
Countermotions are not published on the company's website because the Annual General Meeting is the forum for such proposals.

Rule 28:
Stock option plans for the Management Board are decided on by the Supervisory Board. The parameters of the stock option program were presented to the Annual General Meeting on June 4, 2003 and May 23, 2006.

Telekom Austria Shares Held by the Management and the Supervisory Board

Name	Shares Held as of Dec. 31, 2006
Boris Nemsic	13,110
Rudolf Fischer	13,007
Stefano Colombo	13,012
Edith Hlawati	2,425
Rainer Wieltsch	1,100
Johann Haider	2,090
Michael Kolek	288
Wilhelm Eidenberger	445
Walter Hotz	45
Markus Hinker	266
Franz Kusin	266

Figure 1: Light and Shadow



A matter of perspective.

Congratulations! If you can see an upward trend here, you have an eye for opportunities. Of course, in the eyes of a shareholder the share price can never be high enough. But how sharp the upward trend is, is a matter of perspective.

Despite the shadows cast by the general market sentiment, Telekom Austria shareholders still have reason to be satisfied.

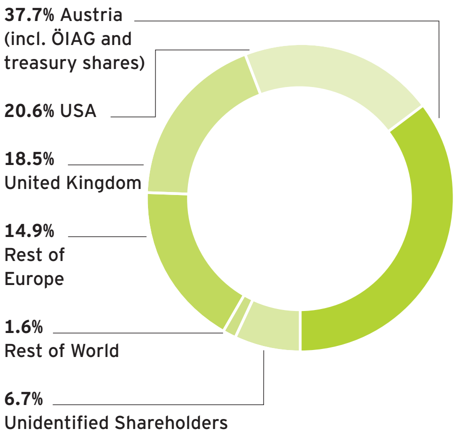
Investor Relations

At a Glance

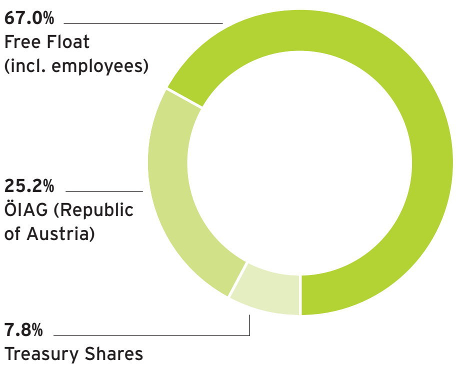
Turbulent year for Telekom Austria shares ends with 7 percent price increase

Coverage, liquidity and stock exchange turnover significantly improved

Shareholder Structure by Country
as of Dec. 31, 2006



Shareholder Structure
as of Dec. 31, 2006



Free Float Increased to Almost 75%

After remaining unchanged in the previous year, the shareholder structure of Telekom Austria underwent a change in 2006. In 2003, ÖIAG issued an exchangeable bond with a volume of EUR 325 million convertible into 25 million Telekom Austria shares. By the end of the exchange period on June 14, 2006, bonds equivalent to approximately 24 million Telekom Austria shares had been exchanged. The remaining one million shares were sold by ÖIAG over the stock exchange. As a result, free float increased to 74.8% at year-end 2006, while ÖIAG's stake was reduced to 25.2%. By stepping up the share buyback program, the company was able to increase the percentage of treasury shares from 3.5% in the previous year to 7.8%.

In an analysis carried out as of December 31, 2006, 93% of the bearer shares were identified. Roughly 21% of the shares are held by investors from the USA, 19% by British shareholders. The percentage of Austrian investors (including ÖIAG) is estimated at approximately 38%. Most of the remaining stock is held by investors in other European countries. Only 7% of shareholders could not be identified.

The Management of Telekom Austria plans to let employees participate in the company's development to a greater degree by allocating several tranches of shares in the period up to 2010. Despite the Employee Participation Program introduced in December 2006, the percentage of shares held by employees decreased from 0.4% to 0.3%.

Capital Research & Management (Delaware), which holds just under 7.7%, disclosed its holdings as of December 31, 2006. As the managers of the funds controlled by this company make their investment decisions completely independently, these shares are regarded as free float.

Expanded Coverage – Award-Winning Investor Relations

Three additional international banks, Arete, ING and Bear Stearns International, started to analyze the potential of Telekom Austria shares in the year under review. This has increased the number of investment banks publishing regular reports on Telekom Austria shares from 24 to 27, whereby, at year-end 2006, 17 analysts had issued positive recommendations.

In addition, the Management Board and investor relations team of Telekom Austria uses a large number of events to engage in active and open dialogue. In 2006, information about the company, current developments and strategic objectives was presented at 15 roadshows, 205 one-on-one meetings, 154 telephone conferences, 66 group presentations and 11 international investor and telecommunications conferences. In total, the Management Board spent 40 days in 2006 meeting with investors.

Telekom Austria is committed to the principle of treating all shareholders equally and seeks contact with private investors as intensively as with institutional investors and analysts.

Analyst Coverage

ABN AMRO
Arete
CA IB (UniCredit)
Bear, Stearns International
CAI Cheuvreux
Citigroup
Credit Suisse
Deutsche Bank
Dresdner Kleinwort Wasserstein
ERSTE Bank
EXANE BNP Paribas
Execution
Goldman Sachs
HSBC
ING
JP Morgan
Lehman Brothers
MainFirst
Merrill Lynch
Metzler
Morgan Stanley
New Street Research
Raiffeisen Centrobank
Sal. Oppenheim
UBS
Volksbank IB
WestLB

This principle is expressed in the comprehensive range of topical information available on the website, the large numbers of shareholder information releases, a free shareholder hotline, but also participation at the Gewinn Trade Fair. These efforts have also been honored by the business magazine "Gewinn," which awarded Telekom Austria the second prize among all companies listed in the Vienna Stock Exchange's Prime Market Segment in the Börsenpreis 2006 competition for its open, up-to-date and comprehensive information policy.

The numerous other awards received by the Annual Report 2005 also testify to the quality of the company's reporting: In the "Austrian Annual Report Award" (AAA) bestowed by the Austrian business magazine "trend," Telekom Austria was awarded two prizes for excellence in the categories Professional Investor and Online Annual Report, and two second places in the categories Overall Evaluation and Media Quality. At the "Annual Report Competition (ARC)" in New York, the world's largest competition for Annual Reports, the Annual Report 2005 received one Gold Award and two Bronze Awards.

Current Online Information Services

The Investor Relations web presence on Telekom Austria's corporate site at www.telekom.at/ir is an important instrument for communicating information to all shareholders simultaneously. The already high standard of quality achieved in previous years was improved further in 2006. The presentation of the share performance has been enhanced and a clear overview of comparative figures implemented. Live webcasts of the Annual General Meeting and of press conferences on financial results as well as an archive of recordings complete this extensive range of services. Once again, the effort this entails was recognized with numerous awards in 2006. Both the Austrian business magazine "trend" and "IR Global Rankings" awarded first prize to the online Annual Report. "IR Web Report" and "Webranking™" 2006 have confirmed that Telekom Austria has the world's best investor relations website in the telecommunications industry.

Resolutions Passed by the Annual General Meeting

On May 23, 2006, some 400 shareholders gathered for the sixth Annual General Meeting of Telekom Austria AG at the Austria Center Vienna. The resolutions which were adopted included:

- The discharge of the members of the Management Board and the Supervisory Board for the financial year 2005.
- Appointment of KPMG Alpen-Treuhand GmbH as the auditors for the financial year 2006
- Payment of a dividend of EUR 0.55 per eligible share
- Increased remuneration for members of the Supervisory Board for the financial year 2005
- Appointment of two new members of the Supervisory Board, one member of the Supervisory Board was voted out
- Extension of the Management Board's authorization to buy back shares for between EUR 10 and 25 per share, and permission to issue them to employees
- Approval of authorized but contingent capital to service options already issued, a further contingent capital increase was also authorized to service future options.

Stable Dividend Policy

Higher net income in 2006 enabled a dividend increase of 36.4% with a stable payout ratio of 65%. The Management Board of Telekom Austria will therefore ask the Annual General Meeting, to be held on May 30, 2007, to approve a dividend of EUR 0.75 per eligible share. This represents a return of approximately 3.7% on the share price at year-end 2006. Assuming a sustained positive business development, Telekom Austria aims to steadily continue this dividend policy.

Increased Share Buyback

Telekom Austria's share buyback program provides for the purchase of up to 10% of the share capital or 50 million shares within a price band of EUR 10 and EUR 25. The authorization granted by the Annual General Meeting is limited to 18 months and ends on November 22, 2007. At the end of 2006, Telekom Austria held approximately 38.3 million treasury shares, or roughly 7.8% of its share capital. In the year under review, 21.3 million shares were purchased for an average price of EUR 19.09; in the previous year 11.2 million shares for an average of EUR 16.04. In accordance with the resolution of the Annual General Meeting, treasury shares may be used to service stock options and convertible bonds, issued to employees or used as consideration for acquisitions, or for resale and retirement. In accordance with this mandate, approximately 0.5 million shares were distributed within the framework of the Employee Participation Program in December 2006.

Cancellation of Treasury Shares

On March 19, 2007, the Management Board voted to retire 8.0% or 40 million treasury shares and to lower the share capital to EUR 460 million. This retirement led to an increase in the stakes of the remaining shareholders by 8.7% and to a reduction of the number of shares in circulation.

The Telekom Austria cash use policy published in December 2005 provides for approximately EUR 1.8 billion for share buybacks and dividend payments between 2006 and 2009. This policy will be updated for the next Capital Market Day in April 2007.

Excellent Stock Market Year, ATX Remains a Top Performer

The Dow Jones Index posted a 16% increase in 2006. This development was driven by falling oil prices, a reversal of interest rate policy and the expected soft landing of the US economy. Among the most important European share indices, the German DAX and the French CAC 40 reported the strongest gains, rising 22% and 18% respectively. Measured against the FTSE 300 Eurotop Index, the overall European market climbed 16%. Following a negative performance in 2005, the industry index Dow Jones Stoxx Telecom gained 17% in 2006.

After posting gains of approximately 50% in both the previous years, the trend on the Vienna Stock Exchange weakened in 2006. With an increase of 22%, the leading index ATX, however, remained a top European performer.

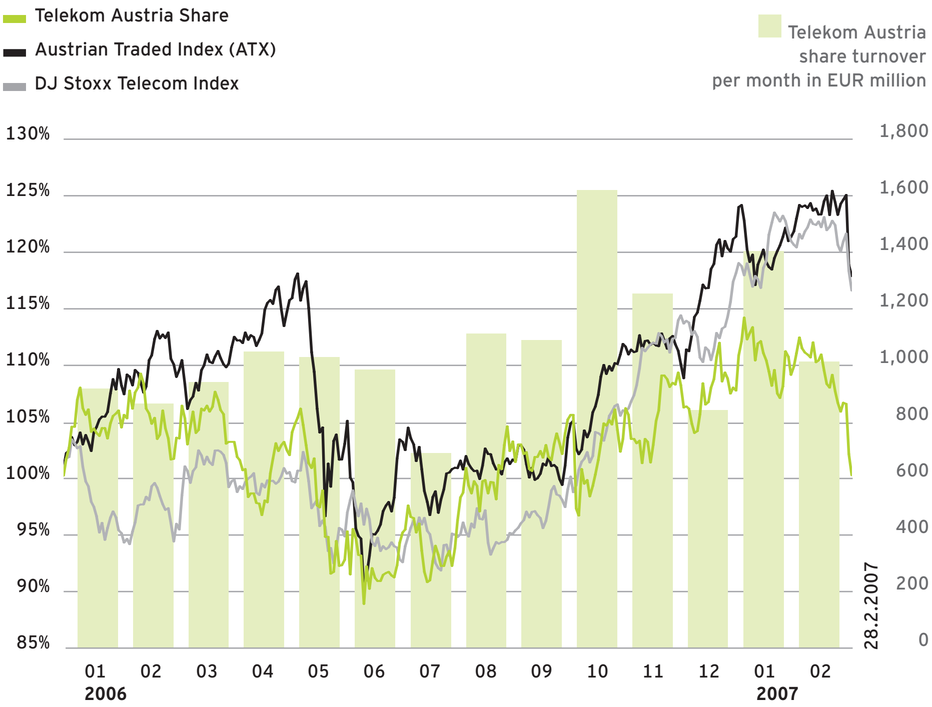
Turbulent Year for Telekom Austria Shares

The performance of Telekom Austria shares was characterized by numerous upward and downward movements, ending the year with a gain of approximately 7%, and thus failing to reach the performance of the sector index. In spring 2006, the Eastern European stock market entered a corrective phase, the effect of which was also felt on the Vienna stock exchange. The European Commission announcement of plans to regulate roaming fees also had a negative impact. The fierce competition surrounding the auction of the Serbian provider Mobi63 and fears of an excessively high purchase price also increased the pressure on Telekom Austria shares during the year. Telekom Austria's financial discipline, which called for the company's withdrawal from this auction, was appreciated by investors, so the second half of the year took a more positive turn in line with the industry trend. Even the price decline after the general election in October 2006 was more than neutralized. On December 18, 2006, the Telekom Austria share achieved its all-year high, followed on January 9, 2007 by a new all-time record of EUR 21.55.

The market capitalization of Telekom Austria rose by 7% from EUR 9.5 billion to EUR 10.2 billion in line with the performance of the shares. Measured in terms of the average daily trading volume (double count) of almost 2.7 million shares, liquidity improved by approximately 35% compared to the previous year. Following a 58% increase in stock exchange turnover (double count without over-the-counter) to EUR 12.5 billion, Telekom Austria became the third most-heavily traded stock on the Vienna Stock Exchange. In the previous year it had been the fourth. Turnover from over-the-counter trading (double count) in the reporting year rose by some 17% to EUR 4.0 billion, so that over-the-counter transactions now already account for approximately 25% of total stock market turnover. In the reporting year, 262,202 option contracts with a value of EUR 494 million, with Telekom Austria as the underlying instrument, were traded on the Austrian Futures and Options Exchange (ÖTOB).

Development of Telekom Austria Share Price since 1.1.2006

Source: Datastream



Financial Calendar and Contacts

Financial Calendar
March 6, 2007 Results for the Financial Year 2006
May 16, 2007 Results for the First Quarter 2007
May 30, 2007 Annual General Meeting Austria Center Vienna (starts 10:00)
June 4, 2007 Ex-Dividend Day
June 6, 2007 Dividend Payment Date
August 22, 2007 Results for the First Half 2007
November 14, 2007 Results for the First Nine Months 2007

Contacts
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The average number of ADS (American Depository Shares) traded daily on the New York Stock Exchange declined from approximately 4,000 to 2,300 in 2006. The volume of ADS issued by the Bank of New York rose from 434,300 to 455,300 compared to the previous year. In contrast, turnover on the New York Stock Exchange fell slightly from USD 40.7 million to USD 39.8 million.

Telekom Austria shares are bearer shares and are traded in the Prime Market Segment of the Vienna Stock Exchange and on the New York Stock Exchange (NYSE) through a Bank of New York ADR Level 2 program. With a weighting of 11% at year-end 2006 (2005: 14%), the Telekom Austria share was the fourth heaviest on the ATX, the leading index on the Vienna Stock Exchange. Internationally, it is also listed in the sectoral index DJ Stoxx Telecom and the MSCI-World, MSCI-Europe and FTSE 300 Eurotop indices.

Increased Lines of Credit

No further corporate bonds were issued by Telekom Austria for refinancing purposes in the year under review. In 2003, a corporate bond, for a total of EUR 750 million, was issued with a maturity of ten years and a coupon of 5%. The 2005 bond was issued in two tranches with maturities of five and twelve years, coupons of 3.38% and 4.25%, and a total volume of EUR 1 billion. Both bonds are listed for trading on the Vienna and Luxembourg stock exchanges.

In July 2006, Telekom Austria agreed a seven-year syndicated credit line of EUR 750 million as a liquidity reserve for general company purposes.

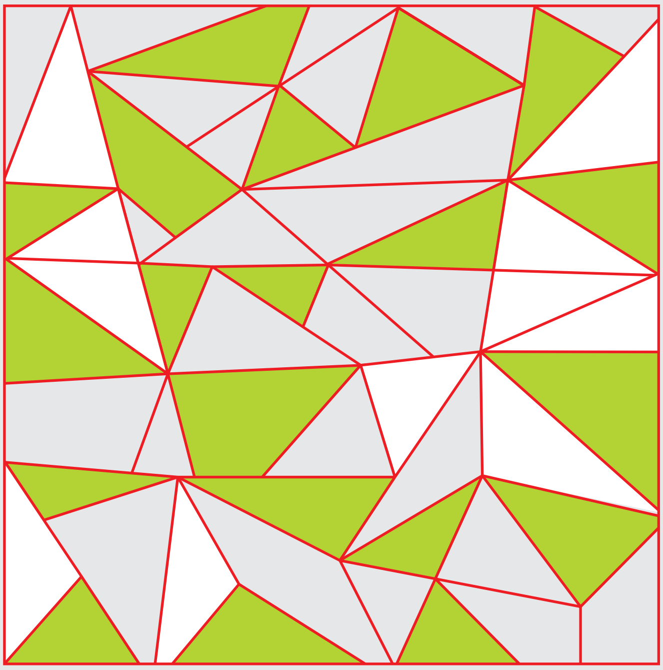
The world's two largest rating agencies evaluate Telekom Austria and its bonds. In August 2006, the rating agency Standard & Poor's upgraded Telekom Austria from "BBB+stable" to "BBB+positive" due to the company's solid business performance, stronger cash-flow profile and conservative financial policy. Moody's Investor Service left the rating unchanged at "A3 positive."

Stock Data

Stock number (Austria)	72000
Symbol	TKA
ISIN	AT0000720008
Reuters	TELA.VI
Bloomberg	TKA AV
Traded on	Vienna Stock Exchange
	New York Stock Exchange (NYSE)
American Depositary Shares (ADS)*	1 ADS = 2 shares of common stock
Number of shares issued	500,000,000 shares
Number of outstanding shares as of Dec. 31, 2006	461,692,527 shares
Common Stock as of Dec. 31, 2006	EUR 1,090,500,000
Stock price as of Dec. 31, 2006	EUR 20.30
Stock price – low (June 14, 2006)	EUR 16.66
Stock price – high (Dec. 18, 2006)	EUR 21.09
Market capitalization as of Dec. 31, 2006	EUR 10.2 billion

* Contact for ADS owners:
Bank of New York, Investor Services, Tel.: +1 212 815 3700, E-mail: shareowners@bankofny.com

Figure 2: The Star in the Net



Only by focusing on the essentials can you see the real outline.

Can you see the five-pointed star? If you can't, don't worry, even a complex organization like the Telekom Austria Group needs a clear focus on the essentials. And that's what the new holding is there for.

Take some time to discover the contours behind the structure. Don't despair. The cut-out on the inside of the back cover will help you see the essentials.

Group Structure and Business Model

Telekom Austria Group

Wireline
Telekom Austria
Czech On Line

Wireless
mobilkom austria
Mobiltel
Vipnet
Si.mobil
mobilkom liechtenstein

Two Strong Segments under the Umbrella of a Lean Holding Company

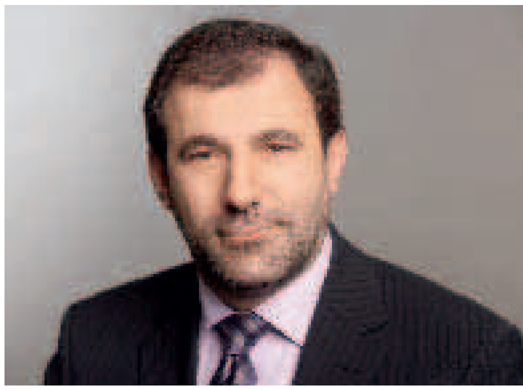
With annual revenues of approximately EUR 4.8 billion and more than 15,000 employees, the Telekom Austria Group is the leading telecommunications company in Austria. Mobiltel is the leading mobile communications provider in Bulgaria and Vipnet and Si.mobil are the second-largest operators in Croatia and Slovenia respectively. The company supplies a total of 13 million customers with high-quality fixed line and mobile communications services and products.

In 2006, the Group initiated a reorganisation process, which embraces both the wireline and wireless segments under the umbrella of a lean holding company. The holding company will carry out tasks across segments and help determine the strategic focus. The segments will remain responsible for meeting customer needs and for all operational tasks. This new structure will be submitted to the Annual General Meeting in May 2007 for shareholders' approval. The wireline segment, which will continue to operate under the corporate brand of Telekom Austria, will be spun off into a separate company.

The Telekom Austria Group Business Model

Following the successful expansion of recent years, the Telekom Austria Group now operates in Austria, Bulgaria, Croatia, Slovenia, Liechtenstein and the Czech Republic. In the year under review, the Group also acquired the third mobile communications license in the Republic of Serbia and, in early 2007, the third license in the Republic of Macedonia. The importance of this geographic diversification is reflected in the structure of revenues

"New organizational structure and growth in eastern and southeastern Europe will safeguard the company's success in the future."



Boris Nemsic
Chairman of the Management Board

Once again we achieved excellent business results in 2006 and I can assure you that we will continue working hard in 2007 to build on this success.

At the Annual General Meeting on May 30, 2007 we will present a new corporate structure with a lean management holding for approval. Our intention is to strengthen cooperation between the two operational segments wireline and wireless, and relieve them from Group tasks so that they can concentrate fully on the operational business and on meeting customer needs.

Despite the remarkable framework conditions of our expansion projects, we did not yield to the temptation of acquiring companies for excessively high prices. Instead, we chose to tap the potential of the growth markets in the Republic of Serbia and the Republic of Macedonia by purchasing mobile licenses in these countries.

We continue to monitor the development of our target markets in eastern and southeastern Europe very closely, in order to identify attractive opportunities early on.

Aside from these growth chances, we are convinced that mobile data services, innovations and improved service quality will ensure our continued success in the markets which we currently operate in.

"We are steadily increasing the attractiveness of fixed access lines..."

Rudolf Fischer
Vice Chairman of the Management Board

The overriding strategic goal in the wireline segment is to safeguard fixed access lines. We therefore use innovative multimedia applications and services such as aonDigital TV and aonAlarm-Services to increase the convenience of fixed lines for our customers. We also offer further incentives to enhance customer loyalty to the fixed line in the form of attractive flat-rate offers such as the TikTak bonus packages.

The market for broadband access is showing satisfactory development, in 2006 alone we registered some 120,000 net additions and further expanded our market share. With broadband coverage of more than 90% of Austrian households and a current broadband penetration of 40.5%, we are convinced we can still achieve substantial growth in this area.

The creation of a lean management holding company will relieve the wireline segment from Group tasks and enable it to respond to the needs of its customers even faster and more effectively.

and income generation. In 2006, the international activities of the Telekom Austria Group accounted for 32% of revenues and 28% of adjusted EBITDA.

The Austrian market is largely saturated and is also characterized by fierce competition. Future growth will be realized through existing foreign operations and further planned acquisitions in eastern and southeastern Europe. These investments are made possible by the stable cash flows of established business units. While acquisition policy focuses on the mobile communications sector, takeovers in the fixed line segment to consolidate the Group's position are also possible.

Given the different underlying technologies and potentials, the challenges facing the wireline and wireless segments are of a diverse nature and will therefore be reviewed separately. Nevertheless, there are mutual dependencies and synergies: Although the wireline segment endeavors to counteract the migration of voice minutes to mobile networks, it generates further stable cash flows and is reporting improved financial results supported by declining depreciation and amortization expenses. Building on this stability, the wireless segment was able to seize value-oriented growth opportunities. Furthermore, the technological infrastructure of the wireline segment is also used for the wireless segment.

Future Prospects for the Wireline Segment

The wireline segment comprises the fixed line activities of the Telekom Austria Group in Austria and the Internet service provider Czech On Line in the Czech Republic. The segment's product range covers the entire value chain from voice telephony to Internet access and digital television. The market approach is customer-focused and differentiates between the residential customer, business customer and wholesale segments. Voice telephony, data and IT solutions as well as wholesale, Internet access and media, wholesale voice telephony, Internet and value-added services have been defined as operational business areas.

Revenues in the wireline segment have declined slightly in recent years. Higher revenues from Internet access and media as well as wholesale voice telephony counteracted the falling revenues from switched voice traffic and monthly rentals. With 38 operators, there is fierce competition in the Austrian fixed line market. Telekom Austria's most important rival on the Austrian voice telephony market is Tele2UTA, which has a market share of 25%.

The importance of broadband technology and the business areas that rely upon it continues to increase, and Telekom Austria was able to expand its share of the broadband market to 51% in 2006. In order to make optimum use of the resulting opportunities for growth, Telekom Austria offers its customers the possibility to choose the broadband package best suited to their individual needs. The company is also pushing ahead with the development of innovative products such as aonDigital TV in the multimedia segment and additional services such as aonAlarm Services to enhance the attractiveness of fixed access lines.

In cooperation with reliable partners, Telekom Austria is the market leader for Voice over IP telephony in the business customer segment. The focus on eastern Europe has reaped success in the international wholesale business. In 2006, Croatia and Romania were connected to the TA-JetStream optical fiber ring, substantially increasing transit revenues.

Factors Behind the Wireless Segment's Success

The wireless segment encompasses all mobile communications activities of the Telekom Austria Group and operates in Austria, Bulgaria, Croatia, Slovenia and Liechtenstein. In 2007, it will also launch operations in the Republic of Serbia and in the Republic of Macedonia. At the end of 2006, the segment served more than 10 million customers. Roughly 41% of the segment's revenues are generated in foreign markets.

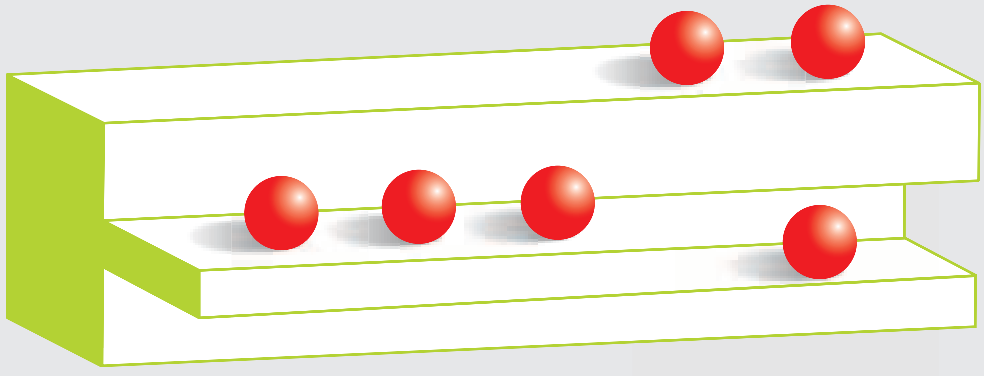
In order to achieve long-term success on the mobile communications market, it is essential to exploit economies of scale consistently in the areas of network infrastructure as well as the development and use of new technologies. This is made possible by the close cooperation between the individual companies and a strong partnership with Vodafone. The roll-out of the HSDPA network in 2006 demonstrates how successfully the wireless segment exploits group synergies. After mobilkom austria became one of the first operators worldwide to set up a nationwide HSDPA network with speeds of up to 3.6 Mbit/s, Vipnet has now become the first in Croatia. In March 2006, Mobiltel became one of the first mobile communications operators in the world and the first in Bulgaria to offer 3G services on the basis of this HSDPA network.

One of the major growth drivers in the wireless segment is the data business. However, this trend toward higher quality data communications must not only be facilitated by upgrading network capacities, it must also be actively shaped with innovative services.

The wireless segment relies on innovative products and a strong service focus to safeguard its market share and maintain its lead in a highly competitive environment.

The growing low-price segment was successfully addressed in 2006 through the introduction of a two-brand strategy in two countries: The new prepaid discount brand "tomato" in Croatia and "bob," a no-frills contract product with no monthly subscription fee, in Austria.

Figure 3: Positions



The best place is not always at the front.

You cannot always trust your eyes completely. Sometimes you have to take a closer look to see that a position is impossible. And when it is a matter of gaining the best position in new markets, then you should definitely look twice. That is why we never turn a blind eye as far as the terms of our expansion in eastern and southeastern Europe are concerned.

Look again: The one who seems to be ahead is not always the best.

Corporate Strategy

At a Glance

The strategic goal of the Telekom Austria Group is to safeguard existing core markets

Increase in shareholder value through acquisitions in eastern and southeastern Europe

Strategic Focus – Telekom Austria Group

The prime objective of the Telekom Austria Group is to sustainably increase shareholder value. In implementing this strategy, the two operational segments find themselves facing different challenges. The wireline segment seeks to safeguard the generation of stable cash flows and develop innovative product areas. The wireless segment aims to maintain its leading position in the domestic market, to leverage the potential of its existing international markets and realize further value-enhancing investments in eastern and southeastern Europe. Aspects of business which concern both segments will in future be dealt with by the planned holding company.

Value Management

The value management system implemented by Telekom Austria allows an analytical evaluation of corporate decisions and their impact on shareholder value. The return on invested capital (ROIC) has been defined as the decisive indicator for internal corporate management. In the long term, Telekom Austria aims to achieve an annual rate of interest above capital cost of 3.5%. This goal is supported by the rigorous management of employee costs in the wireline segment and by a strong focus on cost-efficiency across the Group.

Total shareholder return represents the average annual interest rate for shareholders comprising both share price appreciation and dividend payments. Between the IPO in November 2000 and December 31, 2006, total shareholder return averaged 17% per year, exceeding the defined target of 13%.

Telekom Austria regularly evaluates its shareholders' remuneration policy and plans to present an update of its cash use policy at the Capital Market Day in April 2007.

Expansion and Growth in Eastern and Southeastern Europe

Expansion in eastern and southeastern Europe plays a key role in the strategy of the Telekom Austria Group. After Telekom Austria proved its financial discipline by withdrawing from the auction for the Serbian mobile communications operator Mobi 63 because of the excessively high price, the company successfully gained a foothold in this growing market in fall 2006 when it purchased a mobile communications license for the territory of the Republic of Serbia. A GSM and UMTS license for a total of EUR 320 million was granted for a period of ten years with an automatic extension for a further ten years. In February 2007, the Group also won the tender for the third mobile license in the Republic of Macedonia for EUR 10 million, bringing it a big step closer to achieving its goal of becoming the leading provider between Lake Constance and the Black Sea. In line with its intention to make optimal and risk-averse use of capital and resources in the region, the Telekom Austria Group proved in Serbia, Slovakia and Bosnia that it refrains from excessively high prices and non-value-enhancing investment opportunities. The company will continue to carefully examine other opportunities in future and seek to realize only those projects that increase shareholder value in the target region. The profitability of such projects will be evaluated on the basis of future cash flows discounted against risk-weighted cost of capital.

Strategic Goals Wireline

Defend subscriber lines by expanding the broadband product portfolio

Migrate network infrastructures to ALLMediaNET

Develop new business areas and value-oriented international expansion

Strategy Wireline Segment

With 38 operators, the Austrian fixed line market is highly competitive and is also being affected by the migration of voice telephony volumes to mobile communications networks. The biggest challenge facing this segment is attributable to declining call volumes and subscriber lines, which fell by 8.7% and 5.7% respectively, compared to the previous year. To some extent this trend can be offset by the fast-growing Internet business. Telekom Austria has successfully expanded its share of the broadband market to over 51%. By developing an attractive broadband product portfolio combined with innovative multimedia applications such as aonDigital TV, the company intends to motivate customers to upgrade from dial-up access to broadband products. This marketing offensive will be accompanied by active product and price management as well as attractive measures to increase customer loyalty. In the Business Solutions segment, Telekom Austria aims to increase its success by expanding its productivity and marketing solutions portfolio while at the same time offering an increasing number of consultancy services.

Telekom Austria is responding to these technological challenges by gradually migrating its hitherto separate network infrastructures for voice, data and Internet to an integrated next-generation All-IP-based network, the ALLMediaNET. This network architecture makes it possible to offer convergent products, reduce network complexity and thus optimize the long-term development of costs.

The strategy of the wireline segment focuses on developing new business areas in its core market and on greater internationalization together with the wireless segment. Expansion projects should safeguard the company's position, but will only be pursued if they generate a sustained increase in shareholder value. At the end of 2006 Telekom Austria acquired 100% of the common stock of the operating companies of eTel for a purchase price of approximately EUR 90 million, subject to merger control approval. eTel is an integrated operator with operations in Austria, Germany, Hungary, the Czech Republic, Slovakia and Poland.

Strategy Wireless Segment

The geographical presence of the wireless segment extends from Lake Constance to the Black Sea. Efficient management of all wireless subsidiaries requires a balance between regionally-focused aspects and the realization of synergies through joint product development or the sharing of best practices. The high degree of autonomy enjoyed by each subsidiary and the individual market approaches in the various countries guarantee that due consideration is given to local requirements.

Strategic Goals Wireless

Safeguard market position in Austria and fully leverage the potential of international markets

Explore further value-enhancing acquisitions in eastern and southeastern Europe

Increase use of mobile data services

Safeguarding existing market shares and revenues is an important strategic objective, whereby the price erosion caused by competition is offset by increasing customer numbers. At the same time, innovative products have been introduced in order to increase the volumes of voice telephony and mobile data services. The data business is an important driver of growth, and the data share of traffic-related revenues increased from 18.2% in 2005 to 20.2% in 2006. Investments in the network infrastructure are imperative if the segment is to generate growth on this scale in the future. Following the roll-out of the HSDPA network, which permits transmission speeds of up to 3.6 Mbit/s, mobilkom austria became one of the first operators worldwide to offer this technology nation-wide. Thanks to efficient cooperation within the wireless segment, Vipnet became the first operator in Croatia to launch an HSDPA network in April 2006. In March 2006, Mobiltel became one of the first mobile communications operators in the world, and the first in Bulgaria to offer 3G services on the basis of an HSDPA network.

The individual companies of the wireless segment operate in markets with rising penetration rates and have to assert their positions in the face of intense competition.

Due to the increasing trend toward second SIM cards, the penetration rate in Austria has already reached roughly 114%. Furthermore, mobilkom austria operates in an environment where competition is fierce and termination charges are subject to regulation. Plans to regulate roaming fees within the European Union are also creating new challenges.

Mobiltel's medium-term goal is to preserve a market share of more than 50% and to position itself as the provider of choice offering the best value for money in the fast-growing Bulgarian market. Data services are to be expanded on the basis of the partnership with Vodafone and mobile broadband. The biggest challenges are posed by the increasing level of competition and regulatory risks.

Vipnet aims to become the leader in the still fast-growing Croatian market, and is expanding its product portfolio supported by the continued expansion of UMTS and HSDPA technology. Integrated solutions combining mobile communications and fixed line products are planned in order to attract greater numbers of business customers.

Despite a penetration rate of roughly 85% in Slovenia, Si.mobil was able to increase subscriber numbers substantially in 2006. The acquisition of the UMTS frequencies and the planned introduction of UMTS in Q1 2007 will enable Si.mobil to further increase its share of data revenues and also position itself as the price-performance leader.

In the next few months, a lean and efficient business unit will be created in Serbia, whereby synergies with the existing Telekom Austria Group companies will be leveraged. The medium-term goal is to gain a market share of over 20%. The development of network infrastructure will require investments totaling approximately EUR 250 million in the period up to 2009, the year when activities in Serbia are expected to produce a positive EBITDA and free cash flow for the first time.

Human Resources

At a Glance

Employee Participation Program introduced

The number of employees falls by 1.1% to 15,428

26% of the workforce is already employed in international markets

Further socially responsible reductions in personnel are planned.

Strengthening Identification with the Company

For a service provider like Telekom Austria, the commitment of its employees is instrumental for its success. In order to foster a performance-oriented work ethic and strengthen identification with the company, an Employee Participation Program was introduced in December 2006 for Austrian employees. Under this scheme, each full-time employee will receive Telekom Austria shares worth EUR 600 in four yearly tranches up to 2010. Some 11,400 employees profited from the first tranche, which was also topped up by EUR 300 to EUR 900.

The multi-year Employee Stock Option Program (ESOP) introduced in 2004 for members of the Management Board and other key executives was also continued in 2006, with some 280 managers as the beneficiaries. In addition to increasing the profitability of the Telekom Austria Group (the key indicator for exercising the option is the earnings per share ratio), ESOP links the enhancement of the company's stock market value to financial incentives for management. In January 2007, the Supervisory Board of Telekom Austria authorized the next tranche for 2007.

Parallel to the profit-sharing models described above, the scope of individual performance agreements and bonus schemes was extended in the year under review. The respective performance indicators are based on the Group's strategic goals and are intended to boost employee performance.

All members of the Austrian workforce with permanent employment contracts are covered by a company pension plan to which the company currently contributes 5% of the employees' monthly salaries.

Improved Productivity

At year-end 2006, the Telekom Austria Group had 15,428 employees, 1.1% fewer than in the previous year. The deployment of human resources was also improved in both segments. In the wireline segment, the number of employees fell by 1.3% to 9,433, and in the wireless segment by 0.7% to 5,995. In 2006, 43.8% of the Telekom Austria Group workforce had civil servant status compared to 43.6% in the previous year.

Increased revenues combined with a reduction in the size of the workforce, led to an improvement in average revenues per employee of 1.4% to EUR 307,210. EBITDA per employee rose by 0.8% compared to the previous year. In the wireless segment, strong growth across all regions produced a 15.0% increase in the number of customers per employee. This contrasts with the trend in the wireline segment, where the number of fixed lines per employee declined by 4.4% due to continuing migration to mobile networks.

Personnel Development by Segment

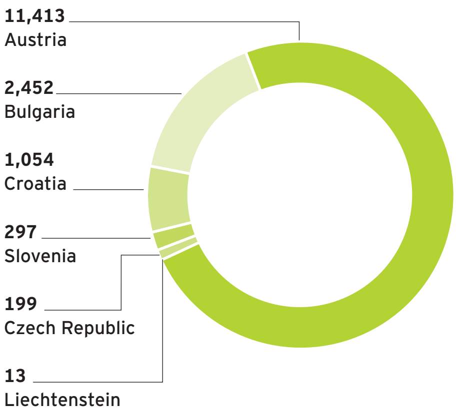
Full-time employees at year-end	**2006**	**2005**	**Change in %**
Wireline	9,433	9,557	-1.3
Wireless*	5,995	6,038	-0.7
Telekom Austria Group	15,428	15,595	-1.1
of which in Austria	11,413	11,562	-1.3

* Since July 12, 2005, the wireless segment has also included the employees of Mobiltel.

Productivity Figures	**2006**	**2005**	**Change in %**
Revenues per employee in EUR	307,210	303,076	1.4
Adjusted EBITDA per employee in EUR	123,075	122,093	0.8
Fixed lines per wireline employee	280	293	-4.4
Mobile communication customers per wireless employee	1,707	1,484	15.0

Safeguarding Expertise

Number of Employees by Country



The extremely rapid pace of change in the ICT industry requires both continuous investment in technical infrastructure and farsighted measures to maintain and improve employee qualifications. Ongoing investment in the continuing education and further training of all employees and the early identification and development of executives are therefore both areas which enjoy high strategic priority. In the 2006 financial year, the Telekom Austria Group invested some EUR 5.9 million or approximately EUR 800 per employee in continuing education and further training. In the wireline segment, employees attended an average of 2.8 seminar days focusing on technology, data processing, management coaching and project management. Employees of mobilkom austria attended approximately 5.9 days of training on average. Activities in the wireless segment focused on management training for heads of department, a high potentials program, the harmonization of project management training and courses designed to improve customer relationship management. In addition to redesigning the training for potential managers in the area customer service and sales (CSS), a high-quality specialist training course for marketing employees was launched at the Marketing Academy.

Internal Personnel Planning and Career Opportunities

The wireline segment continued its successful apprenticeship training scheme in 2006. As announced in the previous year, 102 young men and women were able to start their training as information and communications technicians at Telekom Austria, twice as many as in 2005. This initiative enables Telekom Austria to offer young people high-quality training, while at the same time meeting its own demand for skilled workers and strengthening Austria as an ICT location.

The challenge in the wireless segment was to accelerate the company's development to become a high-performance organization. mobilkom austria also identified key functions which, if filled with unsuitable candidates, could in the long term threaten the company's success. Building on this knowledge, a structured process was used to identify potential managers who will subsequently be put through a development program to prepare them for future responsibility.

In an effort to expand perspectives and promote interdisciplinary networking between the various business units, Telekom Austria encourages personnel mobility across the Group. mobilkom austria, for example, has developed a program which provides opportunities ranging from brief assignments in other business units to three-month placements elsewhere in the Group within the scope of a project. The internal job market platform lists vacancies in both segments and is designed to make it easier for employees to move between the two business areas. In 2006 this job market enabled the wireline segment to fill 55% of 290 vacant positions internally, while the wireless segment was able to fill 28%. Cross-border cooperation within the Telekom Austria Group and expansion in eastern and southeastern Europe are also creating greater international career opportunities for our employees.

Human Resources for Expansion Projects

The wireless segment is constantly examining opportunities to continue its value-oriented strategy of expansion in eastern and southeastern Europe. A responsible human resources strategy must therefore take timely action to ensure the availability of suitably qualified employees when needed. Recruitment in areas requiring contact with the customer has been stepped up, as have succession planning, job rotation programs and internal career development. mobilkom austria also used the "A1 Top Talent Competition" to try and attract the best marketing and other sales-oriented graduates during a two-and-a-half-day assessment center.

In 2006, Mobiltel in Bulgaria introduced a performance management system designed to strengthen employees' sense of personal responsibility for achieving the strategic corporate goals. Vipnet in Croatia also developed its performance management system further and introduced new instruments such as 360 degree feedback and management by objectives. Si.mobil in Slovenia also implemented measures to make better use of existing employee potential and increase a personal sense of responsibility.

Socially Compatible Downsizing

The wireline segment has only limited scope to optimize its current personnel costs due to the historical evolution of its personnel structure. In order to safeguard earnings power despite falling revenues, a variety of measures are being taken in the area of human resources. A flexible and socially compatible severance payment scheme offers employees and civil servants over forty years of age with more than ten years of service a binding and attractive offer if they voluntarily decide to leave the company. Civil servants under the age of 40 were given the opportunity to switch to a normal employment contract, with the first 100 employees who decided to do so receiving a one-off bonus.
Steps are also being taken to expand the apprenticeship training scheme in an effort to rejuvenate the age structure of the workforce.

Equal Opportunities for All

In 2006 the "A-Gender Technology Management" project was completed with the support of FEMtech – an initiative of the Austrian Council for Research and Technology Development and three Austrian government ministries. A-Gender addresses the issue of "women in technology" and diversity management at Telekom Austria, with the aim of increasing the percentage of women working in technical functions, especially technical product development.

mobilkom austria has launched an initiative to maintain contact with employees who are on parental leave and ease their reintegration into the working world.
In the event that their original workplace is no longer available, a "parental leave team" enables them to participate in ongoing projects until a new permanent position becomes vacant.

The Telekom Austria Group has assigned a number of employees to take care of the special needs of colleagues with disabilities and to ensure that workplaces are adapted to make them accessible to disabled workers. At year-end 2006 the wireline segment had 309 members of staff with a disability, while the wireless segment had 51. The active integration of these employees is not only consistent with the Telekom Austria Group's sense of social responsibility; it is also based on the firm conviction that these workers make an indispensable contribution to a humane and sensitive corporate culture.

Innovation and Technology

At a Glance

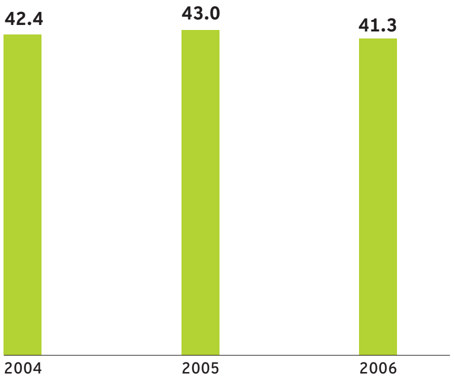
EUR 41.3 million invested in R&D

Innovation and technology leadership further expanded

Rapid implementation of broadband technologies continued

Innovative multimedia technologies open up new business areas

Expenses for Research and Development
in EUR million



Telekom Austria's research and development activities focus on customer convenience and the development of future-oriented network infrastructures.

Thanks to its extensive research and development expertise the Telekom Austria Group is a key innovation driver in the national communications industry and makes a significant contribution to technological progress in Austria, securing the country's standing as a business location. In 2006 Telekom Austria invested a total of EUR 41.3 million in research and development, the prime objective being to expand the company's innovation leadership in terms of quality and the standard of service. At the same time, new business areas should be developed on the basis of innovative technologies and infrastructure networks with a view to safeguarding the long-term growth of Telekom Austria's shareholder value.

Key Areas in R&D – Wireline

Research and development activities in the wireline segment focus on increasing customer convenience. A wide range of new application opportunities are being opened up by broadband technologies, the integration of communications and information technology, and the digitalization of multimedia content. In 2006 the main area of emphasis was the continued migration of network infrastructures for voice, data and Internet services to an All-IP network and the development of the media platform, ALLmediaNET.

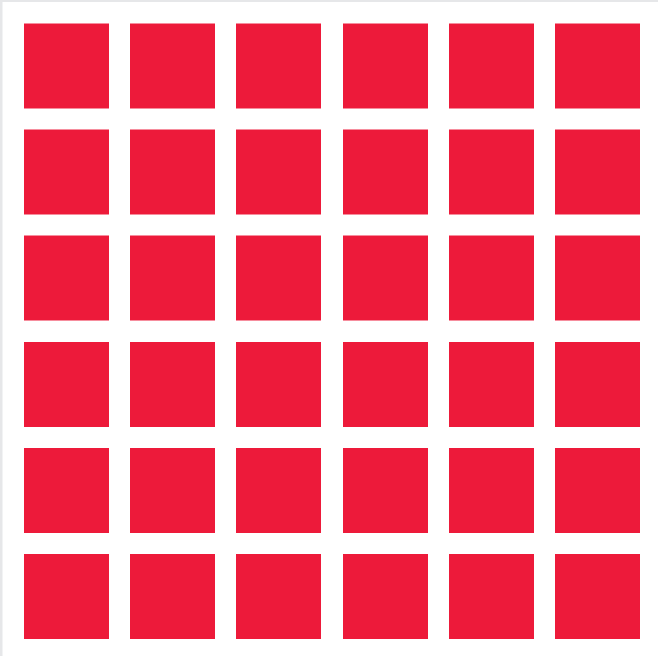
In the multimedia segment, the introduction of aonDigital TV in 2006 marked a milestone in interactive television. In addition to television channels, features such as video-on-demand, an electronic program guide and information services are offered for the first time via the TV set via a Telekom Austria broadband access line. Telekom Austria received the iF communication design award 2006 in the category "Screen Design" for the user-friendly interface of aonDigital TV.

Telekom Austria has also joined forces with the St. Anna Children's Hospital in Vienna to provide "St. Anna Hospital TV", a media platform for information and entertainment, which is characterized by personalized content and interactive, individual access. Personalization is achieved by an RFID (Radio Frequency Identification) chip sewn into a stuffed toy which enables age-appropriate content to be delivered to the young patients in their respective mother tongue. The project was awarded the State Prize for Multimedia and E-Business in the category "Innovation."

"Converging Media" is the vision behind the development of ALLmediaNet, which integrates voice and data communications, mobility and multimedia solutions to enable completely new forms of media production and usage. As a result, user-generated content is becoming increasingly important as a niche program, a trend which is also demonstrated by the "Buntes Fernsehen" project in the Upper Austrian town of Engerwitzdorf and the internationally renowned "YouTube" or "current tv."

The company also used the Technology Forum in Alpbach to present the broadband-based media platform "Interactive European Forum Alpbach" which builds on the technology of the aonDigital TV product. A virtual speaker's corner in the form of a video statement terminal enabled passive consumers to become active participants.

Figure 4: The Crucial Point



Interfaces.

It is easy to focus on the fields of technology and to lose sight of the customers and their needs. In the telecommunications business, success and failure is decided at the interface between technology and customer convenience. That is the crucial point. And, as the industry's innovation leader, we always keep it in focus.

Look at the interfaces between the fields. Let your eye go quickly from one to the other. Then you will see the crucial point.

Innovation – Wireless Segment

Innovation Highlights in 2006

Wireline (Selection)
March: Launch of aonDitigal TV
March: Launch of aonAlarmServices
April: Security Certification according to ISO 27001
August: Interactive European Forum Alpbach–prototype of interactive congress television
September: Receipt of e-mails on handsets via aonMobileMail
October: St. Anna Hospital Television
November: Webphone voice over IP for aon users

Wireless (Selection)
January: Roll-out of the HSDPA network
February: Roll-out of exchange hosting system for BlackBerry
March: Launch of HSDPA roaming
May: Launch of the NAVI message service
June: Launch of HSDPA with 3.6 Mbit/s
October: A1 over IP trial
October: DVB-H presented in Austria for the first time
November: First live demonstration of HSUPA in Europe

In 2006 the wireless segment once again successfully distinguished itself from its competitors and asserted its innovation leadership by introducing additional data services, increasing transmission speeds and maintaining the quality of its network.

Mobile broadband technology in Austria was expanded in 2006 with the roll-out of HSDPA (High-Speed Download Packet Access) and the introduction of suitable high-speed data cards (PC card and USB modem). With the launch of HSDPA 3.6 mobilkom austria became the first mobile operator in the world to offer its customers download speeds of 3.6 Mbit/s (which is up to 8 times faster than UMTS). Thanks to the integration of HSDPA, UMTS and EDGE, mobile broadband technology is now available all over Austria.

The seamless integration of second and third generation technologies provided by the mobile communications network allows for full-coverage multimedia applications such as mobile television, an Austria-wide live streaming service via UMTS handsets. The further development of mobile television on the basis of DVB-H (Digital Video Broadcasting on Handheld) was presented to the public for the first time at the Austrian Media Days; plans are already being made for a trial operation. DVB-H is a transmission standard for bringing digital radio and television programs to mobile telephones, enabling customers to benefit from additional interactive services.

The mobile navigation solution A1 NAVI has been expanded in cooperation with the ÖAMTC to include a news service. Accident and emergency reports from drivers are located using GPS and forwarded directly to the breakdown and recovery service. In cooperation with the Ö3 radio station, A1 NAVI customers are supplied with the very latest information.

A1 NAVI on Google Earth provides a further innovative service, delivering a clear view of the route on a map.

In 2006 mobilkom austria became the first operator in Austria to present a Voice-over-IP technology in combination with the mobile telephone. A1 over IP lets customers use their PC or notebook to make low-cost telephone calls over either the mobile communications, fixed-line or IP network, while remaining accessible under their A1 telephone number.

R&D Partnerships

In order to ensure the most effective and market-oriented introduction of technologically complex products and services, Telekom Austria has entered into a number of partnerships with universities, research institutes and leading companies in specialist fields which complement its own know-how. The focus of these mostly internationally-oriented cooperations is on potential applications for new technologies, especially those which are based upon open standards. The Telekom Austria Group also participates in projects within the framework of the EU Information Society Technologies (IST) program and in the competence networks EURESCOM, ETSI, ITU, BSF, UMTS-Forum, OMA and 3GPP.

Cooperation with Vodafone in product and technology management has also benefited the Telekom Austria Group's involvement in global development projects, ensuring the efficient and early coordination of new product developments and a harmonized market launch.

Sustainability

At a Glance

The Telekom Austria Group is dedicated to increasing and safeguarding shareholder value in the long term

The company fulfills social, environmental and economic responsibilities

2001
Inclusion of Telekom Austria AG in the FTSE4Good-Index

2002
Inclusion in the recommendation list of sustainable investments; first Sustainability Report

2003
The Management Board of Telekom Austria introduced a group-wide environmental policy

2004
Publication of the second Sustainability Report; certification of the environmental management system in the wireline segment according to ISO 14001

2005
mobilkom austria participates in the environmental project Ökoprofit of the City of Vienna: a short report documents improvements in the most important sustainability figures

2006
Sponsoring activities are continued with a new focus on projects aimed at bridging information gaps

Every two years Telekom Austria publishes a Sustainability Report containing comprehensive information about all corporate social and environmental initiatives. By providing detailed overviews of key economic, environmental and social data and the related objectives, these reports document the progress of the sustainability process. All Telekom Austria Group publications on sustainability are available for downloading at www.telekom.at under the menu item "Responsibility."

Since 2001 the Telekom Austria Group has been included in the FTSE4Good index, which lists companies that demonstrate a high degree of corporate social responsibility.

Codes of Conduct and Internal Control Systems

In order to comply with manifold external and internal requirements, Telekom Austria has in recent years implemented a number of control mechanisms designed to ensure economic sustainability. In addition to the Austrian Corporate Governance Code, the Code of Ethics, the internal control system and the Compliance Guidelines, a business code of conduct has been drawn up which is binding for all employees of the Telekom Austria Group. This not only covers compliance with all the relevant legal provisions, it also condemns all forms of dishonesty and bribery, and regulates the acceptance and giving of gifts.

Environmental Protection

Environmental policy at Telekom Austria is directed toward ensuring the careful use of natural resources and reducing emission levels and commercial waste. An environmental management system based on the requirements of ISO 14001 was implemented in the wireline segment in 2004. This system registers the environmental impacts of all business units, identifying opportunities for continuous optimization. In fall 2006 an external audit once again confirmed the effectiveness of this ISO 14001-2004-certified management system.

In the wireline segment it is energy consumption and vehicle fleet emissions which have the strongest impact on the environment. In an effort to counter these negative effects, energy-saving lighting systems such as electronic light ballasts, low-energy air-conditioning systems, and new and more efficient vehicles designed to cut emissions of pollutants have been introduced. Employees are also given information about environmentally-friendly driving as part of the "klima:aktiv partnership" with the Ministry of the Environment. mobilkom austria was once again certified by the City of Vienna as an Ökoprofit company in 2006. Ökoprofit is an ecological project for integrated environmental technology, which helps companies reduce their impact on the environment (clean production) and enhance efficiency (cost reduction) through the deployment of innovative integrated technologies.
In 2007 a campaign to reduce paper consumption will be launched as part of efforts to achieve a further improvement in the company's environmental performance.

Environmental activities at mobilkom austria continue to focus on projects investigating the impacts of electromagnetic fields. As the market and innovation leader mobilkom austria is well aware of its responsibility in this area and seeks open dialogue with the public, policymakers, the media and scientists. Mobile radio communications installations are regularly tested according to stringent criteria. mobilkom austria not only complies with the current ÖNORMS and international recommendations concerning the limit values for electromagnetic radio waves, the company also achieves significantly lower values than those

Social Sponsorship
Light into Darkness
Austrian Blind Union
"Rat auf Draht" child and youth hotline
Life Ball
Doctors without Borders
Pink Ribbon – Breast Cancer Initiative
mirno more peace flotilla
Saferinternet.at
Handywissen.at

Arts and Educational Sponsorship
Ars Electronica Center Linz
Cloud of Sound in Linz
VIENNALE
Vienna State Opera
Burgtheater Vienna
Vienna International Festival
Children's University Vienna
more future
Vienna Children's Theater
ZOOM Children's Museum

Sports Sponsorship
Austrian Ski Federation
Austrian Beach Volleyball Team
A1 Beach Masters Tour
A1 Beach Volleyball Grand Slam
aon VolleyLeague
aon hotVolleys
Austrian Paralympics Committee
Austrian Golf Association
Austrian Football Federation

required. In addition to the brochures dealing with safety, UMTS, limit values, health and infrastructure (which can be ordered from umweltteam@mobilkom.at), a newsletter (which can be subscribed to under www.mobilkomaustria.com/umwelt) provides information on the latest results of environmental research.

Social Commitment

As the largest Austrian provider of telecommunications solutions, the Telekom Austria Group has for decades fulfilled its corporate responsibilities in a variety of forms. A wide range of carefully selected sponsoring activities not only serves to build brand image, but also testifies to this sense of responsibility. The projects are carefully chosen by the respective Austrian and foreign business units, taking into account regional needs and circumstances. The main recipients of this support are initiatives in the areas of social sponsorship, culture, technology, the new media and sport.

The Vipnet program "Communications.Movement.Life" which has been running since 2002 in cooperation with the Croatian Mine Clearing Center and which received the renowned International Stevie Award in the category "Best Corporate Social Responsibility Program" is just one example of many. Besides support for an SOS Kinderdorf family, Mobiltel focuses on sponsorship of the arts. The "M-Tel-Awards" given once a year to Bulgarian artists serve to promote and spread Bulgarian contemporary art.

Overcoming Information Barriers

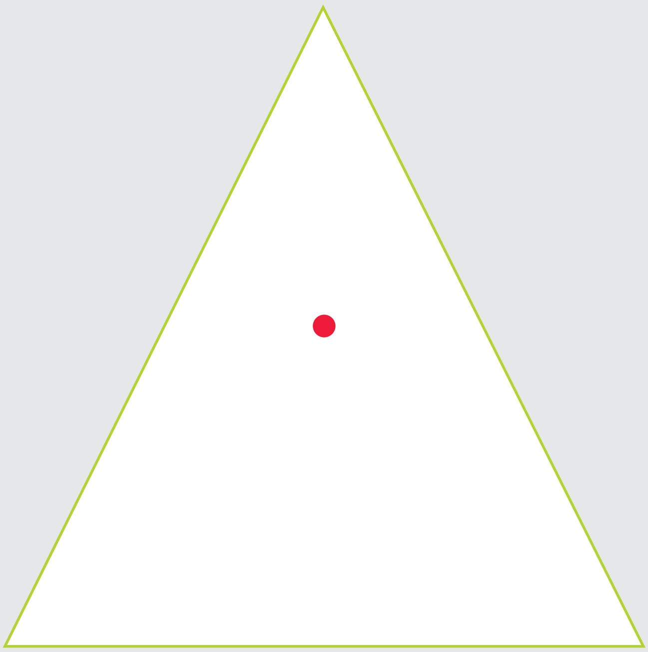
Access to information using modern communications networks represents an essential feature of a knowledge-based society, with a nationwide telecommunications infrastructure forming the basis for bridging the digital divide. By expanding broadband technology, Telekom Austria is making an important contribution to closing gaps in geographic coverage. These activities are supported by the current government manifesto which states the government's intention to push ahead with a technology offensive in rural areas and boost Austria's position as a top location for information and communications technology (ICT).

In addition to eliminating purely technological barriers, it is also important to support actual access to the communications media. In cooperation with the Austrian Blind Union Telekom Austria has, for example, developed a barrier-free website for the organization, www.derdurchblick.at The company also joined forces with the Austrian Council of Senior Citizens to initiate the "seniorkom" campaign which uses training and special products to facilitate access to electronic sources of information for older people.

The "Digital Pipeline" project started by Telekom Austria, the development organization ICEP (Institute for Cooperation in Development Projects) and Microsoft Austria in 2005 was continued in 2006. In addition to the first computer training centre for women founded last year in Nairobi, three further training centers in Nairobi and Embu started offering computer courses for unemployed young people in early 2006.

The partnership between Telekom Austria and Saferinternet.at launched in February 2006 is dedicated to encouraging the safe and proficient use of new technologies. Within the scope of this cooperation with Saferinternet.at mobilkom austria supports the Austria-wide initiative handywissen.at The purpose of this initiative is to demonstrate the sensible use of the Internet and mobile communications to children in particular. At the same time, the project aims to increase awareness among parents and teachers.

Figure 5: Find your Focal Point



Right on the dot.

In the dynamic relationship between shareholder interests, customer needs and investment projects, our focus is on a balance of the different stakes. Even if everyone sees things differently, we all always try to meet in the middle. Have we found it already? Judge for yourself.

Where is the focal point: In the top or the lower half? Take another look and use the cut-out on the inside of the back cover to identify the exact position.

Group Management Report 2006

Economic Upturn

Real GDP growth in the Austrian economy totaled 3.2% in 2006 compared to 2.0% in the previous year. Much of this growth was driven by exports which profited from the robust growth of the global economy and the upturn in the euro zone. Stimulated by this general economic strength, the unemployment rate in Austria, as calculated by Eurostat, fell from 5.2% to 4.9%. Due to lower oil prices, inflation in Austria dropped to 1.7%, lower than the EU average of 2.2%.

Boosted by increasing economic and political integration with the European Union, Telekom Austria's foreign markets continued to enjoy higher-than-average growth rates in 2006: GDP rose by 5.5% in Bulgaria, by 4.0% in Croatia, by 4.0% in both Serbia and Slovenia, by 3.5% in Macedonia and by 5.5% in the Czech Republic.

Infrastructure Creates Growth

The OECD estimates that between 10% and 15% of economic growth in Austria is directly attributable to broadband technology, and this trend is becoming stronger. The Telekom Austria Group – which with 11,400 employees is also one of largest employers in Austria – is committed to reaching blanket broadband coverage of the entire Austrian territory. Since the launch of ADSL in Austria in 1999, Telekom Austria has invested more than EUR 1 billion in this technology, providing significant impulses for growth and a considerable contribution to Austria's standing as a business location. The next generation network, ALLmediaNET, which represents a further development of broadband and fiber optic technology, marks the dawn of a new technological era. ALLmediaNET will make it possible to send large volumes of data safely and at much higher speeds.

Market Environment

Voice telephony traffic continued to shift towards mobile networks in 2006. This development was further supported by excellent network coverage, fierce price competition in the Austrian mobile communications market and new technological applications. According to the latest Telekom Austria estimates, roughly 63% of all voice traffic is carried over mobile communications networks.

The volume of fixed line voice traffic declined by 10.3% to 8.3 billion minutes in 2006 compared to the previous year. In this business environment Telekom Austria was able to increase its market share by 1.5 percentage points to 56.9%.

At year-end 2006 broadband penetration rate in Austria reached 40.5% compared to 35.0% in the previous year. Despite strong growth, mobile broadband outstripped ADSL sales for the first time in 2006. This development was driven by falling prices, excellent coverage with mobile broadband technologies such as HSDPA and the improved availability of equipment with integrated 3G modules. In 2006 Telekom Austria's share of the broadband market (including wholesale customers) grew by 0.2 percentage points to 51.2%.

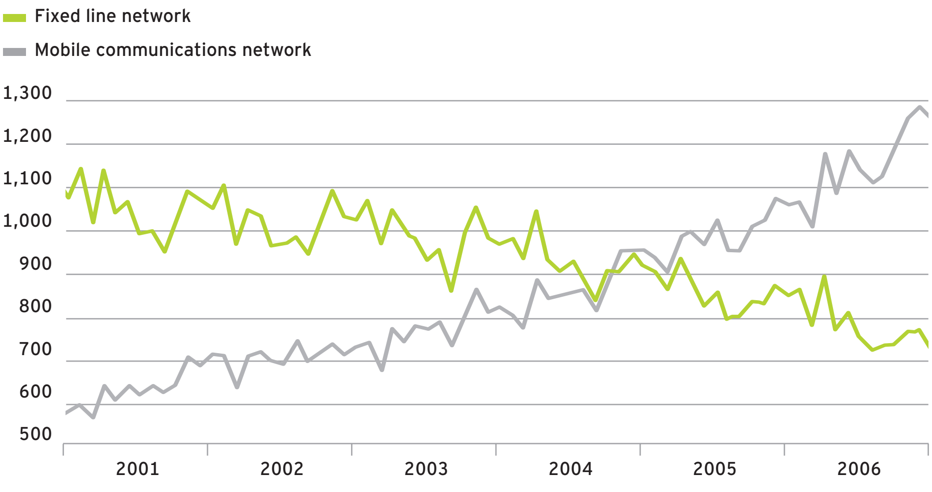
This intense competition combined with flagging growth rates nurtures the environment for sustained market consolidation. In 2006 tele.ring was taken over by T-Mobile, Eunet by eTel and Inode by UPC. In December eTel was acquired by Telekom Austria subject to merger control approval.

There is a growing trend toward convergence on the international telecommunications market: products from the fixed line business are increasingly merging with those from the mobile communications segment. Thanks to its leading position in both business segments, the Telekom Austria Group is able to respond to this development efficiently.

Encouraged by lower tariffs, Austrian mobile traffic volume rose by 16.6% to approximately 13.7 billion minutes, while the mobile penetration rate increased by 8.2 percentage points to 114.2%. With a market share of 38.7% mobilkom austria not only successfully defended its position as the market leader, it also increased the gap to its main competitor. At the end of 2006 the company also took the lead in the mobile data segment.

The Bulgarian mobile communications market also showed dynamic growth in 2006, with the penetration rate increasing by 26.4 percentage points to 105.9%. Mobiltel's market share declined from 57.6% to 52.5% in 2006 following the market entry of a third GSM mobile communications operator, Vivatel, in November 2005 in addition to Globul.

Development of Voice Telephony Volumes
in the Fixed Line and Mobile Communications Network incl. Payphones and Services
(in millions of minutes per month)



There was a similar development in Croatia in 2006, where the entry of a third provider into the market reduced Vipnet's market share from 44.1% to 42.9%. The penetration rate in the Croatian mobile communications market rose from 82.9% to 101.0% in 2006. The penetration rate in Slovenia increased from 80.1% to 85.4%. With a market share of 24.9%, Si.mobil is the second-largest provider in Slovenia.

After winning the tenders for the third license both in the Republic of Serbia and in the Republic of Macedonia in November 2006 and January 2007 respectively, Telekom Austria will launch operations as a new mobile communications provider in both countries.

Telekom Austria's Response to the Market Environment

Telekom Austria's prime objective in the fixed line business is to safeguard subscriber lines in order to preserve the interface with the customer for new and innovative applications. Future competitiveness is based upon the fact that fixed access lines cannot be completely substituted by mobile communications lines and that the technology is also available even in isolated areas.

In order to support the Triple Play strategy of the wireline segment, which bundles voice telephony, Internet and interactive television, new and attractive broadband packages have been introduced and in March 2006 the aonDigital TV television service was launched. The fixed line product portfolio was also expanded by the new aonAlarm Services product, a household alarm system which is connected to a security center.

In markets with a high rate of SIM card penetration and a high degree of saturation such as Austria, a trend is emerging towards having second SIM cards for the use of data services. At the same time, discount and ethnic brands are also establishing themselves. In an effort to reach new customer segments, a two-brand strategy was implemented in 2006 both in Austria and Croatia: The new prepaid discount brand "tomato" in Croatia and the no-frills brand "bob" in Austria. In order to respond to the increased importance of data services, it is essential to expand network capacities in due time. mobilkom austria has become one of the first operators worldwide to operate a nationwide HSDPA network with speeds of up to 3.6 Mbit/s. In April 2006 Vipnet became the first operator to launch an HSDPA network in Croatia. In March 2006 Mobiltel became one of the first mobile communications operators in the world and the first in Bulgaria to offer 3G services on the basis of an HSDPA network. mobilkom austria took the next technological step in 2006 and became the first operator in Europe to present a live video upload using HSUPA technology (High Speed Uplink Packet Access), which is 22 times faster than UMTS.

Important Regulatory Decisions

Wireline

In 2006 the process to revise the regulatory framework for the telecommunications industry within the European Union commenced. The European Commission drafted a new document listing the markets which was designed to further the market analyses in the member states. The Commission's recommendations for the new legal framework include proposals on harmonizing the procedure for analyzing the market, changes to frequency policy and initiatives for the i2010 program. The new list of markets will be published in early 2007 and will reduce the number of markets from 18 to 12.

Parallel to this, the Austrian regulatory authority started its second review of competition on the individual telecommunications markets. First results of this review process are already available and include scaling back the intensity of regulation in the retail voice telephony markets, changes regarding the requirements governing leased line offers to final customers and in the wholesale business.

On the basis of the new regulatory framework, Telekom Austria's four standard offers for interconnection, unbundling, wholesale leased lines and ADSL wholesale were reviewed and adjusted.

Following the amendment to the Telecommunications Act, directory enquiry services were removed from the universal service obligation. Furthermore, the legal basis for payphone access charges has now been created in Austria, entitling Telekom Austria to charge alternative providers for calls to 0800 numbers made from payphones.

Wireless

In accordance with a regulatory decision taken at the end of 2005, termination charges for all mobile communications operators in Austria will be gradually lowered on the basis of a gliding path model until year-end 2008. By January 1, 2009 all mobile providers must have reached a standard termination charge of 6.79 cents. As termination charges were only laid down for the period up to the end of 2006, regulatory procedures are currently underway. mobilkom austria expects that the gliding path model laid down in December 2005 will be retained, albeit with a lower target value and hopes the tele.ring takeover will prompt T-Mobile to accelerate a reduction of its tariffs to the same level as mobilkom austria.

In Slovenia an agreement between Si.mobil and the state-owned operator Mobitel came into force in January 2005 introducing asymmetrical termination charges. However, in June 2006, Mobitel terminated this agreement. A decision by the Slovenian regulatory authority APEK concerning the matter is still pending.

Bulgaria's accession to the EU on January 1, 2007 resulted in an overhaul of the regulatory framework which will be implemented in Q1 2007.

In September 2006 Vipnet introduced the Vodafone Homebox Service in the Croatian market. Following a complaint by the Croatian fixed line providers T-COM and Optima, the regulator conducted an investigation which concluded that the product could remain on the market provided several requirements were met by the end of Q1 2007.

It currently seems likely that regulatory measures will be introduced restricting the ability of mobile communications operators to set the prices for roaming services within the European Union.

Financial Figures (in EUR million)	**2006**	**2005**	**Change in %**
Revenues	4,759.6	4,365.2	9.0
Operating Income	772.4	619.7	24.6
Net Income	561.8	408.9	37.4
Earnings per share in EUR	1.19	0.84	41.7
Adjusted EBITDA*	1,906.8	1,758.5	8.4
Capital Expenditures	996.7	627.6	58.8
Net Debt	3,169.0	3,113.7	1.8

* See glossary for definition.

Operating Expenses (in EUR million)	**2006**	**2005**	**Change in %**
Material expenses	385.2	350.1	10.0
Employee costs	768.3	698.5	10.0
Depreciation, amortization and impairment charges	1,134.4	1,138.8	-0.4
Other operating expenses	1,758.5	1,612.9	9.0

Change in the Financial Statements according to IFRS

In the financial year 2005 Telekom Austria's Group reporting was switched from U.S. GAAP to IFRS, but this had no significant impact on the key financial figures.

Mobiltel's financial results between July 12 and December 31, 2005 are included in the consolidated financial statements. To enable a more effective comparison, Mobiltel's non-consolidated financial results are shown for the full year 2005.

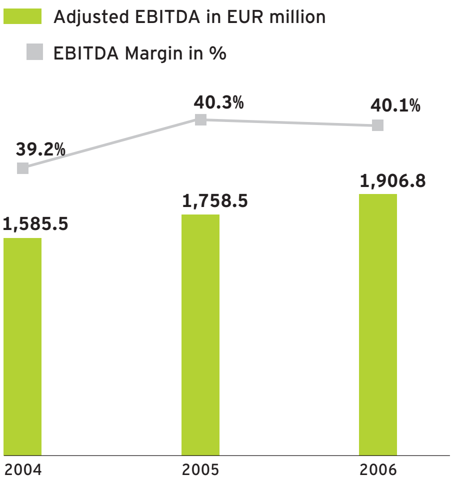
Development of Results

In the financial year 2006 the Telekom Austria Group was able to increase revenues by 9.0% to EUR 4,759.6 million. The wireline segment's contribution to revenues remained stable compared to the previous year, with higher revenues from Internet and wholesale almost offsetting the decline in voice telephony revenues. The wireless segment not only profited from Mobiltel's contribution to the consolidated financial results for a full 12 months, but also from an increase in subscriber numbers in all markets and strong data business.

The percentage of revenues attributable to Telekom Austria Group's international activities rose from 25.4% in 2005 to 31.9% in 2006, the comparable figure for adjusted EBITDA rose from 19.2% to 28.3%.

Material expenses rose by 10.0% to EUR 385.2 million due to increased sales of merchandise by the wireline segment and higher expenses for equipment resulting from subscriber growth.

Development of Adjusted EBITDA and EBITDA Margin



The wireline segment seeks to optimize its purchasing system by making use of group-wide purchasing synergies. In addition to the use of cutting-edge e-procurement solutions, the segment also strives to obtain the best-possible quality and most favorable prices. Telekom Austria has implemented a system of supplier management and a standardized supplier evaluation procedure to ensure timely procurement with minimized costs and risks, which also incorporate the ISO 9001 and ISO 14001 standards. In the wireless segment the partial centralization of purchasing activities has resulted in a reduction of costs while system harmonization has improved efficiency. The integration of new companies is accelerated by the preparatory work carried out by the Group purchasing department and the standardized guidelines it produces.

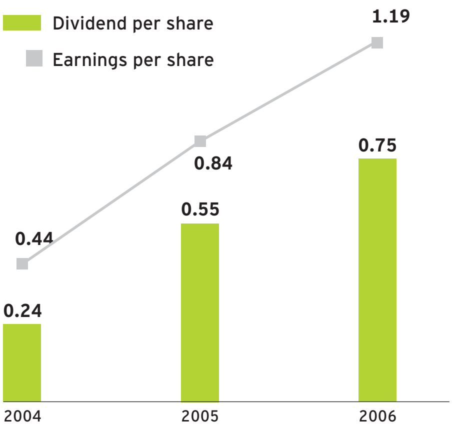
Employee costs in the Telekom Austria Group rose by a total of 10.0 % to EUR 768.3 million in 2006. The 9.8% increase in the wireline segment was due to wage increases under the collective bargaining agreement, exceptional items for severance payments amounting to EUR 16.4 million and expenses of EUR 8.3 million for the Employee Participation Program launched in December 2006. The 9.7% rise in the wireless segment is explained by the full-year consolidation of Mobiltel and the Employee Participation Program for mobilkom austria.

Depreciation, amortization and impairment charges decreased slightly by 0.4% to EUR 1,1134.4 million. Mobiltel's full-year contribution to depreciation and amortization in the wireless segment was offset by lower depreciation and amortization in the wireline segment. Impairment charges of EUR 10.5 million in 2006 were attributable to depreciation and amortization of real estate and unused telecommunications infrastructure.

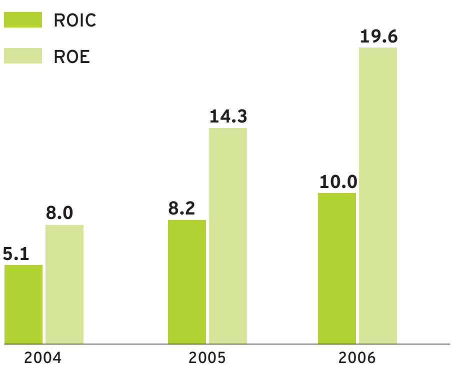
Other operating expenses of the Telekom Austria Group in 2006 grew by 9.0% to EUR 1,758.5 million. This expense item mainly comprises expenses from interconnection, services received, repair and maintenance, other support services as well as marketing and advertising costs. This increase is due to the full-year consolidation of Mobiltel and to higher marketing and sales costs, which did however, enable successful customer acquisition. In the wireline segment other operating expenses declined, mainly due to lower debt write-offs, a reduction in provisions for bad debt and reduced net loss from the retirement of buildings, land and network infrastructure.

In 2006 the Telekom Austria Group saw operating income rise by 24.6% to EUR 772.4 million supported by lower expenses in the wireline segment, strong growth from the international subsidiaries and Mobiltel's full-year contribution. Operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) improved by 8.4% to EUR 1,906.8 million, with an increase of 21.5% in the wireless segment counteracting a 7.6% decline in the wireline segment.

Dividends and Earnings per Share
in EUR



Return on Invested Capital (ROIC) and Return on Equity (ROE)
in %



In terms of the adjusted EBITDA margin, Telekom Austria Group's profitability remained virtually unchanged at 40.1%.

The general increase in the level of interest rates in the Euro zone was offset by the favorable refinancing of high interest liabilities which had become due. Net interest expense thus remained almost unchanged at EUR 113.5 million in 2006.

Although income before taxes rose by 28.2% to EUR 657.9 million, corporate income tax expense fell by 7.9% to EUR 96.1 million, due mainly to a one-off tax gain of EUR 43.6 million. Changes in the tax rates in Bulgaria and Slovenia led to a one-off tax benefit of EUR 18.6 million in Q4 2006. Furthermore, a provision for tax uncertainties amounting to EUR 8.7 million was released in Q3 2006. Due to further changes to tax law in Slovenia and the improved business outlook for Si.mobil, deferred tax assets of EUR 16.3 million were reported which had not been applied in prior periods.

The effective tax rate in 2006 amounted to 14.6% compared to 20.3% in the previous year. The difference to the 25% rate of corporate income tax in Austria is mainly attributable to lower foreign rates of income tax. Lower foreign rates of income tax and one-off tax effects in 2006 accounted for the difference to the effective tax rate in the previous year.

Net income in the 2006 financial year increased by 37.4% to EUR 561.8 million compared to the previous year. Earnings per share thus rose from EUR 0.84 to EUR 1.19. In keeping with this positive business performance the Management Board will ask the Annual General Meeting to approve the payment of a dividend of EUR 0.75 per eligible share. This represents an increase of 36.4% compared to the previous year; the pay-out ratio remains unchanged at 65.0%.

The Telekom Austria Group further increased its earnings quality in the financial year under review. Measured in terms of the Return on Invested Capital (ROIC), the return on capital rose from 8.2% in 2005 to 10.0% in 2006, meaning that the weighted average cost of capital was exceeded and the intrinsic value of the company was increased. The average costs of capital of the Telekom Austria Group after tax are based on the minimum returns expected by investors for equity and borrowed capital invested. These weighted average costs of capital (WACC) result therefore from the costs of outside financing and a risk premium for the investment in shares. Telekom Austria's Return on Equity (ROE) rose from 14.3% to 19.6% in 2006.

Stable Development in the Wireline Segment

The general trend toward mobile communications intensified in the financial year 2006, triggering an 8.7% decline in voice minutes to 4.7 billion in the wireline segment. The overall Austrian market reported an even sharper decline of 10.3%, enabling Telekom Austria to expand its share of the voice telephony market by 1.5 percentage points to 56.9%. Including Internet dial-up traffic, market share grew by 1.1 percentage points to 56.8%. In combination with attractively priced bonus packages, the tried-and-tested TikTak tariffs created favorable conditions for strengthening customer loyalty and permitted up-selling and cross-selling initiatives.

The number of fixed access lines decreased by 5.7% to 2.6 million, although one quarter of these are already safe-guarded by broadband lines. The number of unbundled lines increased by 56.1% to 199,600 due to continued vigorous unbundling activities on the part of alternative providers.

In this environment the wireline segment generated revenues totaling EUR 2,119.5 million in 2006, only 0.2% less than in the previous year. The higher contributions to revenues from the Internet and wholesale business almost completely made up for the decline in revenues from voice telephony. Internet revenues profited from continued growth in ADSL lines, and the wholesale business from high transit revenues. The decline in voice telephony revenues was caused by decreases in the number of lines and migration to mobile communications networks.

Operating income of the wireline segment improved by 36.3% in the year under review to approximately EUR 92.8 million. Declining expenses more than offset the increased operating expenses caused by higher employee costs and other operating expenses. Adjusted EBITDA fell by 7.6% compared to the previous year to EUR 729.4 million, reducing the EBITDA margin from 37.2% to 34.4%.

Employee costs in 2006 rose by 9.8% to EUR 549.0 million, due to wage increases under the collective bargaining agreement, higher provisions for severance payments amounting to EUR 16.4 million and expenses of EUR 8.3 million for the Employee Participation Program launched in December 2006. This increase was counteracted by lower expenses from the stock option program which decreased by EUR 6.4 million compared to the previous year.

In the 2006 reporting year, Czech On Line was able to increase revenues by 5.7% to EUR 24.3 million thanks to rising numbers of broadband customers and voice customers in the residential and business segments, as well as growth in value-added services. Adjusted EBITDA deteriorated from EUR 0.5 million to minus EUR 1.4 million due to the decline in the highly profitable dial-up business and increased sales and marketing costs. Operating income fell from minus EUR 1.9 million in 2005 to minus EUR 4.1 million in 2006.

Segment Reporting

Revenues (in EUR million)	**2006**	**2005**	**Change in %**
Wireline	2,119.5	2,123.9	-0.2
Wireless	2,902.6	2,484.8	16.8
Others & eliminations	-262.5	-243.5	7.8
Consolidated revenues	**4,759.6**	**4,365.2**	**9.0**

Operating income (in EUR million)	**2006**	**2005**	**Change in %**
Wireline	92.8	68.1	36.3
Wireless	677.1	549.8	23.2
Others & eliminations	2.5	1.8	38.9
Consolidated operating income	**772.4**	**619.7**	**24.6**

Adjusted EBITDA (in EUR million)	**2006**	**2005**	**Change in %**
Wireline	729.4	789.4	-7.6
Wireless	1,175.4	967.7	21.5
Others & eliminations	2.0	1.4	42.9
Consolidated adjusted EBITDA	**1,906.8**	**1,758.5**	**8.4**

Capital Expenditures (in EUR million)	**2006**	**2005**	**Change in %**
Wireline capital expenditures for tangible assets	260.4	289.5	-10.1
Wireless capital expenditures for tangible assets	300.3	239.9	25.2
Capital expenditures for tangible assets	**560.7**	**529.4**	**5.9**
Wireline capital expenditures for intangible assets	23.5	24.6	-4.5
Wireless capital expenditures for intangible assets	412.5	73.6	460.5
Capital expenditures for intangible assets	**436.0**	**98.2**	**344.0**
Total	**996.7**	**627.6**	**58.8**

Strong Growth in the Wireless Segment

All mobile communications subsidiaries in the wireless segment were able to increase their subscriber base in 2006, with the total number of customers rising by 14.2% to approximately 10.2 million, an addition of 1.27 million new customers.

Thanks to this growth in the subscriber base, higher roaming revenues and the first full-year consolidation of Mobiltel, which in the previous year had only been included for the period from July 12 to December 31, the wireless segment was able to increase revenues by 16.8% in 2006 to EUR 2,902.6 million. Operating income increased by 23.2% to EUR 677.1 million. Adjusted EBITDA grew by 21.5% to EUR 1,175.4 million, with the EBITDA margin rising by 1.6 percentage points to 40.5%.

mobilkom austria was able to once again assert its leading position in the highly competitive Austrian mobile communications market, which has a penetration rate of roughly 114%. With more than 3.6 million customers the company had a market share of 38.7% at year-end 2006. Despite fierce competition, revenues grew by 0.7% to EUR 1,726.6 million thanks to higher revenues from voice telephony and data services. Operating income at mobilkom austria decreased by 2.2% to EUR 354.0 million. Adjusted EBITDA fell by 1.4% to EUR 608.1 due to lower revenues from traffic and interconnection; the EBITDA margin for 2006 was 35.2%. Total investments at mobilkom austria amounted to EUR 198.4 million in 2006.

With approximately 4.3 million customers at year-end 2006 Mobiltel is the leading mobile communications provider in Bulgaria. Compared to the previous year, the mobile penetration rate in Bulgaria increased from approximately 80% to roughly 106%. Mobiltel generated revenues of EUR 583.8 million in 2006, an increase of 10.6% compared to the full year 2005. The contribution to the revenues of the Telekom Austria Group amounted to EUR 262.6 million in 2005. Operating income increased by 4.9% to EUR 198.9, adjusted EBITDA by 4.8% to EUR 340.2 million. In 2005 Mobiltel's consolidated contributions to operating income amounted to EUR 93.7 million and to adjusted EBITDA EUR 154.3 million. At 58.3% the EBITDA margin remained at a very high level.

In 2006 the mobile penetration rate in Croatia increased by 18.1 percentage points to approximately 101.0%. Vipnet has a market share of 42.9% and, as in the previous year, was able to add a further 300,000 customers to its subscriber base which swelled to 1.9 million. The share of contract customers grew by 1.6 percentage points. In line with this positive trend, Vipnet increased its revenues by 12.5% to EUR 474.8 million in 2006.

Due to a disproportionally small increase in expenses compared to the development of revenues, adjusted EBITDA rose 12.9% to EUR 190.5 million. Supported by lower depreciation and amortization charges, operating income rose by 27.2% to EUR 112.2 million.

Slovenia has a mobile penetration rate of 85.4% and with a market share of 24.9%, Si.mobil is the second-largest provider in the country. At year-end 2006 Si.mobil had approximately 420,900 customers. Revenues in the reporting year rose by 30.2% to EUR 131.2 million, adjusted EBITDA by 35.5% to EUR 33.6 million. The EBITDA margin improved by 1 percentage point to 25.6%. Operating income increased by approximately 176% in 2006 to EUR 10.5 million.

On November 7, 2006 mobilkom austria won the tender for the third license in the Republic of Serbia. The EUR 320.0 million purchase price includes a ten year GSM 900/1800 license and a UMTS license for the territory of the Republic of Serbia with an automatic extension for a further ten years. Over the next few years approximately EUR 250 million will be invested in network development. A positive EBITDA and free cash flow are expected for the first time in 2009.

Decline in the Balance Sheet Total due to a Restrictive Investment Policy

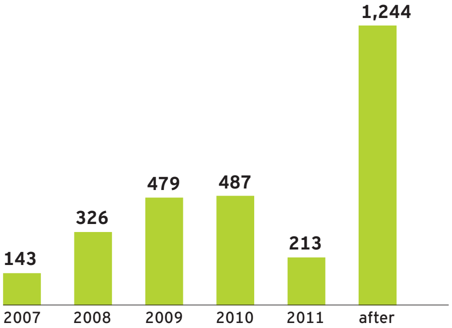
The balance sheet total of the Telekom Austria Group declined by 1.8% to EUR 7.6 billion in year-on-year terms. The main factor behind this decrease in the balance sheet total was the reduction of property, plant and equipment which, however, was partly offset by an increase in other intangible assets.

Current assets rose by 5.8% to approximately EUR 1.2 billion due to increases in inventories, prepaid expenses and income taxes receivable. Cash and cash equivalents increased by 7.1% or EUR 8.3 million to EUR 125.1 million.

Other intangible assets increased by EUR 191.1 million mainly due to the acquisition of the third mobile communications license in the Republic of Serbia.

Balance Sheet Structure (in EUR million)	**Dec. 31, 2006**	**As % of the Balance Sheet Total**	**Dec. 31, 2005**	**As % of the Balance Sheet Total**
Current assets	1,160.2	15.3	1,096.5	14.2
Property, plant and equipment	3,216.0	42.5	3,583.0	46.6
Goodwill	1,188.6	15.7	1,188.4	15.4
Other intangible assets	1,855.1	24.5	1,664.0	21.6
Other assets	139.8	2.0	164.8	2.2
ASSETS	**7,559.7**	**100**	**7,696.7**	**100**
Current liabilities	1,657.3	21.9	1,855.5	24.1
Long-term debt, net of current portion	2,750.1	36.4	2,557.7	33.2
Lease obligations, net of current portion	57.4	0.8	68.7	0.9
Employee benefits	111.6	1.5	109.5	1.4
Other long-term liabilities	159.8	2.1	186.6	2.5
Stockholders' equity	2,823.5	37.3	2,918.8	37.9
LIABILITIES AND STOCKHOLDERS' EQUITY	**7,559.7**	**100**	**7,696.7**	**100**

Maturity of Long-Term Liabilities
as of Dec. 31, 2006, in EUR million



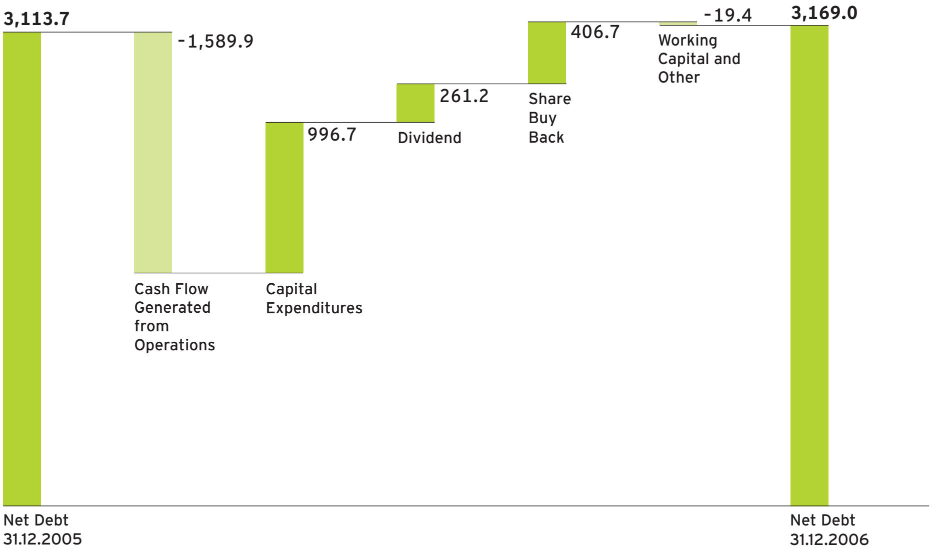
In 2006 Telekom Austria's restrictive investment policy combined with higher depreciation and amortization charges led to a decrease in property, plant and equipment from EUR 3.6 billion to EUR 3.2 billion. Other assets reported a decline of 15.2% to EUR 139.8 million in 2006, attributable to lower deferred tax assets and lower long-term financial assets.

Long-term net debt increased by 7.5% to EUR 2.8 billion after a EUR 300 million loan was taken out at favorable conditions in Q3 2006 in order to refinance long-term liabilities.

Current liabilities declined as a result of lower current financial liabilities and trade accounts payable combined with an increase in long-term net debt.

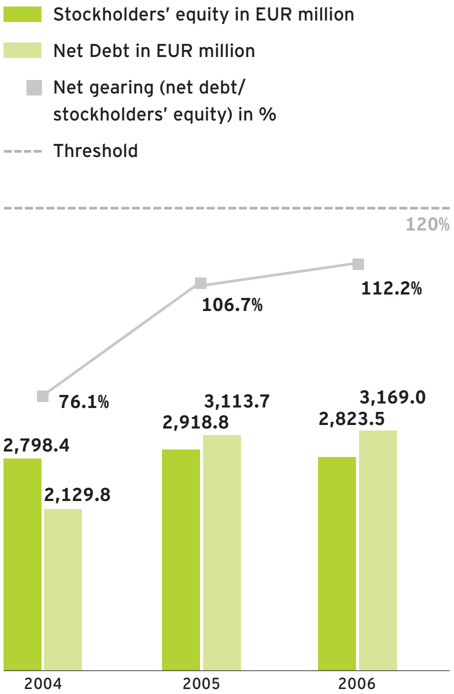
In a year-on-year comparison stockholders' equity reported a decline of 3.3% at year-end 2006 to approximately EUR 2,823.5 million, resulting in an equity ratio of 37.3% compared to 37.9% in the previous year. This reduction in stockholders' equity is attributable to intensified share buy-backs of EUR 406.7 million in the reporting year. The net income of EUR 561.8 million generated in the financial year 2006 less dividend payments of EUR 261.2 million in 2005 could not fully offset this decline.

Development of Net Debt
in EUR million



Net Debt (in EUR million)	**Dec. 31, 2006**	**Dec. 31, 2005**
Long-term debt, net of current portion	2,764.6	2,557.7
Short-term borrowings	562.1	704.1
- short-term portion of capital and cross-border leasing	-9.4	-9.4
+ capital lease obligations (short-term and long-term)	0.1	0.6
Cash and cash equivalents, short-term and long-term investments	-148.3	-139.3
Financial instruments, included in other assets	-0.1	0.0
Net debt of Telekom Austria	**3,169.0**	**3,113.7**
Net debt/equity (net gearing)	112.2	106.7

Net Gearing



The Annual General Meeting held on May 23, 2006 authorized the Management Board of Telekom Austria to purchase treasury shares to the maximum extent legally permitted of 10% of the common stock, for a period of 18 months and within a price band of EUR 10 and EUR 25 per share. This authorization which ends on November 22, 2007 provides for the use of the repurchased shares to service stock options and convertible bonds or as consideration for acquisitions, or for resale. Shares which are not used for one of these purposes may be retired without the prior consent of the Annual General Meeting. The authorization was extended to include the issue of shares to employees. On the basis of this authorization, Telekom Austria purchased 21,310,870 treasury shares in the 2006 financial year at an average price per share of EUR 19.09. At the end of 2006 Telekom Austria held approximately 38,307,473 treasury shares. Stockholders' equity decreased by EUR 95.2 million.

Net debt of Telekom Austria rose by EUR 55.3 million to 3,169.0 million in the reporting year, mostly as a result of the purchase of the third mobile communications license in the Republic of Serbia. The net debt to equity ratio (net gearing) at year-end thus rose accordingly from 106.7% to 112.2%.

In 2006 two internationally renowned rating agencies evaluated the financial strength of Telekom Austria and its bonds. In August 2006 the rating agency Standard & Poor's upgraded Telekom Austria from "BBB+stable" to "BBB+positive," due to the company's solid business performance, stronger cash-flow profile and conservative financial policy. Moody's Investor Service left the rating unchanged at "A3 positive."

"Continued focus on a balanced cash use policy and value-enhancing expansion."

Last year we evaluated a number of acquisition projects in order to push forward the development of the Telekom Austria Group with a focus on increasing shareholder value. I am convinced that the diligence with which we evaluate such projects, our carefully considered offers and our refusal to focus solely on increasing the size of the company reflect the wishes of our shareholders. Although a sharp rise in earnings and reduced debt levels have given us more financial leeway and flexibility over the last few years, our actions are always governed by responsible management of our shareholders' capital.

At the end of April we will present the Telekom Austria Group's new cash use policy. The goal is to achieve an even balance between shareholder remuneration and acquisitions. An important first step in this direction has been taken with the planned increase in the dividend from EUR 0.55 to EUR 0.75 for the financial year 2006.

As announced, I have decided to resign from my position as Chief Financial Officer at the end of March, 2007. I have accompanied the Telekom Austria Group since its IPO in November 2000 and wish the company much success in the future.

Stefano Colombo
Chief Financial Officer

Development of Cash Flow

In a year-on-year comparison cash flow generated from operations fell by 2.9% to EUR 1,589.9 million. However, the substantial improvement in full year results could not completely offset the increase in working capital. The increase in working capital was due to increased inventories and other assets as well as reduced liabilities. Despite higher year-on-year capital expenditures, cash flow used in investing activities fell by approximately 45% to minus EUR 971.6 million due to the acquisition of Mobiltel in 2005. Cash flow from financing activities in 2006 amounted to minus EUR 608.8 million compared to minus EUR 28.1 million in the previous year. This development was due to the raising of a long-term loan, lower repayments of long-term financial liabilities, the intensified share buy back program and the higher dividend payment for the 2005 financial year.

Cash Flow (in EUR million)	**2006**	**2005**	**Change in %**
Cash flow generated from operations	1,589.9	1,637.7	-2.9
Cash used in investing activities	-971.6	-1,780.9	45.4
Cash generated from (used in) financing activities	-608.8	-28.1	
Effect of exchange rate changes	-1.1	-0.1	
Increase/decrease in cash and cash equivalents	**8.4**	**-171.4**	

Capital Expenditures (in EUR million)	**2006**	**2005**	**Change in %**
Tangible wireline	260.4	289.5	-10.1
Tangible wireless	300.3	239.9	25.2
Tangible	560.7	529.4	5.9
Intangible wireline	23.5	24.6	-4.5
Intangible wireless	412.5	73.6	460.5
Intangible	436.0	98.2	344.0
Total	**996.7**	**627.6**	**58.8**

Capital Expenditures

Total capital expenditures for tangible and intangible assets rose by 58.8% to EUR 996.7 million compared to the previous year. Tangible assets account for EUR 560.7 million, an increase of 5.9% compared to the previous year.

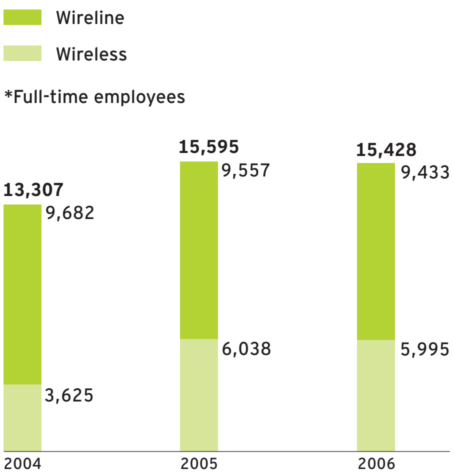
Investment activities in the wireline segment decreased by 9.6% to EUR 283.9 million compared to the previous year. Due to the massive expansion of broadband technology in previous years, investments in 2006 were selective in nature. Capital expenditures were also reduced in the area of voice telephony and in the core network.

The wireless segment increased its total investments by EUR 399.3 million to EUR 712.8 million. However, this volume includes EUR 320.0 million paid for the third mobile license in the Republic of Serbia and EUR 6.5 million for the UMTS frequencies in Slovenia purchased in Q3 2006. Besides the full-year consolidation of Mobiltel, the remaining increase is mainly due to investments in upgrading EDGE, UMTS and HSDPA technologies.

Workforce

On December 31, 2006 the Telekom Austria Group employed 15,428 employees, 74% of whom worked in Austria. The wireline segment reported a headcount reduction of 124 employees, mostly as a result of natural attrition, while the number of wireless employees fell by 43.
The Telekom Austria Group has implemented a human resources strategy which promotes an efficiency and performance-oriented work ethic on the one hand, while

Employees at Year-End*



*Full-time employees

positioning the company as a socially committed and attractive employer on the other. At year-end 2006 43.8% of the Telekom Austria Group workforce had civil servant status (2005: 43.6%).

Research & Development

The research and development activities of the Telekom Austria Group provide the basis for the company's continued expansion of its innovation leadership in terms of quality and standard of service. At the same time, new business areas should be developed on the basis of innovative technologies and infrastructure networks with a view to safeguarding the long-term growth in shareholder value. In order to increase customer convenience, the wireline segment focuses on application opportunities in the area of broadband technologies, the integration of communications and information technologies and the digitalization of content. Another key area is the continued migration of network infrastructures for voice, data and Internet services to a convergent All-IP network and the development of the media platform ALLmediaNET. In 2006 the wireless segment once again successfully distinguished itself from its competitors and asserted its innovation leadership by introducing additional data services, increasing transmission speeds and maintaining the quality of its network.

Total research and development expenditures by the Telekom Austria Group in 2006 amounted to EUR 41.3 million (2005: EUR 43.0 million).

Environmental and Social Responsibility

Telekom Austria has in recent years implemented various control mechanisms designed to ensure economic sustainability. In addition to the Austrian Corporate Governance Code, the Code of Ethics, the Internal Control System and the Compliance Guidelines, a business code of conduct has been drawn up which is binding for all employees of the Telekom Austria Group. This not only covers compliance with all the relevant legal provisions, it also condemns all forms of dishonesty and bribery, and regulates the acceptance and giving of gifts.

Environmental policy at Telekom Austria is directed toward ensuring the careful use of natural resources and reducing emission levels and commercial waste. An environmental management system based on the requirements of ISO 14001 was implemented in 2004. In the wireline segment it is energy consumption which has the strongest impact on the environment. Environmental activities at mobilkom austria continue to focus on investigating the impacts of electromagnetic fields.

Shareholders and Management Bodies of the Telekom Austria Group

The common stock of Telekom Austria AG amounts to EUR 1,090,500,000 and is divided into 500,000,000 bearer shares. There are no voting restrictions or syndicate agreements among the shareholders known to Telekom Austria AG. The Republic of Austria holds 25.2% of Telekom Austria shares through the ÖIAG, the remainder is free float. As of December 31, 2006 Capital Research & Management (Delaware) held just under 7.7%. As the managers of the individual funds controlled by this company make their investment decisions independently of one another, these shares are regarded as free float.

The Telekom Austria shares held by employees are deposited in a collective custody account administered by the company. The voting rights attached to these shares may not therefore be exercised directly, but are instead transferred to a notary public who exercises them in accordance with the instructions of a Trust Board. The Trust Board which is responsible for supervising the collective custody account comprises two members representing the employees and two members representing the employer as well as a notary public.

In 2006 the following changes were made to the Management Board and Supervisory Board of the Telekom Austria Group: Chief Executive Officer Heinz Sundt resigned from his post on conclusion of the Annual General Meeting on May 23, 2006. Chief Financial Officer Stefano Colombo did not seek an extension of his mandate and will retire from this position at the end of March 2007. Hans Tschuden will succeed him as Chief Financial Officer in April 2007.

In 2006 Wolfgang C. Berndt and Hans Jörg Schelling were voted onto the Supervisory Board and Otto G. Zich was voted off the Supervisory Board. Peter Mitterbauer and Harald Sommerer resigned from the Supervisory Board on May 23, 2006 and June 24, 2006 respectively. Following his election to Parliament, Hans Jörg Schelling resigned from the Supervisory Board in February 2007.

The company has entered into no significant agreements which will become effective, change or be terminated upon a change of control in the company as a result of a takeover bid.

Risk Management

The Telekom Austria Group is active in various markets (fixed line and mobile communications) and is also increasingly expanding its operations in countries other than Austria. The Group uses this diversity to reduce the multiple risks with which it is confronted.

Risk management at the Telekom Austria Group is defined as a systematic process for dealing with possible events and developments which affect the implementation of the planned corporate strategy and goals, above all that of preserving and increasing shareholder value.

The business model of the wireline segment faces a variety of challenges and risks. The instruments for early detection are therefore not centrally steered. The risk management process is carried out by the individual business units and centrally monitored by a risk manager. In structured interviews and workshops with top management, risks are identified, evaluated and then compiled in a risk report, on the basis of which measures are drawn up to mitigate and avoid risks.

Risk management in the wireless segment is steered by a committee comprised of members of the management boards of the individual mobile communications companies. The stated goal is to strengthen the company's ability to assume and cope with risk on the basis of a clearly structured overview of the diverse regional risk categories and those risks which affect all segment units. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. Procedures are in place to monitor the measures that have been implemented and ensure that management receives regular status reports.

Furthermore, an internal audit department regularly examines the conduct of business and organizational procedures in terms of correctness, security, cost effectiveness and efficiency. The following description summarizes the main risk factors for the Telekom Austria Group. This complies with the requirement of the Austrian Corporate Governance Code (Rule 67) on the publication of risks and uncertainties.

Market and Competitive Risks

Given the extensive saturation of the markets in Austria there is no indication that the extraordinarily high level of competition, which prevails in the both business segments, will ease off, notwithstanding the process of continued consolidation in the markets in 2006. In December 2006, Telekom Austria signed a purchase agreement for eTel as part of its plans to reinforce its market position. Merger control approval is still pending. Since the acquisition of Mobiltel a third mobile communications provider has started operating in Bulgaria, thereby increasing competitive pressure in that country. There was a similar development in Croatia when a third operator entered the market. Telekom Austria is responding to these competitive risks by optimizing its product portfolio and marketing competitive offers.

Given the rapid pace of technological change and increasing convergence, the development of future revenues will also depend on the acceptance of new products and services.

Regulatory and Legal Risks

The operational flexibility of the wireline segment is curtailed by the need to obtain approval from the regulator for customer tariffs and charges prior to commercial launch as well as the obligation to open up access to infrastructure and services. In accordance with a regulatory decision taken at the end of 2005, termination charges for all mobile communications operators in Austria will be gradually lowered on the basis of a gliding path model until year-end 2008. Future regulatory developments, especially with regard to roaming, could also have an impact on business performance in Telekom Austria Group's international markets.

Legal risks arise above all from unforeseen interventions by regulators and law suits with competitors as well as with private groups and individuals who fear that mobile handsets and radio masts present a health hazard. In this field of potential conflict the Telekom Austria Group is dedicated to acting with the utmost transparency. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues which could pose a threat to the company, enable Telekom Austria to identify problems early on and take measures to counteract them.

Technical and Geographical Risks

Force majeure, human error and faulty materials can cause damage to Telekom Austria's technical infrastructure. Technological progress also creates risks due to the ever-increasing speed with which infrastructure reaches its end of life. Effective measures to ensure maximum network reliability and fault tolerance are taken in the form of the redundant design of critical network components, firewalls, self-defending networks and the implementation of the highest safety standards.

Telekom Austria intends to continue its expansion in the countries of eastern and southeastern Europe, inter alia Serbia and

Macedonia. The realization chances and the future value of these investments will, however, also depend on political, economic and legal developments in these countries.

Internal Control System for Financial Reporting

The company attaches particular importance to the introduction and auditing of an internal control system for financial reporting. In 2005 Telekom Austria voluntarily commissioned the auditors to evaluate the ICOSR and in 2006 implemented the recommendations and other improvement measures drawn up on the basis of this process. The detailed internal evaluation carried out as part of a management assessment confirmed the effectiveness of the ICOSR. Due to the extensive implementation of the internal control system throughout both segments the Telekom Austria Group is well prepared for the anticipated introduction of a European Internal Control System within the framework of the 8th EU Audit Directive in 2008.

Major Subsequent Events

The earnings per share target value for the third tranche of the stock option program started in 2004 was reached. Holders may exercise the options once the results have been published. A provision amounting to EUR 7.8 million was included in the financial statements for the year 2006 for this purpose.

On January 8, 2007 the eligible employees were offered 4,047,472 options from the fourth tranche of the stock option program. These options may be settled either by cash payments, new shares or repurchased treasury shares at the discretion of the company, whereby an option includes the right to buy one share. The exercise price is EUR 20.34. The option may only be exercised if the earnings per share target value determined by the Supervisory Board has been reached. The options have a life of three years following a vesting period of roughly 12 months. The options therefore have a life of slightly more than four years.

On December 20, 2006 Telekom Austria announced a purchase agreement to acquire 100% of the common stock of the integrated provider eTel for approximately EUR 90 million. eTel has operational subsidiaries in Austria, Hungary, Germany, the Czech Republic, Slovakia and Poland. Merger control approval for the acquisition is still pending.

On February 5, 2007 the Telekom Austria Group won the tender for a GSM license in the Republic of Macedonia. The license was awarded for a period of ten years, and can be extended for a further ten years. The price of the license was EUR 10.0 million.

Outlook for 2007

The Telekom Austria Group expects revenues to show a stable development in the financial year 2007 compared to the previous year. This forecast already includes a decline in wholesale prices for international roaming as a result of competition. However, it is not yet possible to foresee the impact of the anticipated introduction of a comprehensive regulation for international roaming traffic by the European Commission.

The adjusted EBITDA margin will decrease by approximately 1.5 percentage points as a result of the decline in wholesale prices for international roaming and expenses related to the start of operations in the Republic of Serbia and of Macedonia. As a result, operating income is expected to be slightly lower despite a continued decline in depreciation, amortization and impairment charges.

The wireline segment expects business operations in 2007 to be characterized by a further decline in the number of subscriber lines, stronger competition in the broadband segment due to broadband offers from mobile operators and the sustained migration of voice minutes to mobile communications networks. This development is expected to result in a slight decline in revenues and adjusted EBITDA. Nevertheless, Telekom Austria expects operating income to show continued growth due to lower overall expenses.

In the wireless segment there are no signs that competitive pressure will ease in future. In fall 2007 the European Commission is expected to introduce comprehensive regulation of international roaming traffic, but it is impossible to anticipate what effect this will have at present. Despite the continued strong performance of the data business, revenues in Austria are expected to fall slightly due to a reduction in mobile termination charges.

However, Telekom Austria expects its international wireless subsidiaries to continue to contribute growth in 2007. Revenues in the wireless segment are expected to grow slightly in 2007. However, adjusted EBITDA and operating income will be lower than in 2006 due to expenses in connection with the launch of operations in the Republic of Serbia and of Macedonia.

Capital expenditures will rise by approximately 18% due to the planned investments in the Republic of Serbia and of Macedonia.

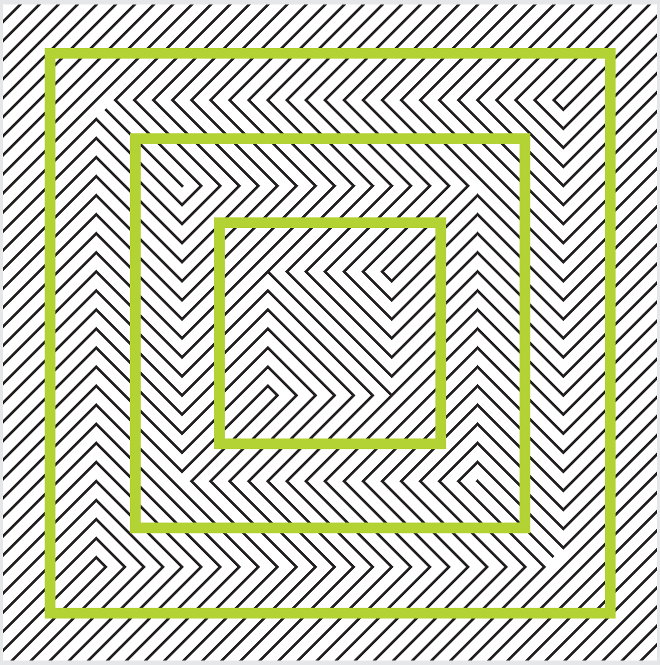
Nevertheless, on the basis of net income for 2006 adjusted by one-off tax effects of EUR 43.6 million in the second half of the year, Telekom Austria expects net income to show an almost stable development in 2007.

Vienna, February 21, 2007

The Management Board

Boris Nemsic
Rudolf Fischer
Stefano Colombo

Figure 6: Misperceptions



Is your perception also distorted?

It is a common misconception that the fixed line segment offers no opportunities for growth. We see things differently. Broadband technology is opening up plenty of prospects for future growth. Take another look!

Don't worry if you have a hard time recognizing the parallels in this figure. You're certainly not alone. And don't allow yourself to be confused. The cut-out on the inside of the back cover will help you see things clearly.

Wireline

At a Glance

Revenues remained almost stable at EUR 2,119.5 million

Operating income rose by 36.3% to EUR 92.8 million

Voice telephony market share expanded by 1.5 percentage points to 56.9%

Expanded product portfolio enhances attractiveness of fixed access lines

The wireline segment offers an innovative product portfolio to residential, business, and wholesale customers which comprises voice telephony, Internet access, data and IT solutions, value-added services and wholesale services. The wireline segment is represented outside Austria with Czech On Line, a leading alternative Internet service provider in the Czech Republic and smaller subsidiaries which operate the optical fiber ring Telekom Austria JetStream.

The wireline segment of the Telekom Austria Group is exposed to fierce competition in several respects. It is therefore essential to maintain the market position against the many alternative fixed line and mobile communications operators both in the traditional voice telephony market, but also increasingly in the area of Internet access where pressure is growing due to mobile broadband. In this challenging environment the wireline segment focuses on safeguarding fixed access lines through innovative products such as aonDigitalTV and aonAlarm-Services. Thanks to these efforts, voice telephony market share expanded by 1.5 percentage points to 56.9% in 2006, and 119,300 ADSL net additions were reported.

With the aim of safeguarding its market position Telekom Austria acquired (subject to merger control approval) the integrated fixed line provider eTel in December 2006.

eTel has established itself as a provider for small and medium-sized enterprises in the Austrian market and also has subsidiaries in Hungary, Germany, the Czech Republic, Slovakia and Poland.

Stable Revenue Development, Sharp Increase in Operating Income

In the financial year 2006 the wireline segment was able to almost completely offset lower revenues from voice telephony with higher revenues from the Internet and wholesale business. In a year-on-year comparison, 2006 saw only a slight decline of 0.2% to EUR 2,119.5 million. Operating income in the wireline segment improved by 36.3% to EUR 92.8 million in the reporting year; declining depreciation and amortization charges and other operating expenses were set against higher expenses for personnel and interconnection fees. Adjusted EBITDA fell by 7.6% to EUR 729.4 million in a year-on-year comparison, reducing the EBITDA margin from 37.2% to 34.4%.

Revenues from switched voice traffic declined by 9.3% to EUR 361.0 million in 2006 due to increased migration to mobile networks and despite the positive development of bonus packages. The average fixed line tariffs for voice calls fell by 1.3% to 7.6 cents in 2006. Lower tariffs for fixed-to-mobile calls were not completely offset by higher national tariffs. Monthly rentals and other voice telephony revenues fell by 5.2% to EUR 520.2 million, mostly due to a 5.7% decline in the number of fixed lines. According to a recent study this development is due not to customer dissatisfaction with fixed line products, but to the trend toward discount offers in the mobile segment and mobile-only households. Higher revenues from

Key Data Wireline

(financial figures in EUR million)	2006	2005	Change in %
Revenues	2,119.5	2,123.9	-0.2
Operating Income	92.8	68.1	36.3
Adjusted EBITDA*	729.4	789.4	-7.6
Adjusted EBITDA margin (in %)*	34.4	37.2	-
Capital Expenditures	283.9	314.1	-9.6
Human Resources**	9,433	9,557	-1.3

* See glossary for definition
** Full-time employees at year-end

value-added services were unable to compensate for the reduced number and use of public payphones, so that revenues reported under this item fell by a total of 6.7 % to EUR 44.9 million.

The data and IT solutions business (including wholesale) increased its revenues by 1.3% to EUR 425.0 million, thanks to growth in IP-based services, solutions for international data networks and customer-specific corporate networks. Despite the competitive market environment, the growth in broadband Internet access noted in the previous year continued in 2006. Attractive entry-level products boosted the number of ADSL customers by 21% to 693,600, whereby the decline in revenues per ADSL subscriber was deliberately accepted. Revenues from Internet access and media grew by 11.2% to EUR 268.9 million. The business area wholesale – voice telephony & Internet reported revenues of EUR 380.1 million, an increase of 8.8%. The increased number of unbundled lines boosted national wholesale revenues while, internationally, the volume of voice minutes delivered to the mobile communications networks rose. Other revenues from directory enquiry services and the sale of equipment remained virtually stable in 2006 at EUR 119.4 million.

Operating expenses in the wireline segment declined by a total of 1.5% to EUR 2,074.7 million in 2006. Material expenses rose by 11.7% to EUR 77.1 million due to higher sales of merchandise at Telekom Austria shops.

Employee costs rose by 9.8% to EUR 549.0 million compared to the previous year. This development was due to wage increases under the collective bargaining agreement, exceptional expenses for severance payments amounting to EUR 16.4 million and expenses of EUR 8.3 million for the Employee Participation Program launched in December 2006.

Due to the higher volume of voice minutes from mobile communications networks and higher wholesale revenues, expenses from interconnections rose by 3.5% to EUR 352.4 million. Repairs and maintenance costs rose by 4.1% to EUR 118.3 million due to higher expenses for buildings and switching equipment. The increased use of data lines for corporate customers expanding abroad resulted in a 7.8 percent rise in services received to EUR 48.2 million.

Costs for other support services dropped by 2.9% to EUR 86.1 million due to reduced spending on consultancy for IT systems and lower expenses for billing software.

Other operating expenses declined by 9.5% to EUR 207.0 million due to lower depreciation and amortization charges, a reduction in provisions for bad debt and reduced net loss from the retirement of buildings, land and network infrastructure.

Revenues (in EUR million)	**2006**	**2005**	**Change in %**
Switched voice traffic revenues	361.0	398.1	-9.3
Switched voice monthly rentals and other voice telephony revenues	520.2	548.8	-5.2
Payphones and value added services	44.9	48.1	-6.7
Data and IT solutions including wholesale	425.0	419.7	1.3
Internet access and media	268.9	241.9	11.2
Wholesale voice and Internet	380.1	349.3	8.8
Other	119.4	118.0	1.2
Total wireline revenues	**2,119.5**	**2,123.9**	**-0.2**

Operating Expenses (in EUR million)	**2006**	**2005**	**Change in %**
Material expenses	77.1	69.0	11.7
Employee costs*	549.0	500.1	9.8
Depreciation, amortization and impairment charges	636.6	721.3	-11.7
Interconnection	352.4	340.4	3.5
Maintenance and repairs	118.3	113.6	4.1
Services received	48.2	44.7	7.8
Other support services	86.1	88.7	-2.9
Other operating expenses	207.0	228.7	-9.5
Total wireline operating expenses	**2,074.7**	**2,106.5**	**-1.5**

* Including benefits and taxes

Decline in Capital Expenditures

Following an increase in capital expenditures in 2005 due to the implementation of the Austrian Surveillance Ordinance, the wireline segment was able to reduce its spending by 9.6% to EUR 283.9 million in 2006 by continuing its policy of targeted investments.

As more than 90% of Austrian households are located within the Telekom Austria coverage area, a selective expansion of broadband infrastructure in combination with regional broadband initiatives was implemented in 2006. Lower purchasing costs for ADSL components in switching centers and ADSL customer equipment also led to reduced expenses.

The roll-out of public multimedia stations was largely completed in the financial year 2006. In conjunction with the optimization measures implemented in previous years, this led to a decline in investments for the voice telephony segment. At the same time, network capacity was expanded in order to enable multimedia products such as aonDigital TV or the selection of broadband functions such as download speeds.

Strong Competitive Position

In 2006 the wireline segment was able to expand its share of the voice telephony market by 1.5 percentage points to 56.9%. Including Internet dial-up traffic, market share grew by 1.1 percentage points to 56.8%. The tried-and-tested TikTak tariffs and attractively priced bonus packages created favorable conditions for strengthening customer loyalty and up-selling and cross-selling initiatives.

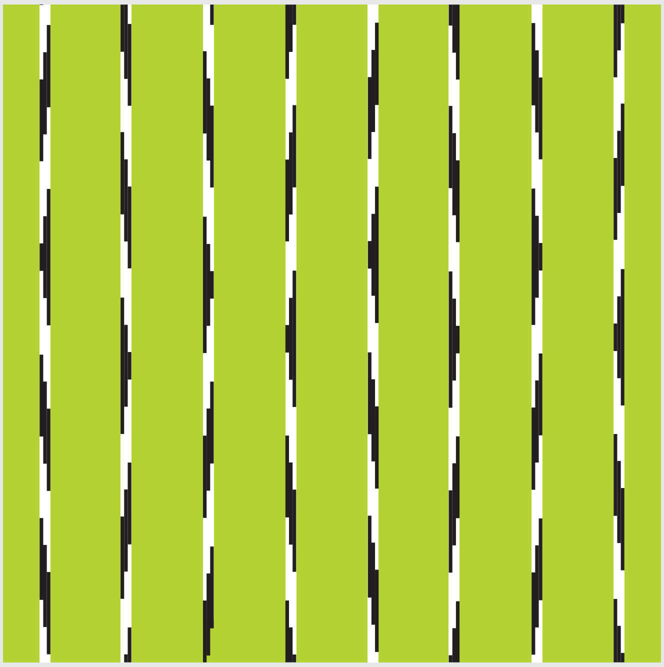
The average minute tariff fell by 1.3% to 7.6 cents compared to the previous year, as higher national tariffs were unable to completely offset cheaper tariffs for fixed-to-mobile calls. The general trend toward mobile communications continued in 2006, resulting in an 8.7% decline in voice minutes in the wireline segment to 4.7 billion - the overall Austrian market reported an even sharper decline of 10.3% to 8.3 billion. Internet voice telephony (VoIP) was unable to register any significant gains in market share in 2006.

The number of fixed access lines decreased by 5.7% to 2.6 million in 2006, with one quarter of these lines already safeguarded by broadband lines. Due to continued vigorous unbundling activities on the part of alternative providers, the number of unbundled lines increased by 56.1% to 199,600.

With approximately 120,000 ADSL net additions, the broadband business once again developed successfully for the wireline segment. In a year-on-year comparison the number of customers thus rose by 21% to 693,600, of whom 122,300 were wholesale customers. As a result of this development, the share of the broadband line market improved slightly from 51.0% to 51.2%, mostly at the expense of cable lines. At year-end 2006 more than 90% of Austrian households were located within the Telekom Austria broadband coverage area; the actual penetration rate rose from 35.0% to 40.5% compared to the previous year. A major factor behind this success is a portfolio of broadband products geared to the needs of the market and ranging from attractive entry-level products to business products.

Competition in the area of broadband and business customers was further aggravated in 2006 by UPC Telekabel's takeover of the Internet provider Inode. Aggressive pricing policies in the area of mobile broadband are also increasing pressure on the market. The latest survey carried out by the Austrian Internet Monitor (AIM) attributes a 39% market share of residential Internet access lines to Telekom Austria (excluding mobilkom austria).

Figure 7: Straight Ahead



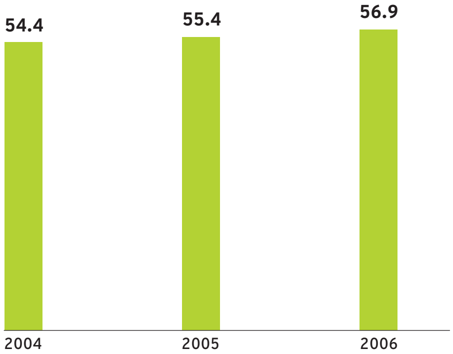
Right on into the future.

Look at it this way: With our ALLmediaNet offering both voice and data lines Telekom Austria is building a flexible backbone for the information-based society of tomorrow. You refuse to see reality if you don't recognize it, because in this case the future is clear to see.

Do the digital lines run parallel into the future? Or are they flexible?
What is your perspective?

Regulatory Decisions

Voice Telephony Market Share
based on minutes in %



In February 2002 the European Commission adopted a package of directives intended to harmonize and deregulate the telecommunications market, a goal accomplished in Austria with the implementation of the Telecommunications Act 2003. In 2006 the process to revise the regulatory framework for the telecommunications industry within the European Union commenced. This resulted in the European Commission drafting a new document listing the markets, which was designed to further the market analyses in the member states. The recommendations of the European Commission regarding the new legal framework include proposals on harmonizing the procedure for analyzing the market, changes to frequency policy and initiatives for the i2010 program, the aim of which is to strengthen the European ICT industry. Special emphasis was given to aspects of network security and consumer protection. The updated list of markets will be published in 2007 and will define only 12 markets instead of the 18 identified hitherto.

Parallel to the EU initiatives the Austrian regulatory authority has started its second review of competition on the individual telecommunications markets. First amendments to the requirements, such as scaling back the intensity of regulation on the retail voice telephony markets, changes regarding the requirements governing leased line offers to final customers and in the wholesale business are already available. As a result of this new regulatory framework, Telekom Austria's four standard offers for interconnection, unbundling, wholesale leased lines and ADSL wholesale were reviewed and adjusted in line with the new regulations.

The year under review also saw major changes to the Universal Service obligation. Following the amendment of the Telecommunications Act, the directory enquiry service is no longer part of the Universal Service. Furthermore, the legal basis for the payphone access charge was created in Austria in 2006. This entitles Telekom Austria to charge providers of value-added services for calls to 0800 numbers made from payphones.

Telekom Austria Fixed Line Traffic

(in million minutes)	2006	2005	Change in %
National traffic	3,491	3,866	-9.7
Fixed-to-mobile traffic	793	839	-5.5
International traffic	412	442	-6.7
Total voice telephony	**4,696**	**5,147**	**-8.7**
Internet dial-up traffic	1,425	2,287	-37.7
Total fixed line traffic*	**6,121**	**7,433**	**-17.7**

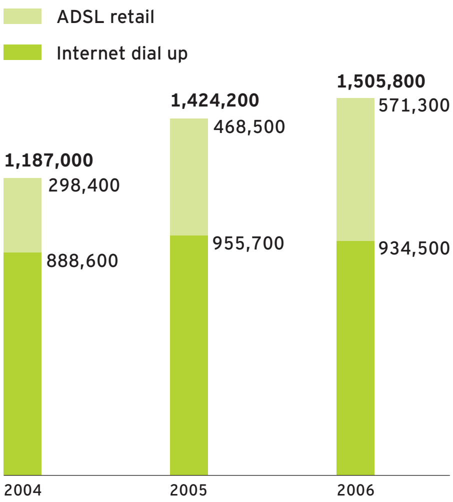
* Excluding value-added services, emergency calls, coin and prepaid card telephony

Fixed Lines – Access Channels

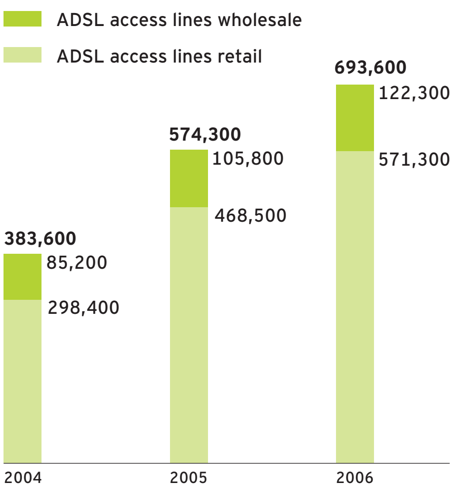
(in '000s)	2006	2005	Change in %
PSTN access lines	2,244.2	2,374.5	-5.5
Basic ISDN access lines	391.3	420.1	-6.9
Multiple ISDN access lines	7.1	7.3	-2.3
Total access lines	2,642.6	2,801.9	-5.7
Total access channels	**3,240.7**	**3,433.7**	**-5.6**

ADSL lines	2006	2005	Change in %
ADSL lines, retail	571,300	468,500	21.9
ADSL lines, wholesale	122,300	105,800	15.6
Total ADSL access lines	**693,600**	**574,300**	**20.8**

Internet Customers



ADSL Access Lines



Residential Customers: Increasing the Attractiveness of Fixed Access Lines

Telekom Austria wants to enhance the attractiveness of fixed access lines with innovative products such as aonDigital TV or aonAlarmServices. Despite the decline in voice telephony, the fixed line network possesses tremendous potential – thanks mainly to broadband technology as a medium for Internet applications, television and multimedia – which it is essential to exploit.

November 2006 saw the launch of aon-Speed250, a broadband special offer for EUR 9.90 per month with a lifelong price guarantee. The product includes a data transfer volume of 250 MB and 256/64 kbits of bandwidth. In 2006 several product support and expansion measures were implemented for aonPur, which offers broadband access without fixed line voice telephony; these included increasing the bandwidth and transfer volume while reducing the price.

In July 2006 three new TikTak bonus packages were introduced for residential customers: "Friends Plus", "Bundesland Plus" and "Österreich Plus" with which customers can either call up to three selected fixed line numbers, make calls within a selected province or throughout the entire fixed line network all for 0 cent. One hundred thousand such bonus packages were sold following the launch of the introductory offer, bringing the total number of bonus packages in 2006 to 657,900, an increase of 11.0%.

In April 2006 the product aonAlarmServices was introduced; this is a household alarm system which is connected to an aon security center. Within only a few months, Telekom Austria gained a share of approximately 20% of the alarm system market.

aonDigital TV has opened up a new dimension in the Austrian television market: The portfolio includes not only a large number of television channels on a user-friendly interface, but for the first time in Austria, real video-on-demand. Currently aonDigital TV is available in Vienna. Expansion to other urban centers is planned – the availability of ADSL to more than 90% of all Austrian households provides a good basis for this roll-out.

SOHO/SME: Consistent Optimization of the Product Portfolio

Competitive products and direct, sales-focused communication with the customer are also decisive factors for success in the market segment SOHO and SME. In 2006 Telekom Austria substantially increased both bandwidths and data volumes for its business customers. The BusinessSpeed product with a choice of 1, 10, 25 or 40 GB fair-use data volume and bandwidths of up to 6,144/512 kbit/s enables small and medium-sized enterprises to surf the World Wide Web even faster and at even lower prices. The entry-level product with 1 GB and a download speed of up to 512 kbit/s is attractively priced at EUR 29 per month. For medium-sized and large companies, the Business Access Pro portfolio offers customized, reliable and attractively priced Internet access with download speeds of up to 12,288 kbit/s, 35 GB fair use to unlimited transfer volumes and a wide range of additional services. Compared to the previous year, net adds in the business Internet access area rose by 20%.

By pushing bonus packages more aggressively, the wireline segment has been able to increase its share of the voice telephony market, with two thirds of customers in this segment already opting for at least one bonus package. Approximately half of all Austrian SOHO/SMEs do not have their own web presence. Using the new BusinessWeb Assistant, a company website can be developed in only five easy steps and with no knowledge of programming.

Business Solutions: Well Positioned in a Highly Competitive Market

The three solutions-oriented business areas introduced in 2005, Stability Solutions, Productivity Solutions and Marketing Solutions, have gained a strong position in the market and in addition to safeguarding the core business, also generated revenue growth. Falling prices are successfully counteracted by up-selling new product features such as IP-based services. Higher value services such as Voice over IP or non-cash payment transactions over IP were expanded and services for the foreign locations of VPN customers pushed. New fast-growing market segments such as campus solutions and media broadcast services were developed on the basis of new products and product features.

Telekom Austria manages more than 60,000 cash dispensing machines in Austria. Building on this extensive presence and experience, a complete solution for non-cash payment transactions was developed in cooperation with Europay Austria for a major international food store chain in Slovenia in 2006. The company plans to further expand its market position in eastern and southeastern Europe.

In 2006 the Safety and Security Solutions product portfolio was successfully positioned and provides an ideal complement to Telekom Austria's existing services. It is now possible to offer an integrated security concept which includes network security (in WAN and LAN), security at computing centers and building security from a single source. Important successes were also achieved in partnership with private security companies and with multiple branch companies.

Wholesale

Revenues from international wholesale voice telephony showed growth in 2006 due to a shift in strategic focus toward central and eastern Europe and mobile communications operators. Customized product solutions for mobile communications operators strengthened the company's role as an innovation leader and also received recognition in the form of international awards. By supporting the roll-out of the UMTS and HSDPA networks for the Austrian mobile operators Telekom Austria proved itself as a reliable partner. In the area of satellite communications, the Aflenz earth station was used to extend the product portfolio with global solutions and also to expand the market position.

In order to increase the volume of voice and data traffic in eastern and southeastern Europe, the international multi-service network Telekom Austria JetStream was expanded to include Romania and Croatia in addition to existing connections to Germany, the Czech Republic, Hungary, Italy and Slovakia. This orientation as an international provider ensures the use of synergies and economies of scale within the Telekom Austria Group.

Czech On Line

Telekom Austria is represented in the Czech Republic with a wholly-owned subsidiary, Czech On Line. In 2006 the Czech telecommunications market was characterized by consolidation and rebranding. Czech On Line is a leading provider of fixed line and Internet services and at the end of 2006 had approximately 148,200 subscribers. Strong growth in the number of broadband and voice telephony customers was unable to fully compensate for sharp declines in the number of dial-up customers. Nevertheless, total revenues rose by 5.7% to EUR 24.3 million.

Adjusted EBITDA deteriorated from EUR 0.5 million to minus EUR 1.4 million in 2006 due to the decline in the highly profitable dial-up business and increased sales and marketing costs. Operating income fell from minus EUR 1.9 million in 2005 to minus EUR 4.1 in 2006.

In response to the shrinking subscriber base and lack of profitability, a number of measures to increase competitiveness were implemented in 2006. The size of the workforce was reduced and a new management team appointed. At the same time, unbundling activities in the most important urban centers in the Czech Republic were strengthened in order to enable the company to offer ADSL products independently of the former monopolist. Voice over IP was offered for residential and business customers and pilot projects introducing WIMAX technology and digital TV were carried out for the first time in 2006.

Outlook Wireline

The wireline segment will pursue a number of strategic goals in 2007: Fixed lines will be upgraded and secured by migrating dial-up products to broadband Internet, as well as by triple play offers and additional services such as aonAlarmServices. Product design and pricing will be geared more closely to the individual target groups and the potential of up- and cross-selling exploited to a greater extent. Business customers will be targeted with an expanded portfolio of Productivity Solutions and Marketing Solutions and with consultancy services.

The wireline segment will focus on exploiting synergies within the framework of partnerships, on developing new business areas and on greater internationalization together with the wireless segment with a view to stabilizing its market position.

Telekom Austria expects business operations in 2007 to be characterized by a further decline in the number of subscriber lines, stronger competition in the broadband segment from mobile communications operators and the continued migration of voice minutes to mobile communications networks. This development is expected to result in a slight decline in revenues and adjusted EBITDA. In order to safeguard profitability the wireline segment will continue its strict cost management program. Operating income should also benefit from declining expenses in 2007. Capital expenditures are expected to rise due to the demand for higher broadband capacities necessary for the implementation of the triple play strategy, and the migration of voice and data networks to an All-IP network.

Wireless

Mobile Communications Activities of the Wireless Segment
Subscriber numbers in '000s

Key Data Wireless

(financial figures in EUR million)	2006	2005*	Change in %
Revenues	2,902.6	2,484.8	16.8
Operating Income	677.1	549.8	23.2
Adjusted EBITDA**	1,175.4	967.7	21.5
Adjusted EBITDA margin**	40.5	38.9	
Capital Expenditures	712.8	313.5	127.4
Number of customers (in '000s)	10,236.4	8,963.1	14.2
Employees***	5,995	6,038	-0.7

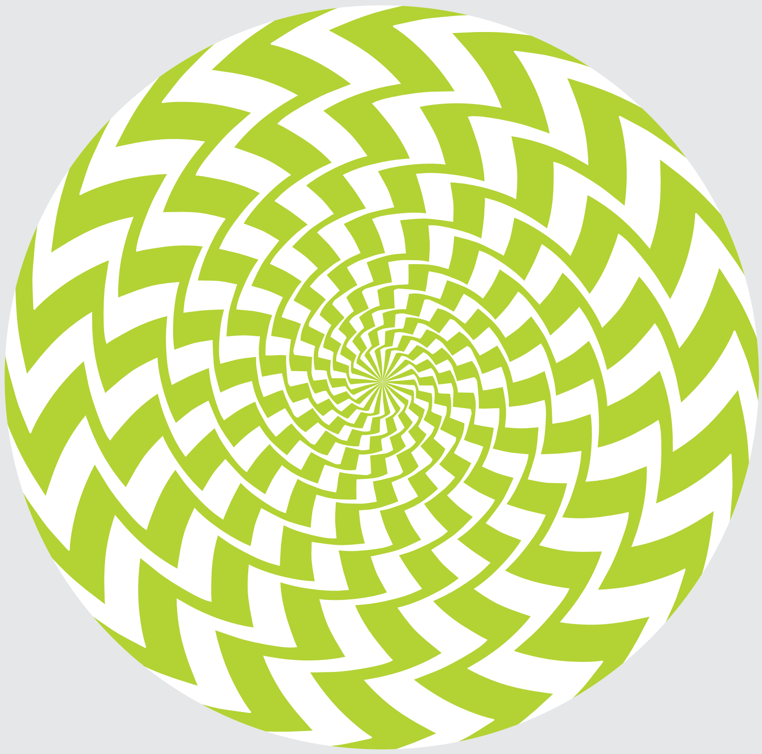
* The consolidated financial figures for 2005 include the financial results of Mobiltel for the period between July 12 and December 31, 2005
** See glossary for definition
*** Full-time employees at year-end

The Wireless Segment

The wireless segment comprises mobilkom austria in Austria, Mobiltel in Bulgaria, Vipnet in Croatia, Si.mobil in Slovenia, mobilkom liechtenstein, the mobile communications operators currently being developed in Serbia and in Macedonia, and all mobile communications activities of the Telekom Austria Group. At year-end 2006 the wireless segment closed the geographic gap between Bulgaria and Croatia when it purchased the license in the Republic of Serbia and as a result now has a presence extending from Vaduz to the Black Sea.

When developing its market approach, the wireless segment gives preference to strong local product brands over a central umbrella brand, enabling local companies to position themselves according to the specific demands of their markets. Since 2004 a cross-border unit within the wireless segment has coordinated group-wide processes and forms the interface for the efficient use of the cooperation agreement with Vodafone. This service unit also supports the segment's expansion projects and coordinates the integration of new companies, such as Mobiltel, which was acquired in 2005.

Figure 8: Concentric Expansion



Momentum follows clear rules, too.

Many of our activities last year revolved around eastern and southeastern Europe. We have visibly increased our sphere of influence. And we will continue to expand in the future while remaining on track.

You probably won't believe your eyes as you see how concentric circles create a spiral of success. But chin up: the cut-out on the inside of the back cover has the answer to the puzzle.

At a Glance

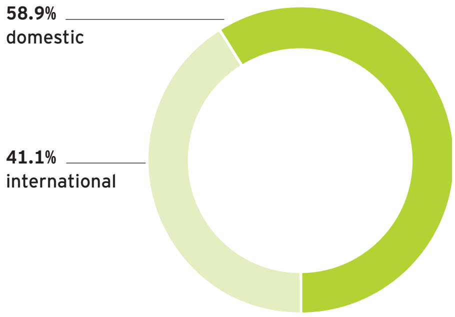
Revenues increased by 16.8% to EUR 2,902.6 million due to growth in all markets

Operating income rose by 23.2% to EUR 677.1 million

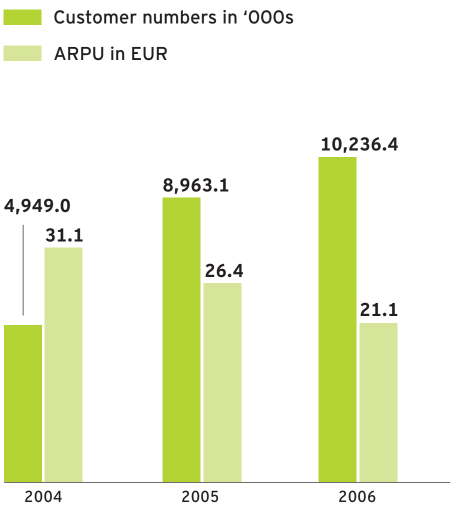
Subscriber numbers grew by 14.2% to 10.2 million

The geografic footprint was further expanded through acquisition of a mobile licence in Serbia

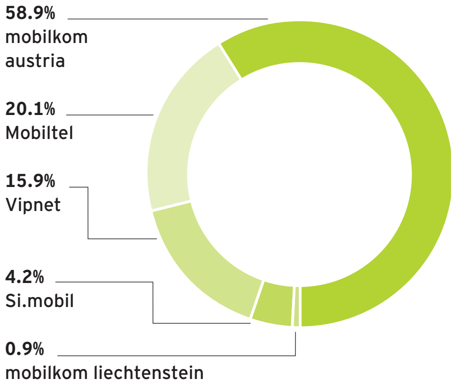
Wireless Revenues 2006
domestic and international



Customer Numbers and ARPU



Wireless Revenues 2006
by mobile communications company



Revenues (in EUR million)	**2006**	**2005**	**Change in %**
Traffic revenues	1,442.3	1,264.7	14.0
Monthly rentals	483.1	396.9	21.7
Equipment	264.4	225.6	17.2
Roaming	257.9	204.8	25.9
Interconnection	446.9	392.8	13.8
Other	46.2	13.8	234.8
Discounts	-38.2	-13.8	-176.8
Total wireless revenues	**2,902.6**	**2,484.8**	**16.8**

Positive Development of Results

Due to growth in all business units, the wireless segment was able to increase its subscriber base by a total of 14.2% or 1.27 million to approximately 10.2 million customers in 2006 – in fact the international subsidiaries already account for 65% of all subscribers.

Supported by this substantial increase in the customer base, the development of revenues improved across all markets. The first full-year consolidation of Mobiltel, which was fully acquired in July 2005, also had a positive impact. Overall, the wireless segment saw revenues rise by 16.8% to EUR 2,902.6 million in 2006. A higher percentage of contract customers and the growing data business led to an increase in monthly rentals. Roaming revenues also rose due to increased use and national roaming with competitors in Austria and Croatia. In 2006 more than 41% of revenues in the wireless segment were generated by the international subsidiaries, compared to 32% in 2005.

Operating income in the wireless segment rose by 23.2% to EUR 677.1 million in 2006. Adjusted EBITDA improved by 21.5% to EUR 1,175.4 million, while the EBITDA margin grew by 1.6 percentage points to 40.5%. In a year-on-year comparison operating expenses in the wireless segment increased by 15.2% to EUR 2,240.3 million in 2006. This increase was due in part to the full-year consolidation of Mobiltel.

Successful customer acquisition is also reflected in marketing and sales costs, as well as in higher material expenses for equipment. Due to increased subscriber numbers and call volumes in third-party networks interconnection fees rose by 16.1% to EUR 315.0 million. Higher year-on-year investments in new technologies, and the full-year consolidation of Mobiltel led to an overall increase in depreciation and amortization charges of 19.2% to EUR 498.3 million.

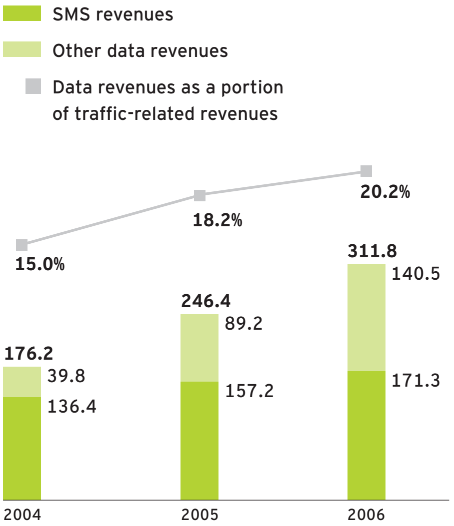
Capital Expenditures

In 2006 the wireless segment increased investment by approximately 127% or EUR 399.3 million to EUR 712.8 million compared to the previous year. However, this volume includes the EUR 320 million paid for the license in the Republic of Serbia and the EUR 6.5 million for the UMTS frequencies in Slovenia purchased in Q3 2006. Besides the full-year consolidation of Mobiltel compared to 2005, the remaining increase was attributable largely to investments in upgrading the EDGE, UMTS and HSDPA technologies.

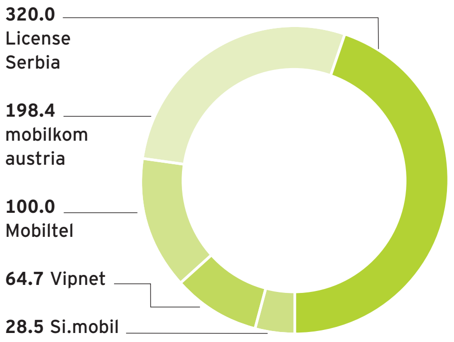
mobilkom austria

In an international comparison the Austrian mobile communications market is highly competitive. Due to the trend toward multiple SIM cards and data cards per customer the penetration rate reached approximately 114% in 2006. Following the takeover of tele.ring by T-Mobile Austria, there are now three mobile communications companies operating on the Austrian market besides mobilkom austria (T-Mobile, One, Hutchison), one mobile virtual network operator (Tele2UTA) and three service providers (Yesss!, eety and eTel).

Data Revenues
in EUR million



Capital Expenditures 2006
by mobile communications company
in EUR million



Operating Expenses (in EUR million)	**2006**	**2005**	**Change in %**
Material expenses	331.1	301.9	9.7
Employee costs*	218.1	198.8	9.7
Depreciation and amortization	498.3	417.9	19.2
Interconnection	315.0	271.3	16.1
Maintenance and repairs	71.8	66.2	8.5
Services received	303.9	275.7	10.2
Other support services	25.1	22.4	12.1
Other operating expenses	477.0	391.3	21.9
Total wireless operating expenses	**2,240.3**	**1,945.5**	**15.2**

* Including benefits and taxes

Market Share mobilkom austria

38.7 %

In this market environment mobilkom austria was able to expand its subscriber base by 238,300 or 7.0% to more than 3.6 million customers. Although market share has fallen slightly from 39.1% in the previous year to 38.7%, mobilkom austria remains the market leader and has expanded its lead over the second-largest provider.

Thanks to targeted customer retention and loyalty programs, mobilkom austria's 16.8% churn rate is lower than those of its biggest rivals. The percentage of contract customers rose from 56.9% to 60.8%, with much of this increase attributable to the introduction of the discount brand "bob." In order to profit from the growing low-price customer segment, a two-brand strategy was implemented in 2006. With "bob," a contract product with no monthly subscription fee, mobilkom austria targets those customers who only wish to use voice telephony and SMS.

Tariffs for voice telephony continued to fall in Austria in 2006. Handset subsidies for contract customers remain high, but have been kept at a lower level for prepaid customers.

mobilkom austria offers data communications products such as Vodafone live! or mobile broadband access mainly in combination with attractive tariffs. In 2006 the Vodafone live! offering was expanded to include live! TV. With the sale of 140,000 mobile data cards and USB modems mobilkom austria also asserted its market leadership in this business area in 2006 and is the only operator in Austria able to offer its customers nationwide high-speed access to data using a combination of UMTS+EDGE. The speed of data transmission was significantly increased following the roll-out of HSDPA at the beginning of 2006. Improving network and service quality remained an ongoing priority in 2006 and products were geared even more closely to the demands of small and medium-sized enterprises. Services were developed for business customers which allow mobile, hardware-independent access to e-mails and corporate data. Approximately two thirds of Austrian companies already rely on A1.

The main investments in network infrastructure in 2006 were directed toward expanding the UMTS network to include HSDPA (High-Speed Downlink Packet Access), which enables data transfers at speeds of up to 3.6 Mbit/s. At year-end 2006, UMTS and HSDPA technologies had a population coverage of 75%. In the GSM network, the capacities of existing stations were increased in order to maintain a high level of quality in the face of rising transfer volumes.

mobilkom austria			**Change**
(financial figures in EUR million)	**2006**	**2005**	**in %**
Revenues	1,726.6	1,714.9	0.7
Operating income	354.0	362.1	-2.2
Adjusted EBITDA*	608.1	616.7	-1.4
Mobile penetration in Austria (in %)	114.2	106.0	
Market share (in %)	38.7	39.1	
Competitors	7	8	
Customers (in '000s)	3,630.5	3,392.2	7.0
Share of contract customers (in %)	60.8	56.9	
Revenues per customer (ARPU) in EUR	34.4	36.5	-5.8
Share of revenues from data services (in %)**	21.8	17.4	

* See glossary for definition
** Data revenues as a portion of traffic-related revenues

Despite fierce competition, mobilkom austria was able to increase revenues by 0.7% to EUR 1,726.6 million in 2006. In addition to a larger subscriber base, resulting in higher monthly rentals and one-time fees, the other major factor contributing to this development was higher revenues from data communications. Increased use of voice telephony and data services was unable to fully offset the decline in tariffs resulting from competition and the reduction in regulated termination charges. Average revenues per user (ARPU) declined by 5.8% to EUR 34.4. The focus on innovative customer retention programs led to higher customer retention costs in 2006.

In December 2005 the Austrian regulatory authority laid down a gliding path to reduce termination charges in mobile communications networks to a uniform cost-oriented level of 6.79 cents per minute by the end of 2008. This ruling led to a decline in revenues from interconnection in 2006.

Adjusted EBITDA fell by 1.4% to EUR 608.1 million compared to the previous year mainly as a result of lower interconnection fees. The EBITDA margin amounted to 35.2% compared to 36.0% in the previous year. Total investments at mobilkom austria amounted to EUR 198.4 million in 2006.

mobilkom austria's prime objective is to retain its leading position in the Austrian market. In order to counteract price erosion the company will make greater efforts to win new customers, increase general use and promote mobile data services.

Mobiltel

In July 2005 the Telekom Austria Group acquired a 100% stake in Mobiltel, the leading Bulgarian provider of mobile communications services, and successfully completed the integration process in 2006. As the market leader, Mobiltel had approximately 4.3 million customers at year-end 2006.

In 2006 the mobile penetration rate in Bulgaria increased from approximately 80% to roughly 106%. Besides Mobiltel there are two other companies active in the Bulgarian market: Globul and, since

Mobiltel (financial figures in EUR million)	**2006**	**2005** consolidated contribution*	**2005** full year
Revenues	583.8	262.6	527.9
Operating income	198.9	93.7	189.7
Adjusted EBITDA**	340.2	154.3	324.7

Mobiltel	**2006**	**2005**	**Change in %**
Mobile penetration in Bulgaria (in %)	105.9	79.5	
Market share (in %)	52.5	57.6	
Competitors	2	2	
Customers (in '000s)	4,267.9	3,594.2	18.7
Share of contract customers (in %)	36.8	34.3	
Revenues per customer (ARPU, in EUR)	11.0	12.3	-10.6
Share of revenues from data services (in %)***	10.4	10.8	

* The consolidated contribution is Mobiltel's contribution included in Telekom Austria Group's consolidated financial results since July 12, 2005
** See glossary for definition
*** Data revenues as a portion of traffic-related revenues

Market Share Mobiltel Bulgaria

52.5%

November 2005, Vivatel. In the year under review Mobiltel was able to increase its subscriber base by 18.7%, but at the same time saw its market share fall from 57.6% to 52.5% due to intensified competition. Contract customers account for 36.8% of the subscriber base. Due to competitive pressure on prices average revenues per user (ARPU) declined from EUR 12.3 to EUR 11.0.

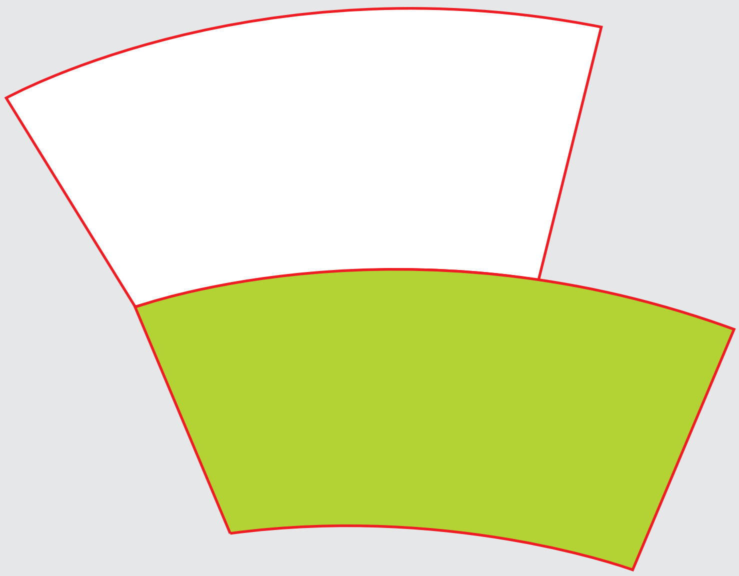
In the business year 2005 Mobiltel's contribution to the consolidated financial results of Telekom Austria only embraced the period from July 12, 2005 to December 31, 2005. However, it was included in full in 2006. To permit a more effective comparison, the full year figures are shown in a table on page 68.

Thanks to strong customer growth Mobiltel saw revenues improve by 10.6% to EUR 583.8 million in 2006 compared to the previous year. Operating income rose by 4.9% to EUR 198.9 million in 2006 compared to the previous full year. Adjusted EBITDA increased by 4.8% to EUR 340.2 million, keeping the EBITDA margin at the very high level of 58.3%.

In 2006 Mobiltel concentrated on the expansion of its product portfolio. In addition to the "LOOP!" product brand developed especially for young customers between the ages of 14 and 26, a new tariff structure was introduced and activities to attract business customers were stepped up. At the same time, the partnership with Vodafone was started. As a result, selected Vodafone products and services can now also be offered in Bulgaria. The first product from this portfolio, the Vodafone Mobile Connect Card, was introduced in April 2006, followed by BlackBerry and Vodafone live!. The company also successfully expanded its sales network which boasted 157 shops at year-end 2006. Besides opening new shops and modernizing existing locations, the use of the indirect sales channel in the form of cooperation with partners was also intensified.

The high-quality network of Mobiltel reaches 99% of the Bulgarian population. Following the introduction of GPRS in early 2004 and of the EDGE technology in Q1 2005, Mobiltel launched 3G services in Q1 2006 after having acquired a UMTS license in 2005. In March 2006 Mobiltel rolled out its UMTS-HSDPA network and became the first mobile operator in the country and one of the first in the world to offer 3G services such as faster data transmission (3.6 Mbit/s), mobile television and video telephony. By the end of 2006 this technology had a population coverage of more than 25% and is now available in ten cities, the Black Sea tourist resorts and in the Bulgarian ski regions.

Figure 9: Fields of Action



Reality and appearance.

There are two ways of looking at everything. But even viewed critically, we are always mindful to maintain an even balance between shareholders interests and investments. Isn't it obvious at first sight?

If you see an imbalance between these two interests, you are clearly laboring under a misperception. Critical shareholders should use the cut-out on the inside of the back cover to measure our words against reality.

Vipnet

Market Share Vipnet Croatia

42.9 %

In 2006 the mobile penetration rate in Croatia increased by 18.1 percentage points to 101%. Vipnet made excellent use of these market dynamics and increased its subscriber base by 18.6% to over 1.9 million customers. Following the market entry of a third mobile operator Vipnet's market share declined slightly during the reporting year from 44.1 % to 42.9 %. However, the number of contract customers grew by 1.6 percentage points.

Vipnet was able to increase operating revenues by 12.5% to EUR 474.8 million in 2006. This growth was mainly due to increases in national and international call minutes and the national roaming of competitors. The increase in operating expenses was less than revenue growth, thus facilitating an improvement in adjusted EBITDA of 12.9% to EUR 190.5 million. Based on this and as a result of lower depreciation and amortization charges, operating income grew by 27.2% to EUR 112.2 million.

After successfully positioning its tariffs in the previous year, Vipnet set about renewing its brand in 2006, using "3 i" – innovative, individual, inspiring – to distinguish itself from its competitors.

Vipnet (financial figures in EUR million)	**2006**	**2005**	**Change in %**
Revenues	474.8	422.0	12.5
Operating income	112.2	88.2	27.2
Adjusted EBITDA*	190.5	168.7	12.9
Mobile penetration in Croatia (in %)	101.0	82.9	
Market share (in %)	42.9	44.1	
Competitors	2	2	
Customers (in '000s)	1,912.3	1,612.9	18.6
Share of contract customers (in %)	17.2	15.6	
Revenues per customer (ARPU, in EUR)	16.7	19.9	-16.1
Share of revenues from data services (in %)**	26.9	26.9	

* See glossary for definition
** Data revenues as a portion of traffic-related revenues

As part of this rebranding, all of Vipnet's 23 sales outlets were redesigned in the reporting year.

In 2006 Vipnet was the only Croatian operator to offer integrated telecommunications solutions from one source via its ITS (Integrated Telecom Solutions) product, ranging from Internet access to secure data connections to fixed line and mobile virtual private network services.

Vipnet was the first mobile communications provider to offer hosted exchange and hosted BlackBerry on the Croatian market in 2006. Vipnet also demonstrated its innovation leadership with the launch of HSDPA in April 2006. By the end of 2006 Vipnet covered 90% of the population with a 3G network (HSDPA, UMTS, EDGE).

The company also implemented a two-brand strategy when it introduced "tomato" in June 2006. This first no-frills brand in Croatia offers voice telephony and SMS at low prices, but with the high network quality of Vipnet.

A campaign was launched in 2006 targeting fixed line customers: By offering a variety of tariff options for calls to the fixed line network and within the company's own mobile network, Vipnet once again positioned itself as the price leader.

Vipnet's strategy is to grow faster than its rivals in terms of the size of its subscriber base. An innovative range of products and services combined with top quality and competitive tariffs form the basis for achieving this goal.

Market Share Si.mobil Slovenia

24.9 %

Si.mobil

After increasing its stake in Si.mobil to 92.19% in the previous year, in May 2006 the Telekom Austria Group acquired the remaining shares in the company as planned, and now holds 100% of Si.mobil.

In 2006 the mobile penetration rate in Slovenia increased to 85.4 %. With a market share of 24.9% Si.mobil is the second largest mobile communications operator in the country and at year-end 2006 had approximately 421,000 customers, 17.0% more than in the previous year. The share of contract customers rose to 57.5% and together with higher usage made a significant contribution to raising average monthly revenues per user to EUR 20.4. Total revenues in 2006 rose by 30.2% to EUR 131.2 million. This was accompanied by a 35.5% improvement in adjusted EBITDA to EUR 33.6 million; the EBITDA margin rose to 25.6 %. Despite higher depreciation and amortization charges due to investments in new technologies and locations, operating income grew by EUR 176.3% to EUR 10.5 million.

Following the withdrawal of Western Wireless International (Vega) from the market in May 2006, there are now three mobile providers besides Si.mobil operating in the Slovenian market: The market leader Mobitel and two other competitors which use Mobitel's infrastructure as mobile virtual network operators (MVNO).

As a result of Vega's withdrawal from the market Si.mobil was able to purchase 135 transmitting stations and other sites for EUR 2.5 million in the reporting year in order to expand its own network infrastructure. Within the scope of a public tender in September 2006 the company also invested EUR 6.5 million to acquire UMTS frequencies. After the successful launch of the EDGE technology in 2003 this marked an important step toward expanding its product range.

In January 2005 an agreement laying down asymmetrical termination charges between Si.mobil and Mobitel came into force. However, this was terminated by Mobitel in June 2006. A decision by the Slovenian regulatory authority APEK concerning this matter is still pending.

In 2006 Si.mobil successfully continued to position itself as the price-performance leader in the Slovenian market and impresses its customers with an innovative product portfolio and an attractive transparent pricing policy. Thanks to the partnership with Vodafone, subscribers also have access to products such as the Vodafone Mobile Connect Card and the Vodafone live! Portal. Si.mobil also plans to increase the percentage of data revenues in 2007 with the introduction of UMTS scheduled for Q1 2007.

Si.mobil (financial figures in EUR million)	**2006**	**2005**	**Change** in %
Revenues	131.2	100.8	30.2
Operating income	10.5	3.8	176.3
Adjusted EBITDA*	33.6	24.8	35.5
Mobile penetration in Slovenia (in %)	85.4	80.1	
Market share (in %)	24.9	22.7	
Competitors	3	4	
Customers (in '000s)	420.9	359.6	17.0
Share of contract customers (in %)	57.5	49.1	
Revenues per customer (ARPU, in EUR)	20.4	16.9	20.7
Share of revenues from data services (in %)**	20.2	16.7	

* See glossary for definition
** Data revenues as a portion of traffic-related revenues

mobilkom liechtenstein

Market Share mobilkom liechtenstein

16.8 %

At year-end 2006 mobilkom liechtenstein had a 16.8% market share against a background of a very competitive landscape. The mobile penetration rate in Liechtenstein in December 2006 was 82.1%.

Due to increased customer numbers, especially in the area of mobile virtual network operator (MVNO), revenues grew by 66.0% to EUR 25.9 million. Adjusted EBITDA improved by 60.9% to EUR 3.7 million compared to the previous year.

At year-end 2006 mobilkom liechtenstein had approximately 4,800 customers. Residential customers accounted for 57% and business customers for 43% of the subscriber base. Average revenues per user (ARPU) in 2006 amounted to EUR 78.4, well above the European average. Due to the focus on the strategic core areas of mobile and fixed line communications, the value-added business was spun-off in 2006.

mobilkom liechtenstein (financial figures in EUR million)	**2006**	**2005**	**Change** **in %**
Revenues	25.9	15.6	66.0
Operating income	2.9	1.6	81.3
Adjusted EBITDA*	3.7	2.3	60.9
Mobile penetration in Liechtenstein (in %)	82.1	80.1	
Market share (in %)	16.8	15.1	
Competitors	4	4	
Customers (in '000s)	4.8	4.2	14.3
Share of contract customers (in %)	100	100	
Revenues per customer (ARPU, in EUR)	78.4	83.1	-5.7
Share of revenues from data services (in %)**	7.8	7.9	

* See glossary for definition
** Data revenues as a portion of traffic-related revenues

Market Entry in Serbia

On November 7, 2006 the Telekom Austria Group was awarded a license in the Republic of Serbia. The EUR 320 million purchase price includes a ten year GSM 900/1800 license and a UMTS license for the Republic of Serbia with an automatic extension for a further ten years.

The market entry in the Republic of Serbia closes the wireless segment's geographic gap between Bulgaria and Croatia and opens up further growth potential in an attractive market. The expertise for such greenfield projects and the synergies which are available within the wireless segment will support the rapid and efficient development of the company. Over the next few years approximately EUR 250 million will be invested in network development. A positive EBITDA and free cash flow are expected for the first time in 2009.

Under the terms of the license, commercial operations must be launched within six months of the award of the license, and a 20 percent population coverage as well as coverage along the three major motorways must be achieved within twelve months of the award date.

Within two years, 50% of the population and all motorways and within four years 80% of the population and 90% of the territory of the Republic of Serbia must be covered. Commercial UMTS operations must be rolled out within six months of the award of the license, and 25% of the population must have access to UMTS services after 24 months, and 60% of the population after 36 months.

Technological Progress

The success of the wireless segment is based on technological leadership which enables it to offer customers an innovative product portfolio and optimal service. In view of the growing importance of data communications, it is essential to expand the capacities and application areas of network infrastructures in addition to product development. The wireless segment repeatedly demonstrated its innovative strength in the year under review. In Austria mobilkom austria became one of the first providers in the world to launch HSDPA, giving a massive boost to the performance and transmission speed of the existing UMTS network. In March 2006 Mobiltel rolled out UMTS and HSDPA technology and, supported by internal synergies, Vipnet was also able to launch HSDPA in April 2006.

Information about the Republic of Serbia	**2006[1]**	**2005[2]**
Mobile penetration (in %)*	75[3]	64
Population of the Republic of Serbia (in million)*	7.5	7.5
GDP/capita (in EUR)	6,778	6,210
GDP/growth (in % real)	6.6	6.5
Inflation rate (in %)	6	15
Unemployment rate (in % average)	22[4]	20[4]

1) Estimates National Bank of Serbia
2) Telekom Austria Shareholder Information November 2006
3) Estimates December 2006: mobilkom austria
4) Unicredit Group: CEE Economic Data, October 2006
* Population and mobile penetration without Cosovo

Outlook Wireless

Although the wireless segment does not expect competition in any of its markets to weaken, a slight increase in revenues is nevertheless expected in the financial year 2007. Adjusted EBITDA and operating income, however, will be lower due to higher expenses in the Republic of Serbia and the Republic of Macedonia.

Due to the large number of competitors there will be no recovery in tariffs and handset prices in Austria despite the merger of T-Mobile Austria and tele.ring. The company intends to partially counteract this trend as well as the reduction in interconnection and roaming revenues with strong growth in the data business. In order to achieve this goal, the speed of HSDPA data transfer will be upgraded to up to 7.2 Mbit/s and HSUPA (High Speed Uplink Packet Access) will be introduced.

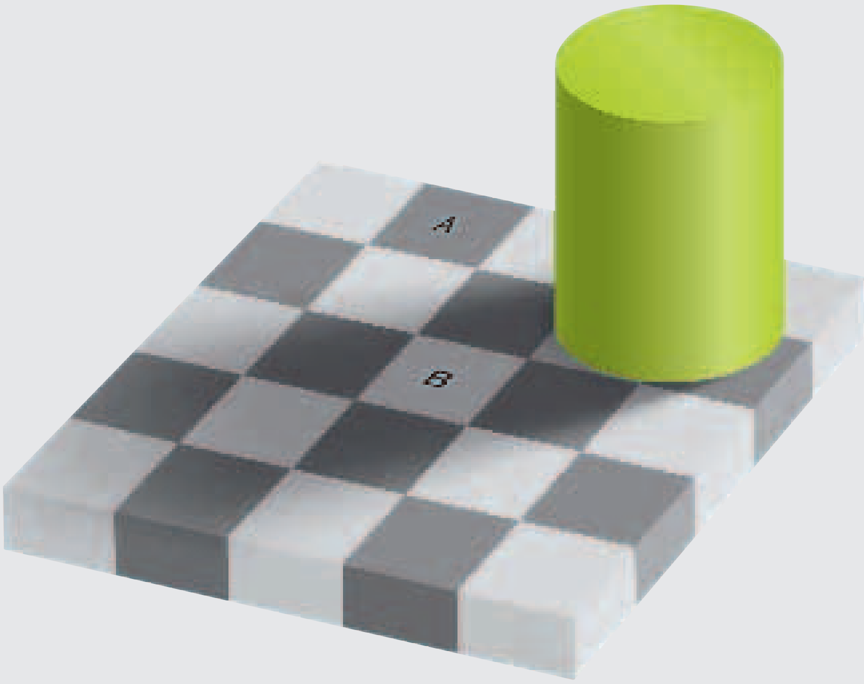
Within the scope of regulatory policy, mobile termination charges for all mobile communications operators in Austria are to be gradually reduced on the basis of a gliding path model until a standard charge is reached by the end of December 2008. The European Commission plans to harmonize roaming charges in Europe in 2007 and a draft regulation is currently under discussion at the European Council and the European Parliament.

Mobiltel will strengthen its market lead again in 2007 by introducing additional products and services from the Vodafone live! portfolio. In Croatia integrated solutions combining mobile communications and fixed line products will be used to attract additional business customers. Si.mobil aims to reinforce its position as the price-performance leader with an innovative product portfolio, which will be expanded thanks to the acquisition of the UMTS frequencies.

In February 2007 the Telekom Austria Group won the tender for a GSM license in the Republic of Macedonia. Following the acquisition of the license in the Republic of Serbia this offers a further opportunity to build up a mobile communications operator in an attractive market.

The wireless segment's strategy of expansion with its focus on eastern and southeastern Europe will be continued in 2007 with the aim of strengthening and expanding the segment's position as the leading mobile communications operator between Vaduz and the Black Sea.
The Telekom Austria Group is therefore examining other value-enhancing projects in the countries of this region.

Figure 10: More Light



There is a strong shadow where there is much light.

So let's put the spotlight on our entry into new markets. Our experience in setting up greenfield operations brightens up our growth opportunities. The acquisition of the third license in Serbia is already foreshadowing additional success in the region. Because we see light, where others see only shadow.

If you compare squares A and B, can you see a difference in their brightness? Maybe you should give your optical nerve a little assistance. The converter on the inside of the back cover will provide illuminating proof.

Index To Consolidated Financial Statements

TELEKOM AUSTRIA AG – Consolidated Balance Sheets

(in EUR '000s, except share information)	Notes	December 31, 2006	December 31, 2005
ASSETS			
Current assets			
Cash and cash equivalents		125,147	116,756
Short-term investments	(5)	14,530	15,126
Accounts receivable - trade, net of allowances	(7)	712,434	714,281
Receivables due from related parties	(8)	3,291	23
Inventories	(9)	111,299	90,913
Prepaid expenses	(14)	137,061	121,701
Income taxes receivable		22,216	9,214
Non-current assets held for sale	(13)	-	880
Other current assets		34,172	27,643
Total Current assets		**1,160,150**	**1,096,537**
Investments in associates	(4)	4,399	3,642
Financial assets long-term	(3)	77,060	86,813
Goodwill	(11)	1,188,614	1,188,356
Other intangible assets, net	(10)	1,855,094	1,664,020
Property, plant and equipment, net	(12)	3,215,957	3,583,030
Other assets		4,942	6,005
Deferred tax assets	(23)	53,373	68,325
Receivable due from related parties, long-term finance	(8)	100	-
TOTAL ASSETS		**7,559,689**	**7,696,728**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	(15)	(562,093)	(704,060)
Accounts payable - trade		(508,357)	(544,233)
Provisions and accrued liabilities	(16)	(202,057)	(176,821)
Payables to related parties	(8)	(11,830)	(11,254)
Income taxes payable		(22,076)	(12,757)
Other current liabilities	(18)	(167,837)	(206,856)
Deferred income	(17)	(183,010)	(199,510)
Total Current liabilities		**(1,657,260)**	**(1,855,491)**
Long-term liabilities			
Long-term debt, net of current portion	(19)	(2,750,135)	(2,557,703)
Lease obligations, net of current portion	(20)	(57,365)	(68,684)
Employee benefit obligation	(21)	(111,572)	(109,546)
Provisions long-term	(16)	(72,705)	(85,705)
Deferred tax liabilities	(23)	(44,248)	(50,854)
Other liabilities and deferred income		(42,888)	(49,979)
Total Long-term liabilities		**(3,078,913)**	**(2,922,471)**
Stockholders' equity			
Common stock, no par value shares, 560,000,000 authorized (2005: 560,000,000), 500,000,000 issued (2005: 500,000,000), 461,692,527 outstanding (2005: 482,502,894)	(25)	(1,090,500)	(1,090,500)
Treasury shares		654,597	256,396
Additional paid-in capital		(461,640)	(460,128)
Retained earnings		(1,924,746)	(1,624,131)
Revaluation reserve		(375)	(375)
Translation adjustments		(811)	(11)
Equity attributable to equity holders of the parent		(2,823,475)	(2,918,749)
Minority Interests		(41)	(17)
Total Stockholders' equity		**(2,823,516)**	**(2,918,766)**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**(7,559,689)**	**(7,696,728)**

see accompanying notes to consolidated financial statements

(all amounts in EUR '000s)

TELEKOM AUSTRIA AG
Consolidated Statements of Operations

(in EUR '000s, except share information)

	Notes	2006	2005	2004
Operating revenues	(26)	4,759,560	4,365,247	4,042,868
Other operating income	(27)	59,172	54,812	50,496
Operating expenses				
Materials		(385,217)	(350,151)	(327,465)
Employee costs, including benefits and taxes		(768,283)	(698,493)	(692,012)
Depreciation and amortization	(10,11,12)	(1,123,931)	(1,121,440)	(1,114,748)
Impairment charges	(10,11,12)	(10,480)	(17,388)	(1,334)
Other operating expenses	(28)	(1,758,412)	(1,612,909)	(1,488,338)
Operating Income		**772,409**	**619,678**	**469,467**
Other income (expense)				
Interest income		20,050	32,663	17,497
Interest expense		(133,498)	(144,917)	(142,109)
Foreign exchange differences		(405)	1,349	2
(Loss) income from investments		(675)	3,861	10,497
Equity in earnings of affiliates	(4)	20	570	552
Income before income taxes		**657,901**	**513,204**	**355,906**
Income tax expense	(23)	(96,061)	(104,271)	(135,468)
Net income		**561,840**	**408,933**	**220,438**
Attributable to:				
Equity holders of the parent		561,816	408,931	219,835
Minority interests		24	2	603
Basic and fully diluted earnings per share	(25)	1.19	0.84	0.44
Operating revenues include revenues from related parties of		5,349	155	114
Other operating income includes other operating income from related parties of		-	1	1
Operating expenses include operating expenses from related parties of		49,931	41,434	45,393
Interest income includes interest income from related parties of		5	-	1
Interest expense includes interest expense from related parties of		4	-	1

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Cash Flows

(in EUR '000s)

Twelve months ended December 31,	Notes	2006	2005	2004
Cash generated from operations				
Net income		561,840	408,933	220,438
Adjustments to reconcile net income to cash generated from operations				
Depreciation, amortization and impairment charges	(10,11,12)	1,134,411	1,138,828	1,116,081
Write-offs from and appreciation to investments, net		1,136	284	(5,232)
Employee benefit obligation - non-cash		(372)	3,723	504
Allowance for doubtful accounts	(7,28)	34,323	43,393	23,597
Change in deferred taxes		8,349	62,550	89,012
Equity in earnings of affiliates less than (in excess of) dividends received	(4)	664	(72)	(15)
Stock compensation	(22)	13,015	13,322	4,622
Employee Participation Program	(22)	10,065	-	-
Asset retirement obligation - accretion expense	(16)	3,380	3,187	5,829
Gain on sale of investments		(437)	(4,013)	(11,713)
Loss on disposal / retirement of equipment		1,430	7,839	28,861
Other		(56)	(6,222)	667
		1,767,748	**1,671,752**	**1,472,651**
Changes in assets and liabilities, net of effect of business acquired				
Accounts receivable - trade		(32,634)	28,094	(29,292)
Due from related parties		(3,624)	15	11
Inventories		(20,406)	(2,583)	425
Prepaid expenses and other assets		(33,809)	(838)	(26,518)
Accounts payable - trade		(35,486)	(19,581)	(58,564)
Employee benefit obligation		(3,812)	(12,157)	(36,839)
Accrued liabilities		26,584	(13,843)	(49,970)
Due to related parties		576	(817)	(1,570)
Other liabilities and deferred income		(75,208)	(12,389)	48,884
		(177,819)	(34,099)	(153,433)
Cash generated from operations		**1,589,929**	**1,637,653**	**1,319,218**

Twelve months ended December 31,	Notes	2006	2005	2004
Cash from investing activities				
Capital expenditures, including				
interest capitalized	(31)	(996,726)	(627,639)	(548,169)
Acquisitions and investments, net of cash acquired		-	(1,185,652)	(2,180)
Sale of subsidiary, net of cash		(445)	-	-
Proceeds from sale of equipment		28,121	24,143	36,213
Purchase of investments - short-term		(6,611)	(48,918)	(51,609)
Purchase of investments - long-term		(4,870)	(1,660)	(1,997)
Proceeds from sale of investments - short-term		7,323	57,220	51,909
Proceeds from sale of investments - long-term		1,598	1,605	6,502
Cash used in investing activities		**(971,610)**	**(1,780,901)**	**(509,331)**
Cash from financing activities				
Proceeds from issuance of bonds and long-term debt		300,000	1,168,950	-
Principal payments on bonds		-	(348,616)	(2,180)
Principal payments on long-term debt		(244,478)	(760,543)	(568,110)
Change in short-term borrowings		3,672	214,453	(21,268)
Purchase of treasury stock		(406,754)	(184,465)	(64,161)
Proceeds from sale of treasury stock		-	-	808
Dividends paid	(25)	(261,201)	(117,867)	(64,579)
Cash used in financing activities		**(608,761)**	**(28,088)**	**(719,490)**
Effect of exchange rate changes		**(1,167)**	**(103)**	**(4,128)**
Net increase (decrease) in cash and cash equivalents		**8,391**	**(171,439)**	**86,269**
Cash and cash equivalents at beginning of period		116,756	288,195	201,926
Cash and cash equivalents at end of period		125,147	116,756	288,195

see accompanying notes to consolidated financial statements

(all amounts in EUR '000s)

TELEKOM AUSTRIA AG – Consolidated Statements of Changes in Stockholders' Equity

(in EUR '000s, except share information)

	Common stock		Treasury Shares	
	Number of shares	Par value	Number of shares	at cost
Balance January 1, 2004	**500,000,000**	**1,090,500**	**-**	**-**
Change of tax rate	-	-	-	-
Net unrealized gains on securities, net of EUR (565) deferred income tax	-	-	-	-
Net realized gains on securities, net of EUR 1,368 deferred income tax	-	-	-	-
Foreign currency translation adjustment	-	-	-	-
Unrealized net gain on hedging activities, net of EUR (2,077) deferred income tax	-	-	-	-
Realized net gain on hedging activities, net of EUR (138) deferred income tax	-	-	-	-
Net income recognized directly in equity	-	-	-	-
Net income	-	-	-	-
Total recognized income for the period	-	-	-	-
Distribution of dividends	-	-	-	-
Stock options granted	-	-	-	-
Purchase of treasury shares	-	-	(6,345,442)	(72,977)
Issue of treasury shares to employees	-	-	89,748	1,046
Acquisition of minority interests	-	-	-	-
Balance December 31, 2004	**500,000,000**	**1,090,500**	**(6,255,694)**	**(71,931)**
Net unrealized gains on securities, net of EUR (201) deferred income tax	-	-	-	-
Net realized gains on securities, net of EUR 3 deferred income tax	-	-	-	-
Foreign currency translation adjustment, net of deferred income tax of EUR (308)	-	-	-	-
Realized net gain on hedging activities, net of EUR (1,058) deferred income tax	-	-	-	-
Net income recognized directly in equity	-	-	-	-
Net income	-	-	-	-
Total recognized income for the period	-	-	-	-
Distribution of dividends	-	-	-	-
Stock options granted	-	-	-	-
Purchase of treasury shares	-	-	(11,241,412)	(184,465)
Addition from acquisition	-	-	-	-
Acquisition of minority interests	-	-	-	-
Balance December 31, 2005	**500,000,000**	**1,090,500**	**(17,497,106)**	**(256,396)**
Net unrealized gain/loss on securities, net of EUR (2) deferred income tax	-	-	-	-
Net realized gain/loss on securities, net of EUR 5 deferred income tax	-	-	-	-
Foreign currency translation adjustment net of EUR 6 deferred income tax	-	-	-	-
Net income recognized directly in equity	-	-	-	-
Net income	-	-	-	-
Total recognized income for the period	-	-	-	-
Distribution of dividends	-	-	-	-
Purchase of Treasury shares	-	-	(21,310,870)	(406,754)
Employee Participation Program	-	-	500,503	8,553
Balance December 31, 2006	**500,000,000**	**1,090,500**	**(38,307,473)**	**(654,597)**

see accompanying notes to consolidated financial statements

Additional paid-in capital	Retained earnings	Revaluation reserve	Translation adjustment	Total	Minority interest	Total stockholders' equity
460,029	**1,177,811**	**(5,782)**	**(10,679)**	**2,711,879**	**1,502**	**2,713,381**
-	-	(431)	-	(431)	-	(431)
-	-	1,096	-	1,096	-	1,096
-	-	(2,655)	-	(2,655)	-	(2,655)
-	-	-	(3,696)	(3,696)	-	(3,696)
-	-	4,032	-	4,032	-	4,032
-	-	268	-	268	-	268
-	-	-	-	**(1,386)**	-	**(1,386)**
-	219,835	-	-	219,835	603	220,438
-	-	-	-	**218,449**	-	**219,052**
-	(64,579)	-	-	(64,579)	-	(64,579)
4,622	-	-	-	4,622	-	4,622
-	-	-	-	(72,977)	-	(72,977)
-	-	-	-	1,046	-	1,046
-	-	-	-	-	(2,105)	(2,105)
464,651	**1,333,067**	**(3,472)**	**(14,375)**	**2,798,440**	**-**	**2,798,440**
-	-	602	-	602	-	602
-	-	(8)	-	(8)	-	(8)
-	-	-	14,386	14,386	-	14,386
-	-	3,253	-	3,253	-	3,253
-	-	-	-	**18,233**	-	**18,233**
-	408,931	-	-	408,931	2	408,933
-	-	-	-	**427,164**	-	**427,166**
-	(117,867)	-	-	(117,867)	-	(117,867)
(4,523)	-	-	-	(4,523)	-	(4,523)
-	-	-	-	(184,465)	-	(184,465)
-	-	-	-	-	30	30
-	-	-	-	-	(15)	(15)
460,128	**1,624,131**	**375**	**11**	**2,918,749**	**17**	**2,918,766**
-	-	15	-	15	-	15
-	-	(15)	-	(15)	-	(15)
-	-	-	800	800	-	800
-	-	-	-	**800**	-	**800**
-	561,816	-	-	561,816	24	561,840
-	-	-	-	**562,616**	-	**562,640**
-	(261,201)	-	-	(261,201)	-	(261,201)
-	-	-	-	(406,754)	-	(406,754)
1,512	-	-	-	10,065	-	10,065
461,640	**1,924,746**	**375**	**811**	**2,823,475**	**41**	**2,823,516**

(all amounts in EUR '000s)

TELEKOM AUSTRIA AG
Notes to Consolidated Financial Statements

(all amounts in EUR '000s)

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Description of business, organization and relationship with the Federal Republic of Austria

Telekom Austria AG is incorporated as a joint stock corporation ("Aktiengesellschaft") under the laws of the Republic of Austria and is located in Vienna. Telekom Austria AG and its subsidiaries (the "Company" or "Telekom Austria") are engaged as full service telecommunications providers of long distance, local and wireless services, corporate data communications services as well as internet services. The Company also provides services through pay phones and supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Croatia, Slovenia and Bulgaria.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), is a significant shareholder of the Company. ÖIAG's stake in Telekom Austria has fallen from 30.17% at the end of December 2005 to approximately 25.2% at the end of December 2006 as a consequence of the partial conversion of an exchangeable bond issued by ÖIAG in 2003 and resulting from the sale of approximately 1 million shares through the Vienna Stock Exchange in October 2006.

In addition to the related party transactions described in note (8), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of the Company. The government holds the taxing authority for the Austrian operations of Telekom Austria and imposes taxes such as income and value added taxes on the Company.

All of the Company's interests in the mobile communications business are held through mobilkom austria AG and its subsidiaries; collectively these companies are referred to as mobilkom austria.

Basis of presentation

The Company prepares the accompanying consolidated financial statements in compliance with the provisions of the International Financial Reporting Standards ("IFRS/IAS"), issued by the International Accounting Standards Board ("IASB"), the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") and the interpretation of the Standards Interpretation Committee ("SIC"), effective as of December 31, 2006 and as endorsed by the European Union.

In December 2004, an amendment regarding "Actuarial Gains and Losses, Group Plans and Disclosures" to IAS 19, "Employee Benefits", was issued. The amendment provides options for the recognition of actuarial gains and losses directly in equity. The Company has not adopted the amendment options, but rather continues to apply the corridor approach in accordance with IAS 19.

The following standards and interpretations were issued, but were not effective for the annual periods beginning on January 1, 2006 or before. The Company has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

New standards/interpretations		Effective*
IFRS 7	Financial Instruments: Disclosures (supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 Financial Instruments: Disclosure and Presentation)	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	March 1, 2006
IFRIC 8	Scope of IFRS 2	May 1, 2006
IFRIC 9	Reassessment of Embedded Derivatives	June 1, 2006
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008

Revised standards/interpretations		Effective*
IAS 1	Presentation of Financial Statements – Capital Disclosures (Amendment)	January 1, 2007

* This standard/interpretation is effective for annual periods beginning on or after the presented date.

As of December 31, 2005, the Company prepared its financial statements for the first time in accordance with International Financial Reporting Standards ("IFRSs") and applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". January 1, 2003 was set as the transition date. Previously the Company had prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of consolidation

The consolidated financial statements of the Company include 15 (2005: 14, 2004: 14) subsidiaries in Austria and 16 (2005:16 and 2004: 9) subsidiaries abroad in which Telekom Austria, either directly or indirectly holds the majority of the voting rights or has the power to govern the subsidiaries' financial and operating policies. Special purpose entities, irrespective of their legal structure, are consolidated when the Company has the power to govern the financial and operating policies of an entity.

Investments in companies in which the Company has significant influence, but less than a controlling financial interest, are accounted for using the equity method. Under the equity method, only the Company's investments in and net amounts due to and due from the equity investee are included in the consolidated balance sheet. The Company's share of the investee's earnings is included in the consolidated operating results and only dividends, cash distributions, loans or other cash received from or paid to the investee are included in consolidated cash flows.

All significant intercompany balances and transactions have been eliminated in consolidation. The subsidiaries included in the consolidated financial statements are listed in note (35).

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Company loses control of the contractual right that comprises the financial assets. Liabilities are derecognized when the obligation is extinguished. The Company uses the settlement date in recording regular way purchases and sales of financial assets. Derivative financial instruments are recognized at the trade date.

Financial assets and financial liabilities are initially recognized at cost, which is the fair value of the consideration given or received. Transaction costs are included in the initial measurement.

Cash and cash equivalents

The Company considers cash in banks and highly liquid investments with remaining maturities of three months or less to be cash and cash equivalents. Money market deposits with remaining maturities of more than three months are classified as short-term investments along with marketable securities.

(all amounts in EUR '000s)

Marketable securities and other long-term investments

In accordance with IAS 39, the Company has classified all marketable securities and certain long-term investments as either held-to-maturity or available-for-sale and, therefore, carries these securities at amortized cost or at fair value with unrealized gains and losses recorded in equity (revaluation reserve), net of applicable deferred tax.

The Company's policy for determining if an impairment of a security exists is based on a two-step approach, which takes into consideration the significance of the difference between the fair market value and book value of the security as well as the period of time for which such a difference exists. Impairment losses are recognized in other financial expenses when realized and are determined on an individual security basis.

If there is an indication that the consideration which led to the impairment of the security no longer exists, then the Company would consider the need to reverse all or a portion of the impairment charge.

Derivative financial instruments

In accordance with IAS 39 (revised 2004) the Company recognizes all financial assets and liabilities, as well as all derivative instruments, as assets or liabilities in the balance sheet and measures all, apart from some exemptions (e.g. held-to-maturity securities, originated financial instruments and liabilities), at fair value, regardless of the Company's intent. Changes in the fair value of derivative instruments are recognized in income or shareholders' equity (as revaluation reserve) depending on whether the derivative is designated as a fair value or a cash flow hedge. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in the income statement. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in equity (revaluation reserve) until the hedged item is recognized in the income statement. The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and the fair value changes of derivatives which do not qualify for hedge accounting are recognized in the income statement immediately.

The Company has entered into foreign currency forward contracts which are accounted for as free standing derivatives. These forward contracts serve as economic hedges of the Company's operating exposure to fluctuations in foreign currencies. Changes in the fair values of such forward contracts are recorded directly in income.

Fair value of financial instruments

The carrying amounts of cash, accounts receivable, accounts payable, receivables due from and payables due to related parties and accrued liabilities approximate their fair value. The fair value of securities held-to-maturity and securities available-for-sale is based on quoted market rates. The fair value of long-term debt and swap agreements is determined based on the cash flows from such financial instruments discounted at the Company's estimated current interest rate to enter into similar financial instruments.

The fair value of some investments is estimated based on quoted market prices. For other investments – mainly investments in which Telekom Austria does not have a controlling ownership interest, for which there are no quoted market prices available, the Company estimates the fair value to approximate the carrying value based on the financial statements. Such investments are tested for impairment if losses are generated over an extended period of time or if the business environment changes materially.

Inventories

Inventories consist of merchandise sold in retail shops and material and spare parts used for the construction and maintenance of networks, mainly for the Company's own use. Inventories are valued at the lower of cost or net realizable value; cost being determined on the basis of weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion if any and selling expense. The Company assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction and maintenance.

Trade accounts receivable

Trade accounts receivable are valued at cost or lower recoverable amount. The Company estimates the portion of its outstanding receivables that are uncollectible based on aging schedules. Based on historical experience, uncollectibility is estimated as an increasing percentage of each aging category. Additionally, the Company records an allowance for specific customers if circumstances indicate uncollectibility.

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations. Government grants are deducted from the acquisition or manufacturing costs. Value added tax ("VAT"), which is charged by suppliers and refunded by the tax authorities, is not included in cost. Plant and equipment under finance leases are stated at the lower of present value of minimum lease payments or fair value.

Depreciation on plant and equipment is calculated using the straight-line method and the estimated useful lives of the assets. Plant and equipment under finance lease and leasehold improvements are amortized using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter.

The useful lives are:

	Years
Transmission equipment	3 - 10
Cables and wires	15 - 20
Communications equipment	4 - 20
Furniture, fixtures and other	2 - 10
Buildings and leasehold improvements	5 - 50

Maintenance and repairs are expensed as incurred while replacements and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in other operating expenses or other operating income.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are tested for impairment in accordance with IFRS 3 "Business Combinations", IAS 38 "Intangible assets" and IAS 36 "Impairment of Assets" at least annually, but also on an interim basis if an event or circumstance indicates that an asset may be impaired. Other intangible assets with estimable useful lives are amortized over their respective useful lives to their estimated residual values and reviewed for impairment if an event or circumstance indicates that an asset may be impaired.

Irrespective of whether there is any indication of impairment, goodwill, intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment every year in the fourth quarter by comparing their carrying amounts with their recoverable amounts. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than a segment based on either the entity's primary or the entity's secondary reporting format. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The Company performs these impairment tests by estimating the value in use. Value in use is determined by estimating the future cash flows of the cash generating unit based on the business plans, which are prepared for periods of four years and which are based on historical performance and management's best estimates about future developments. The growth rates in the business plan reflect the weighted average growth rates based on market estimates. Estimated cash flow projections beyond the period covered by the business plan are based on steady growth rates for subsequent years and do not exceed the long-term average growth rate for the industries and the country in which the cash generating unit operates.

If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss. The impairment loss shall be allocated first to the carrying amount of any goodwill allocated to the cash generating unit (group of units), and then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). These reductions in carrying amounts shall be treated as impairment losses on individual assets.

In each reporting period, the Company is required to reevaluate its decision that an intangible asset has an indefinite useful life. Brand names are classified as intangible assets with indefinite useful life based on an analysis of product life cycles, contractual and legal control and other pertinent factors.

Amortizable intangible assets are stated at cost and are amortized using the straight-line method over their estimated useful lives, as shown below:

	Years
Wireless and wireline licenses	4 – 20
Patents and proprietary rights	2 – 20
Subscriber base	3 – 7
Software	2 – 8
Other	10 – 30

Intangible assets amortized over more than 20 years relate to indefeasible right of use of cable fiber or wave length over a fixed period of time. The indefeasible right is amortized over the term of the contract.

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalized once the project has reached the application development stage. The costs are amortized using the straight-line method over a period not exceeding four years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs and research and development costs are expensed as incurred.

Impairment of intangible and tangible fixed assets

In the event that facts and circumstances indicate that the Company's tangible or intangible fixed assets, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction less the cost of the disposal. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Any resulting impairment loss is recorded in the income statements in "operating expenses".

In each reporting period, the Company is required to reevaluate its decision that an intangible asset has an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the intangible asset is written down to its fair value if lower than its carrying amount and amortized prospectively based on its remaining useful life.

If there is any indication that the considerations which led to impairment no longer exist, the Company would consider the need to reverse all or a portion of the impairment charge.

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 "Property, Plant and Equipment", the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the assets shall not exceed its carrying amount. If the adjustment results in an addition to the assets, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be accounted for.

Assets held for sale

In accordance with IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", assets held for sale are measured at the lower of their carrying value and fair value less costs to sell, are no longer depreciated and are classified separately on the face of the balance sheet as assets held for sale. The net gain or loss on the sale of assets held for sale is recorded together with gains and losses from retirement of equipment either in other operating expenses or other operating income.

Advertising and promotional costs

Advertising and promotional costs are expensed as incurred.

Research and development costs

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. If development costs cannot be separated from research costs or the regulatory and other uncertainties inherent in the development of the Company's new key products are so high that the requirements set out in IAS 38 are not met, then the development costs are expensed as incurred.

Research and development costs are expensed as incurred and totaled EUR 41,320, EUR 43,031 and EUR 42,387 for the years ended December 31, 2006, 2005 and 2004, respectively, and are classified based on their origination as personnel, depreciation or operating expenses in the consolidated statement of operations.

Income taxes

Income taxes are estimated for each of the tax jurisdictions in which Telekom Austria and its subsidiaries operate involving specific calculations of the expected actual income tax exposure for each taxable entity. Under IAS 12 (revised 2000), "Income Taxes", deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases, tax credits and operating loss carry-forwards. For purposes of calculating deferred tax assets and liabilities, the Company uses the rates that have been enacted or substantively enacted at the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the legislation is substantively enacted. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the credits and tax loss carry-forwards can be applied.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted. Accrued income taxes cover obligations for the current and for prior periods.

Earnings per share
Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share are calculated by adjusting the weighted average number of shares for the effect of the stock option plans. No adjustments to net income were necessary for the computation of diluted earnings per share. The diluted earnings per share were calculated under the assumption that all potentially dilutive options are exercised. Due to its past experience and management's intention to settle employee stock options in cash, no related dilutive effect has been considered in 2006 and 2005 for the Stock Option Plan 2004.

Accrued liabilities
An accrued liability is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. Accrued liabilities relating to personnel and social costs are valued at their net present value.

Leases
Leases in terms of which the Company assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases. Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

If substantially all risks and rewards are attributable to the Company as a lessor, the leased asset is recognized by the Company. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. The lease payments are recognized over the term of the lease contract in profit or loss as earned.

Employee benefit obligations
The Company provides retirement benefits under defined contribution and defined benefit plans.

In the case of defined contribution plans, the Company pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due.

All other employee benefit obligations are unfunded defined benefit plans for which the Company records accruals. The accruals are calculated using the projected unit credit method in accordance with IAS 19 (revised 2002), "Employee Benefits". The future benefit obligations are valued using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase, rate of employee turnover and rate of increase of pensions. For severance and pensions, the Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the reporting period exceed the corridor of 10% of the projected benefit obligation. The excess is amortized over the expected remaining service period. For service awards, actuarial gains and losses are recognized immediately.

According to IAS 19.118, companies may distinguish between current and non-current assets and liabilities arising from post-employment benefits. Telekom Austria applied this distinction in its financial statements according to IFRS as of December 31, 2006 and reclassified amounts presented in 2005 and 2004 to conform to 2006 for comparability purposes.

Concentration of risks
A portion of the Company's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications and cellular companies and internet online services. As a result, the Company has some concentration of credit risk in its customer base. The Company performs ongoing credit evaluations of its large customers' financial condition to support the recoverability of its receivables. As of the balance sheet date, the Company does not have any significant concentrations of business transacted with a particular supplier or lender nor does the Company have any concentration of available sources of labor, services, franchises, or licenses or other rights that could, if suddenly eliminated, severely impact operations. The Company invests its cash with various high-quality credit institutions.

Through its expansion into the Central Eastern European (CEE) region, Telekom Austria operates in markets that have been experiencing political and economic change. This circumstance has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including tax uncertainties, that typically do not exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the CEE business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Foreign currency translation

The consolidated financial statements of Telekom Austria are expressed in Euro ("EUR" or "€").

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. Equity is translated at historical exchange rates. Adjustments for foreign currency translation fluctuations are excluded from net income and are reported as a separate component of shareholders' equity. The foreign currency translation adjustment, classified in equity, is not recognized in profit or loss until the disposal of the respective operation.

Telekom Austria's Slovenian subsidiaries, Si.mobil and TA Mreža, changed their functional currencies from Slovenian Tolar to the Euro as a result of the adoption of the Euro as national currency in Slovenia as of January 1, 2007.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other operating income or other operating expenses.

The following table provides the exchange rates for the currencies in which the Company conducts most of its transactions:

	Balance sheet rates for 1 Euro at December 31,			Average exchange rates for 1 Euro for the period ended December 31,		
	2006	2005	2004	2006	2005	2004
Bulgarian Lev (BGN)	1.9558	1.9563	1.9559	1.9558	1.9558	1.9530
Croatian Kuna (HRK)	7.3504	7.3715	7.6712	7.3254	7.4038	7.4943
Czech Koruna (CZK)	27.4850	29.0000	30.4640	28.3460	29.7803	31.9062
Hungarian Forint (HUF)	251.7700	252.8700	245.9700	264.2746	247.9480	251.6906
Serbian Dinar (CSD)	79.0000	-	-	78.8852	-	-
Slovak Koruna (SKK)	34.4350	37.8800	38.7450	37.2354	38.5928	40.0270
Slovenian Tolar (SIT)*	239.6400	239.5000	239.7600	239.5956	239.5698	239.0826
US Dollar (USD)	1.3170	1.1797	1.3621	1.2548	1.2446	1.2432

* Converted to Euro at a rate of 239.640 as of January 1, 2007.

Revenue recognition

Wireline

The Company generates revenues from fixed line services to individuals, commercial and non-commercial organizations and other national and foreign carriers. Fixed line services include access fees, domestic and long distance services, including internet, fixed to mobile calls, international traffic, voice, value-added services, interconnection, call center services and public payphone services.

The Company recognizes long distance and local service revenue based upon minutes of traffic processed or contracted fee schedules when the services are rendered. Revenues due from other national and foreign carriers for incoming calls from outside the Company's network are recognized in the period the call occurs.

(all amounts in EUR '000s)

Access fees, monthly base fees and lines leased to commercial customers are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as reductions in revenues when granted.

Product and other service revenues are recognized when the products are delivered and accepted by customers or when services are provided in accordance with contract terms.

The installation of customer lines in residences is a separate service and the Company provides this installation service in situations where it is not providing other services. Revenue on such installation work is recognized when the installation work is completed.

The Company has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby the Company has granted some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of the counterparty. The Company does not recognize revenue or an obligation to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans. The benefits and costs of such swap agreements will be reflected in the Company's results of operations in the periods in which they are realized through reduced interconnection obligations and revenues, respectively.

Wireless
The Company provides mobile communications services to individuals and commercial and non-commercial organizations through mobilkom austria. mobilkom austria generates revenue primarily by providing digital wireless services as well as value-added services, text and multimedia messaging, m-commerce and information services. To a lesser extent, mobilkom austria generates revenue from the sale of wireless handsets.

The Company recognizes mobile usage and roaming service revenue based upon minutes of traffic processed or contracted fee schedules when the services are rendered. Revenues due from foreign carriers for international roaming calls are included in revenues in the period in which the call occurs.

Certain prepaid usage services in the mobile communications segment are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognized pro-rata over the contract period as marketing expense when a service contract exists.

Certain arrangements that the Company enters into provide for the delivery of multiple deliverables by the Company. These multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. In general, the Company determines that such arrangements are separated in two separate "units of accounting" based on a determination of a separable value to the customer. The total arrangement consideration is allocated to the units of accounting based on the relative fair value and after taking into consideration any contingent revenue.

Activation revenues and direct incremental expenses are generally recognized over the average expected contract term. When direct incremental expenses exceed revenues, the excess is expensed. Activation fees do not have a standalone value to customers and are therefore allocated as part of the arrangement consideration according to the relative fair value method to the units of accounting.

Other service revenues are recognized when delivered and accepted by customers and when services are provided in accordance with contract terms.

Interest, royalties and dividends

Interest is recognized using the effective interest method in accordance with IAS 39. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement; dividends are recognized when the shareholder's right to receive payment is established.

Share-based compensation

The Company accounts for share-based employee compensation in accordance with IFRS 2 "Share-based Payment". In accordance with the provisions of IFRS 2, share-based employee compensation is measured at fair market value at the grant date by reference to the fair value of the equity instruments granted, taking into account the terms and conditions upon which those equity instruments were granted. The cost of employee compensation so determined is expensed over the required service period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, the Company records an increase in equity or a liability. If the share-based payment transaction is settled in cash, the resulting liability is re-measured periodically.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and of contingent liabilities reported at the end of any given period and the reported amounts of revenues and expenses for that reported period. Actual results may differ from these estimates.

Management has made judgments in the process of applying the Company's accounting policies. Additionally, at the balance sheet date management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the balance sheet date which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Employee benefit plans: The valuation of the various pension and other post-employment benefit plans is based on the methodology used applying various parameters, including the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase (see note (21)). If the relevant parameter develops, in a materially different manner than expected, this could have a material impact on the defined benefit obligation and subsequently on net periodic pension and service cost.

b) Impairments: The impairment analysis for goodwill, other intangible assets and tangible assets is generally based upon discounted estimated future net cash flows from the use and eventual disposal of the assets. Factors such as lower than anticipated sales and the resulting decreases in net cash flows and changes in the discount rates used could lead to impairments. For more information on the carrying value of goodwill, other intangible assets and tangible assets, see notes (10), (11) and (12).

c) Employee incentive plans: The stock option plans are measured based on the fair value of the options on the grant date and every subsequent reporting date. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, term of the option, expected exercise pattern and expected dividend yield. Compensation expense and liabilities could materially differ from the estimated amount as of the balance sheet date if the used parameters were to change (see note (22)).

d) Deferred taxes: In assessing the recoverability of deferred tax assets, management considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. If the Company does not generate sufficient taxable income, deferred tax assets cannot be used and will not be recognized (see note (23)).

(2) BUSINESS COMBINATIONS

In accordance with IFRS 1, all business combinations prior to January 1, 2003 have been accounted for applying the regulations of U.S. GAAP, the previously applied GAAP. Under these regulations all acquisitions have been accounted for under the U.S. GAAP purchase method, with the excess of the purchase price over the estimated fair value of the net assets acquired accounted for as goodwill. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition. In accordance with IFRS 3, IAS 38 and IAS 36, goodwill and intangible assets with an indefinite life are not amortized but tested for impairment at least annually.

On July 12, 2005, the Company acquired 100% of Mobiltel EAD ("Mobiltel"), a Bulgarian mobile communications operator. Consequently, the Company includes the results of operations of Mobiltel in the Company's consolidated financial statements starting from July 12, 2005. The aggregate purchase price amounted to EUR 1,214,268 in cash, including direct cost of acquisition of EUR 7,155, an option price of EUR 80,000 under a call option agreement concluded in December 2004 to purchase Mobiltel and a deferred consideration of EUR 181,871 which was paid in December 2005. Mobiltel is reported in the wireless segment.

In November 2005, Mobiltel merged with its parent company, TAG-Tel EAD. As a result of this transaction, the majority of the accounting bases of the net assets acquired also became the new bases for tax purposes taking into consideration any tax uncertainties that existed at the date of purchase. Telekom Austria recognized goodwill of EUR 565,963 which was fully tax deductible until December 31, 2006 (see also note (23)). As part of this acquisition, the Company also recognized an indefinitive-lived brand name of EUR 262,991 and amortizable intangible assets of EUR 647,317.

In accordance with IFRS 3, Telekom Austria finalized its purchase price allocation of the acquisition of Mobiltel in the third quarter 2006. This resulted in an increase in goodwill, deferred tax liabilities and income taxes payable. Accordingly, 2005 comparative financial statements were adjusted. Total goodwill was increased by EUR 39,450 and amounted to EUR 605,413 as of the acquisition date July 12, 2005.

The following table summarizes the final estimated fair values of the assets acquired and liabilities assumed:

Current assets	110,974
Tangible assets	234,463
Intangible assets	910,308
Deferred tax assets from acquisition	7,003
Goodwill	605,413
Current liabilities	(380,546)
Long-term liabilities	(273,347)
Net assets acquired	**1,214,268**

The factors contributing to goodwill are assets acquired which are not separately recognized such as an assembled and trained work force, market shares as well as access to customers.

The estimated fair value, by class of intangible assets, was as follows:

Wireless operating licenses	98,989
Subscriber base	508,682
Brand name	262,991
Software	39,568
Other	78
Total intangible assets acquired	**910,308**

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The brand name is classified as an intangible asset with an indefinite useful life based on an analysis of product life cycles, contractual and legal control and other pertinent factors, and therefore is not subject to amortization but is tested for impairment annually. Recognized intangible assets related to wireless operating licenses, subscriber base and software that have weighted average remaining useful lives of 10.7, 7 and 5 years, respectively.

The unaudited pro forma consolidated operating revenues including other operating income, net income and earnings per share for the year ended December 31, 2005, as if Mobiltel had been acquired at the beginning of 2005, are estimated to be:

	Actual Dec. 31, 2006	Unaudited Pro forma Dec. 31, 2005
Operating revenues	4,759,560	4,682,039
Net income	561,840	471,483
Weighted average number of common shares outstanding	472,668,763	489,050,517
Basic and fully diluted earnings per share	Euro 1.19	Euro 0.96

The unaudited pro forma results include amortization of intangible assets, depreciation of the fair value for property, plant and equipment and intangible assets, interest expense on debt assumed to finance the acquisition and income taxes as well as other adjustments including amortization on fair value adjustments to long term debts. The pro forma results of operations are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of each period presented, nor are they necessarily indicative of future consolidated results.

Mobiltel had the following carrying amounts of assets and liabilities in accordance with IFRSs immediately before the acquisition:

Current assets (including cash and cash equivalents acquired of EUR 28,638)	102,929
Tangible assets	268,148
Intangible assets	758,409
Goodwill	30,671
Current liabilities	(371,814)
Long-term liabilities	(209,341)
Deferred tax liabilities	(7,576)
Net assets	**571,426**

(3) FINANCIAL ASSETS LONG-TERM

Financial assets long-term consist of the following:

At December 31,	2006	2005
Other investments	748	748
Other financial assets, long-term	995	1,206
Marketable securities, long-term (note (6))	15,132	15,239
Deposits cross border lease (note (20))	60,185	69,620
Financial assets, long-term	**77,060**	**86,813**

The carrying amount of other investments is measured at cost. In 2004, the Company sold investments with a carrying amount of EUR 1,189 and recognized a gain of EUR 506.

In 2006, 2005 and 2004, the Company recognized an impairment charge on financial assets long-term of EUR 1,136, EUR 284 and EUR 716, respectively.

(all amounts in EUR '000s)

(4) INVESTMENTS IN ASSOCIATES

On March 1, 2006 the Company sold 16.667% of its stake in paybox austria GmbH to One GmbH for a sales price of EUR 200 and recognized a gain of EUR 228. As a consequence of significant participation rights given to the buyer, Telekom Austria can no longer exercise control but only has significant influence and consequently accounts for paybox using the equity method of accounting. The investment in paybox austria GmbH is presented in the wireless segment.

As of December 31, 2006, 2005 and 2004, the investments in associates also included a 26.00% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia") and a 25.10% interest in Output Service GmbH. Both investments are held in the wireline segment.

The reporting date of Omnimedia is June 30, but it provides the Company with interim quarterly financial statements, which are used for the recognition of the Company's share of income as of December 31, 2006.

A roll forward of the investments in associates is as follows:

	2006	2005	2004
January 1,	3,642	3,570	3,555
Dividends received	(684)	(498)	(537)
Recognized income	20	570	552
Additions	1,059	-	-
Change in reporting entities (paybox)	362	-	-
December 31,	4,399	3,642	3,570

A summary of aggregated financial information as reported by equity investees is as follows:

Year ended December 31,	2006	2005	2004
Revenues	14,844	6,308	6,506
Operating income	2,799	3,482	3,466
Net income	1,371	2,186	2,117

For paybox, the aggregate financial information presented above includes the revenues, operating expenses and net income for the period March 1, until December 31, 2006 only.

At December 31,	2006	2005
Total current assets	43,152	39,018
Total assets	44,352	39,501
Current liabilities	39,711	36,167
Long-term debt	1,978	1,480
Total liabilities	41,689	37,647
Total stockholders' equity	2,662	1,854

(5) SHORT-TERM INVESTMENTS

Financial assets short-term consist of the following:

At December 31,	2006	2005
Marketable securities short-term (note (6))	8,003	7,300
Deposits and cross border lease (note (20))	6,527	7,826
Short-term investments	**14,530**	**15,126**

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(6) MARKETABLE SECURITIES

Marketable securities are classified as available-for-sale or held-to-maturity and unrealized holding gains and losses per category are as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2006				
Available-for-sale				
debt securities	5,467	27	76	5,419
equity securities	119	-	6	114
mutual funds	17,057	550	5	17,602
At December 31, 2005				
Available-for-sale				
debt securities	5,363	104	27	5,440
equity securities	119	-	1	118
mutual funds	10,472	442	24	10,890
Held-to-maturity	6,091	-	-	6,091

The contractual maturities of debt securities classified as held-to-maturity at December 31, 2005 were less than one year.

Proceeds from sales of securities available-for-sale amounted to EUR 1,605, EUR 6,262 and EUR 8,740 and gross realized gains were EUR 19, EUR 3,123 and EUR 2,124 in 2006, 2005 and 2004, respectively. In 2006, a loss of EUR 16 was also realized from the sale. The specific identification method was used to determine the cost in computing realized gains and losses.

The unrealized losses on the investment in mutual funds, corporate bonds and equity securities were caused by fluctuations in the capital markets. The Company considers the fluctuation of the fair value of these investments to be temporary and therefore did not record any impairment. The fair value information and incurred but unrecognized losses for marketable securities held by the Company are presented below:

	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
At December 31, 2006						
Non-current assets						
Available-for-sale						
debt corporate securities	1,269	76	-	-	1,269	76
equity securities	114	6	-	-	114	6
mutual funds	-	-	10,983	5	10,983	5
Total	**1,383**	**82**	**10,983**	**5**	**12,366**	**87**
At December 31, 2005						
Non-current assets						
Available-for-sale						
debt corporate securities	1,838	27	-	-	1,838	27
equity securities	118	1	-	-	118	1
mutual funds	-	-	4,948	23	4,948	23
Total	**1,956**	**28**	**4,948**	**23**	**6,904**	**51**

(all amounts in EUR '000s)

(7) ACCOUNTS RECEIVABLE - TRADE

The roll-forward of the allowance for accounts receivable-trade is as follows:

At December 31,	2006	2005
Allowance beginning of the year	148,624	113,710
Foreign currency adjustment	121	762
Change in reporting entities	(175)	27,763
Released	(2,971)	(3,432)
Charged to expenses	37,294	46,825
Amounts written-off	(48,188)	(37,004)
Allowance at the end of the year	**134,705**	**148,624**

At December 31,	2006	2005
Accounts receivable-trade - domestic, gross	822,107	812,221
Accounts receivable-trade - foreign, gross	25,032	50,684
Allowances	(134,705)	(148,624)
Accounts receivable-trade, net	**712,434**	**714,281**

As of December 31, 2006 and 2005, EUR 483,769 and EUR 481,793 of these receivables were held in trust under the securitization program described in note (15).

In the period ended December 31, 2006 the rate of allowance was reduced from 3.0% to 1.8% in the wireline segment based on historic experience. This change in estimate resulted in a reduction of expenses amounting to EUR 2,264.

(8) RELATED PARTY TRANSACTIONS

Related parties consist of the majority shareholder ÖIAG, associated companies, key management personnel including certain authorized officers, the Management Board and members of the Supervisory Board of Telekom Austria AG.

The disclosures below present balances and transactions relating to the Company's majority shareholder ÖIAG. None of the individual accounts associated with government agencies or government-owned entities is considered significant to the Company.

The terms of services provided by Telekom Austria to government entities are generally based on standard pricing policies. However, the Company is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was EUR 40,468, EUR 41,298 and EUR 40,303 in 2006, 2005 and 2004, respectively.

On June 28, 2001, a partner in a law firm which provides legal services to the Company was elected to the Supervisory Board. In 2006, 2005 and 2004, respectively, the Company was charged EUR 526, EUR 464 and EUR 640 for legal services by that law firm.

For the year ended December 31, 2006, of the total accounts receivable EUR 3,272 related to paybox and originate from prepaid cards sold to paybox for resale.

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For the years ended December 31, 2006 and 2005, of the total accounts payable EUR 11,095 and EUR 11,239, respectively, related to Omnimedia and originated from advertising and marketing services provided to the Company.

For the year ended December 31, 2006, of the total revenues EUR 5,201 related to paybox and originated from prepaid cards sold to paybox.

For the years ended December 31, 2006, 2005 and 2004, respectively, EUR 47,119, EUR 40,629 and EUR 44,440 of other expenses mainly relate to advertising and marketing services provided by Omnimedia

Concurrently to the sale of 16.667% of its stake in paybox austria GmbH in March 2006 (also see note (4)), the Company also granted a loan of EUR 100 to paybox austria GmbH which was outstanding as of December 31, 2006 and classified as a long-term receivable due from related parties.

The following is the detail of revenues from and expenses charged to related parties:

Year ended December 31,	**2006**	**2005**	**2004**
Revenues	5,349	155	114
Other operating income		1	1
Expenses	49,931	41,434	45,393
Interest income	5	-	1
Interest expenses	4	-	1

(9) INVENTORIES

Inventories consist of:

At December 31,	**2006**	**2005**
Spare parts, cables and supplies	51,199	44,209
Merchandise	59,946	46,616
Prepayments	154	88
Inventories	**111,299**	**90,913**

As of December 31, 2006 and 2005, the carrying amount of inventories carried at fair value less cost to sell amounted to EUR 65,595 and EUR 62,460. The Company recognized an expense of EUR 16,806, EUR 15,517 and EUR 11,998 as a write-down of inventories in 2006, 2005 and 2004, respectively.

(all amounts in EUR '000s)

(10) OTHER INTANGIBLE ASSETS

	Licenses	Brand names	Software	Customer base	Advances/ construction in progress/other	Total
Cost						
Balance at January 1, 2005	569,863	173,948	441,223	138,504	136,616	1,460,154
Additions	4,390	-	58,300	69	35,435	98,194
Disposals	-	-	(68,463)	-	(9,603)	(78,066)
Transfers	565	-	28,623	-	(25,248)	3,940
Translation adjustments	1,251	955	1,656	982	170	5,014
Changes in reporting entities	115,117	262,991	57,969	591,846	6,713	1,034,636
Balance at December 31, 2005	**691,186**	**437,894**	**519,308**	**731,401**	**144,083**	**2,523,872**
Additions	7,614	-	72,217	-	356,202	436,033
Disposals	(3)	-	(65,941)	-	(3,830)	(69,774)
Transfers	202	-	36,671	-	(27,967)	8,906
Translation adjustments	160	140	275	234	105	914
Changes in reporting entities	-	-	(462)	-	-	(462)
Balance at December 31, 2006	**699,159**	**438,034**	**562,068**	**731,635**	**468,593**	**2,899,489**
Accumulated depreciation						
Balance at January 1, 2005	(210,433)	-	(295,927)	(55,149)	(55,895)	(617,404)
Additions	(42,860)	-	(77,694)	(59,583)	(12,397)	(192,534)
Disposals	-	-	67,589	-	8,574	76,163
Transfers	-	-	(1,921)	-	1,929	8
Translation adjustments	(327)	-	(983)	(350)	(98)	(1,758)
Changes in reporting entities	(16,128)	-	(25,011)	(83,164)	(24)	(124,327)
Balance at December 31, 2005	**(269,748)**	**-**	**(333,947)**	**(198,246)**	**(57,911)**	**(859,852)**
Additions	(48,735)	-	(96,747)	(95,970)	(11,259)	(252,711)
Impairments	-	-	-	-	(1,048)	(1,048)
Disposals	1	-	65,730	-	3,740	69,471
Translation adjustments	(58)	-	(145)	(53)	(32)	(288)
Changes in reporting entities	-	-	32	-	-	32
Balance at December 31, 2006	**(318,540)**	**-**	**(365,077)**	**(294,269)**	**(66,510)**	**(1,044,396)**
Carrying amount at						
December 31, 2006	380,619	438,034	196,991	437,366	402,083	1,855,094
December 31, 2005	421,438	437,894	185,361	533,155	86,172	1,664,020

As of December 31, 2006 and 2005, EUR 9,726 and EUR 13,129, respectively, of the total carrying value of software and EUR 2,374 and EUR 1,876 of additions to software related to self-developed software.

As of December 31, 2006 and 2005, respectively, EUR 356,792 and EUR 40,436 of the total carrying value of advances/construction in progress/other related to advances and construction in progress.

Interest capitalized for the years ended December 31, 2006, 2005 and 2004, totaled EUR 1,405, EUR 1,351 and EUR 95, respectively.

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Licenses are recorded at cost and amortized on a straight-line basis over the estimated useful life. The major terms of the material license agreements as granted periods and total cost incurred were as follows:

	GSM licenses	UMTS licenses
Granted until	2009 – 2015	2020 – 2025
License cost	444,028	259,927

In the fourth quarter 2006, the Company acquired the third license (GSM and UMTS) in Serbia for a purchase price of EUR 320,000. The license is not yet in use and therefore shown in Advances/constructions in progress/Other. The granted license is valid for ten years with the option of automatic renewal for another ten years. The license conditions include a requirement to launch operations within 6 months and to provide specified coverage levels of the population as well as of the three major highways within specified time periods after the grant date.

Additionally, in the fourth quarter 2006, Si.mobil, the Slovenian wireless subsidiary, acquired UMTS frequencies for Slovenia for a purchase price of EUR 6,500. The usage of frequencies is valid for 15 years with the option to extend the term.

The Company holds licenses to operate as a telecommunications service provider from the Austrian, Croatian, Slovenian, Bulgarian, Serbian and Liechtenstein regulatory authorities.

In the period ended December 31, 2006, EUR 1,048 of indefeasible rights of use (IRUs) of sea cables were impaired due to lack of capacity usage. In 2005, no impairment charges were recorded.

The total carrying amount of intangible assets not subject to amortization was EUR 438,034 and EUR 437,894 as of December 31, 2006, and 2005. These amounts relate entirely to the value of brand names in the wireless segment. The slight increase in 2006 was caused by foreign exchange differences while the increase in 2005 was mainly due to the acquisition of Mobiltel (see note (2)). An impairment test in accordance with IFRS 3, as described in note (11), was performed for brand names in the fourth quarter of each year presented. The parameters applied were the same as for the impairment testing of goodwill.

As of December 31, 2006 and 2005, the brand names were allocated to the following cash generating units within the wireless segment as follows:

	2006	2005
mobilkom austria	145,860	145,860
Si.mobil telekomunikacijske storitve d.d.	3,148	3,150
Vipnet d.o.o	26,021	25,947
Mobiltel EAD	263,005	262,937
Total wireless segment	**438,034**	**437,894**

The following table presents expected amortization expense related to amortizable intangible assets for each of the following periods:

2007	237,925
2008	218,547
2009	188,896
2010	170,960
2011	138,265
Thereafter	462,467

(all amounts in EUR '000s)

(11) GOODWILL

The following tables illustrate the changes in net book value of goodwill by segment for the periods ended December 31, 2006 and 2005:

	Wireline	Wireless	Total
Goodwill at January 1, 2005	**32,317**	**563,999**	**596,316**
Acquisitions	-	605,421	605,411
Impairment	(16,317)	-	(16,317)
Translation adjustment	347	2,589	2,946
Goodwill at December 31, 2005	**16,347**	**1,172,009**	**1,188,356**
Impairment	-	(8)	(8)
Translation adjustment	-	266	266
Goodwill at December 31, 2006	**16,347**	**1,172,267**	**1,188,614**

As of December 31, 2006 and 2005, the accumulated impairment of fully consolidated companies charged totaled EUR 176,919.

For the purpose of impairment testing, goodwill is allocated to the cash generating units that expect to benefit from the synergies of the combination:

December 31,	**2006**	**2005**
Goodwill wireless		
mobilkom austria	364,000	364,000
Si.mobil telekomunikacijske storitve d.d.	136,259	136,340
Vipnet d.o.o	66,565	66,374
Mobiltel EAD	605,443	605,295
Total wireless	**1,172,267**	**1,172,009**
Goodwill wireline		
Telekom Austria AG	15,107	15,107
World Direct	1,240	1,240
Total wireline	**16,347**	**16,347**

The following parameters were applied for impairment testing of Goodwill in 2006: growth rates: wireline -1.0% to 2.0%, wireless 2.0% to 3.0%; interest rates: wireline 9.0%, wireless: 8.5% to 9.6%. In 2005, the applied growth rates ranged from -1.0% to 2.0% in the wireline segment and from 2.0% to 3.5% in the wireless segment; the interest rates ranged from 8.5% to 10.8% in the wireline segment and from 8.2% to 12.1% in the wireless segment. The determined value in use was then compared with the carrying value of the cash generating unit including goodwill and impairment charges were recorded if the carrying value of the cash generating unit was in excess of the value in use.

Regarding the final purchase price allocation and resulting goodwill of Mobiltel EAD see note (2).

In 2005, impairment charges in the amount of EUR 15,457 were recorded for goodwill originally recorded from the acquisition of Czech On Line a.s. ("COL"). The acquisition was based on a business plan assuming full liberalization of the Czech market, which, however, remained unsatisfactory despite the privatization of the former state-owned telecommunications company. Moreover, a highly competitive environment developed within the alternative telecommunication market in the Czech Republic. Due to these circumstances, the business of COL has not developed as expected. In 2005, the value of the reporting unit was estimated using discounted cash flow forecasts using a weighted average cost of capital of 10.8%.

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Furthermore, in 2005 the Company recorded impairment charges in the amount of EUR 860 for goodwill originally recorded from the acquisition of World Direct. The Company expected a material decrease of the profitability of World Direct's market as a result of decreasing demand by customers. In 2005, the value of the reporting unit was estimated using discounted cash flow forecasts using a weighted average cost of capital of 9.2%.

The impairment charges in 2005 for COL and World Direct were recognized in the wireline segment.

(12) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transferred to the Company by the government were recorded upon transfer at cost less accumulated depreciation as of that date. Acquisitions since then have been recorded at cost.

	Land, buildings & leasehold improvments	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2005	752,643	9,530,062	8,961	134,045	10,425,711
Additions	22,563	408,432	-	123,850	554,845
Disposals	(4,078)	(438,461)	(305)	148	(442,696)
Transfers	17,954	108,381	-	(129,075)	(2,740)
Translation adjustments	716	15,903	97	1,806	18,522
Changes in reporting entities	14,767	357,049	-	36,591	408,407
Balance at December 31, 2005	**804,565**	**9,981,366**	**8,753**	**167,365**	**10,962,049**
Additions	15,987	369,893	14	179,007	564,901
Disposals	(30,418)	(429,614)	(6,715)	(410)	(467,157)
Transfers	13,660	167,819	-	(190,386)	(8,907)
Translation adjustments	109	2,056	112	139	2,416
Changes in reporting entities	-	(23)	-	-	(23)
Balance at December 31, 2006	**803,903**	**10,091,497**	**2,164**	**155,715**	**11,053,279**
Accumulated depreciation					
Balance at January 1, 2005	(311,387)	(6,361,201)	(6,415)	-	(6,679,003)
Additions	(43,684)	(883,814)	(1,408)	-	(928,906)
Impairments	-	(1,071)	-	-	(1,071)
Disposals	2,150	411,816	295	-	414,261
Transfers	(17)	9	-	-	(8)
Translation adjustments	(208)	(10,055)	(85)	-	(10,348)
Changes in reporting entities	(2,246)	(171,698)	-	-	(173,944)
Balance at December 31, 2005	**(355,392)**	**(7,016,014)**	**(7,613)**	**-**	**(7,379,019)**
Additions	(46,298)	(824,181)	(741)	-	(871,220)
Impairments	(5,932)	(3,492)	-	-	(9,424)
Disposals	18,952	398,294	6,409	-	423,655
Transfers	6	(6)	-	-	-
Translation adjustments	(3)	(1,217)	(104)	-	(1,324)
Changes in reporting entities	-	10	-	-	10
Balance at December 31, 2006	**(388,667)**	**(7,446,606)**	**(2,049)**	**-**	**(7,837,322)**
Carrying amount at					
December 31, 2006	415,236	2,644,891	115	155,715	3,215,957
December 31, 2005	449,173	2,965,352	1,140	167,365	3,583,030

(all amounts in EUR '000s)

Interest capitalized totaled EUR 988, EUR 1,023 and EUR 1,462 for the years ended December 31, 2006, 2005 and 2004, respectively. The capitalization rate for the determination of the capitalized interest amounted to 4.2%, 4.5% and 5.0% for the periods ended December 31, 2006, 2005 and 2004, respectively.

In 2006 and 2005, the value of land amounted to EUR 55,489 and EUR 60,031.

In the year ended December 31, 2006, impairment charges of EUR 9,424 were primarily caused by a write-off of buildings in the amount of EUR 4,942 and land of EUR 990 due to lower appraisals of fair values of cash generating units at the lowest level of identifiable net cash flows in the wireline segment and of technical facilities in the amount of EUR 2,534 in the wireless segment and EUR 958 in the wireline segment due to technological obsolescence. In the periods ended December 31, 2005 and 2004, impairment charges of EUR 1,071 and EUR 1,123 respectively were recorded, primarily related to technical facilities in 2005 and to buildings in 2004 in the wireline segment.

In 2006 and 2005, the Company reduced the estimated useful lives of certain technical equipment due to the rapid development of the technological environment in the relevant areas. The change in estimate resulted in an increase of depreciation by EUR 12,001 in 2006 and EUR 17,908 in 2005.

Government grants totaling EUR 2,471and EUR 654 were deducted from acquisition costs in 2006 and 2005, respectively.

In 2006, advances and construction in progress were only transferred within property, plant and equipment and other intangible assets. In 2005, the transfers contain a building with a carrying value of EUR 1,200 which was reclassified from assets held for sale to property, plant and equipment.

As of December 31, 2006, and 2005, communication network and other equipment with a carrying value of EUR 174,029 and EUR 251,716 respectively, were held under and pledged as collateral for the cross border lease transaction described in note (20).

(13) NON-CURRENT ASSETS HELD FOR SALE

In 2005, non-current assets held for sale related to a building which was sold in 2006.

The Company recognized a net gain from assets held for sale of EUR 175, EUR 833 and EUR 4,762 for the years ended December 31, 2006, 2005 and 2004, respectively. The entire net gain of 2006 and 2004 related to the wireline segment. For 2005, of the net gain of EUR 833, a gain of EUR 1,118 related to the wireless segment and a loss of EUR 285 related to the wireline segment.

(14) PREPAID EXPENSES

At December 31,	**2006**	**2005**
Employees	13,993	13,182
Rent	12,741	12,684
Deferred marketing expenses	75,075	72,347
Other	35,252	23,488
Prepaid expenses	**137,061**	**121,701**

(all amounts in EUR '000s)

(15) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2006	2005
Current portion of long-term debt (note (19))	142,725	296,840
Short-term debt	242,560	357,736
Asset backed security debt (ABS)	150,541	31,606
Lines of credit	16,839	8,484
Current portion of lease obligations	9,428	9,394
Short-term borrowings	**562,093**	**704,060**

Short term debt decreased due to refinancing of short-term debt with long-term debt (see note (19)).

The weighted-average interest rate on lines of credit was 3.69% and 2.30% in 2006 and 2005, respectively. As of December 31, 2006, the Company had total credit lines of EUR 1,050,000 and recorded commitment and servicing fees for these lines of EUR 1,098. These credit lines are not used. The credit line commitments will expire between December 2007 and July 2013.

In January 2002, the Company entered into a revolving period securitization and sold trade receivables to a Special Purpose Entity (SPE). In accordance with SIC-12.10, the Company controls the SPE (Homer) because the activities of the SPE are being conducted on behalf of the Company according to its specific business needs so that the Company obtains the benefits from the SPE's operations. In substance, the Company retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits of its activities. Consequently, the Company includes the SPE in the consolidated financial statements.

In December 2003, the securitization program was extended to increase the maximum financing limit from EUR 290,000 to EUR 350,000. Additionally, the discounts required were reduced regarding the trade receivables to be held in trust for short-term debt received.

At December 31, 2006 and 2005, respectively, the Company recorded short-term debt totaling EUR 150,000 and EUR 31,500 secured by accounts receivable held in trust and recorded accumulated fees and interest of EUR 541 and EUR 106.

Cash settlement of the short-term debt takes place on a monthly basis. The Company further continues to service the receivables placed in trust. The Company recorded discounts, liquidity and program fees related to the securitization of trade receivables of EUR 3,968 and EUR 2,270 for the period ended December 31, 2006 and 2005, respectively. These discounts and fees are included in interest expense in the statement of operations.

(all amounts in EUR '000s)

(16) PROVISIONS AND ACCRUED LIABILITIES

Provisions and accrued liabilities consist of the following:

	Non income tax	Employees	Customer allowances	Customer retention	Asset retirement obligation	Other	Total
Balance at January 1, 2006	5,623	63,643	48,226	35,486	85,705	23,843	262,526
Additions	1,742	57,821	45,589	4,019	3,925	24,828	137,924
Changes in estimate	-	-	-	-	(17,760)	-	(17,760)
Used	(1,142)	(39,514)	(34,517)	(11,932)	(2,318)	(11,918)	(101,341)
Released	(89)	(11,514)	(3,213)	-	(263)	(1,655)	(16,734)
Accretion expense	-	-	-	-	3,380	-	3,380
Short term portion of employee benefit obligation	-	6,926	-	-	-	-	6,926
Translation adjustments	3	40	-	5	36	87	171
Changes in reporting entities	-	(93)	-	-	-	(237)	(330)
Balance at December 31, 2006	**6,137**	**77,309**	**56,085**	**27,578**	**72,705**	**34,948**	**274,762**
Thereof long-term							
December 31, 2006	-	-	-	-	72,705	-	72,705
December 31, 2005	-	-	-	-	85,705	-	85,705

In establishing accruals, management assesses different scenarios of reasonably estimated outcomes in determining the amount that the Company is expected to pay upon the resolution of a contingency. The Company records the most likely of all scenarios contemplated or, if none of the scenarios is more likely to occur, the scenario with the average weighted amount is considered in establishing the accrual.

The Company expects that the majority of the balances of provisions and accrued liabilities will be utilized during 2007 except for the asset retirement obligation.

Non-income tax

The non-income tax accrual contains amounts for land tax, chamber of commerce and other fees.

Employees

The accruals for employees contained unused vacation days, bonuses, overtime and the short-term portion of employee benefit obligations for severance payments, service awards, pensions and voluntary termination benefits (also see employee benefit obligation in note (21)).

In December 2006, the Company introduced a voluntary termination incentive program ("VTIP") to civil servants who cannot be terminated involuntarily and a voluntary termination incentive program to regular employees who meet specified criteria. The offer under the VTIP is binding upon the Company. The VTIP for civil servants will be offered until April 30, 2007 and the VTIP for regular employees until November 30, 2007. For the year ended December 31, 2006, a liability of EUR 13,027 was accrued based on the estimated number of civil servants and regular employees to accept this offer as expected from historical experience. The individual termination benefits depend on criteria such as years of service, age of the civil servants/regular employee and the acceptance date for the offer by the civil servant/regular employee.

In December 2006, the Company also introduced a voluntary option incentive program to civil servants who are less than 40 years old to change their contractual relationship from civil servant to regular employee between March 30, 2007 and June 30, 2007. The offer under this program is binding upon the Company. These civil servants will receive a lump-sum payment in return for the change in employment status and a gratuity depending on years of service. The Company recorded EUR 3,393 as an accrued liability for this program in 2006 based on the estimated number of civil servants that will accept the offer.

(all amounts in EUR '000s)

Customer allowances and customer retention

The accrual for customer allowances contains rebates earned by customers but not paid as of the balance sheet date and the accrual for customer retention mainly consists of accrued bonus points earned by customers.

Asset retirement obligation

The Company recorded asset retirement obligations for the retirement and decommissioning of base stations, buildings, booths for public payphones and wooden masts impregnated with tar or salt.

The Company has an obligation to operate a sufficient number of booths to assure that the Austrian population has sufficient access to telecommunications services. As long as the Company stays in business and technology does not materially change, the number of booths operated will be reduced but not eliminated completely in the foreseeable future. The Company has estimated the number and timing of booths to be retired from service and estimated the asset retirement obligation based on probability-weighted cash flow estimates.

The Company has also recorded an asset retirement obligation for masts impregnated with tar or salt. Although the Company stopped setting up tar-masts in 1992, some will be in operation for approximately another 30 years. Masts impregnated with salt are currently in operation and will be set up for the foreseeable future. The Company recorded an asset retirement obligation based on estimated settlement dates and expected cash flows.

Additionally, the Company recorded asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances.

The Company situates base stations on land, rooftops and other premises under various types of rental contracts. In estimating the fair value of its retirement obligation for its base stations, mobilkom austria has made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

Additionally, the Company recorded asset retirement obligations for buildings and shops under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

In the period ended December 31, 2006, the interest rate was increased from 3.82% to 5.00% based on general interest market development. This change in estimate resulted in a reduction of the asset retirement obligation, which was partially offset by changes from the estimated amount of the outflow of resources to settle the obligation.

Other accruals

Other accruals mainly related to legal fees and lawsuits, audit fees, public fees and consulting and other services.

(17) DEFERRED INCOME

At December 31,	**2006**	**2005**
Unearned income	175,898	192,398
Unamortized balance on sale of tax benefits (see note (20))	30,237	37,349
	206,135	**229,747**
Less non-current portion	(23,125)	(30,237)
Deferred income, net of non-current portion	**183,010**	**199,510**

Deferred income mainly related to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are amortized straight line over the period the service is provided.

(all amounts in EUR '000s)

(18) OTHER CURRENT LIABILITIES

At December 31,	2006	2005
Employees	25,794	23,826
Stock option plans (see note (22))	13,774	17,845
Fiscal authorities	67,548	73,355
Social security	8,230	8,177
Other	52,491	83,653
Other current liabilities	**167,837**	**206,856**

Liabilities to employees mainly relate to salaries payables (including overtime and travel allowance), liabilities from one time termination benefits and liabilities from service awards.

Liabilities to fiscal authorities mainly include value added taxes and payroll taxes. Liabilities regarding social security relate to regular contributions to the social security system.

Other current liabilities mainly include liabilities arising from commissions, customer deposits and pending payments.

(19) LONG-TERM DEBT

The outstanding long-term debt, other than lease obligations are summarized as follows:

At December 31,	Maturity	2006	2005
Face value of bonds under EMTN Programme	2010-2017	1,750,000	1,750,000
Fair value adjustment (hedge accounting)	2010-2013	(14,133)	(5,311)
Discount of EMTN bonds	2010-2017	(14,430)	(16,654)
Bank debt	2007-2011	1,039,530	790,312
Bank debt guaranteed by the Federal Republic of Austria	2007-2011	89,024	297,232
Other	2007	42,869	38,964
		2,892,860	**2,854,543**
Less current portion of long-term debt (note (15))		(142,725)	(296,840)
Long-term debt, net of current portion		**2,750,135**	**2,557,703**

The interest rates on the guaranteed and unguaranteed bank debt varied between 2.4% and 7.0% in 2006. The weighted average interest rate, including interest rate swap agreements, for the years ended December 31, 2006 and 2005, respectively, was 4.23% and 3.70%, for bonds and 4.2% and 4.5% for bank debt.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2006 and 2005 were as follows:

	2006	2005
Bonds	4.32%	4.32%
Bank debt	4.17%	4.07%

(all amounts in EUR '000s)

The following table shows the aggregate amounts of long-term debt maturing during the next five years and thereafter:

2007	142,725
2008	325,997
2009	479,415
2010	486,939
2011	213,444
Thereafter	1,244,340

As of December 31, 2006, the Company was in compliance with all covenants required by its loan agreements.

Bonds under the EMTN Programme

In 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (the 100% financing subsidiary of Telekom Austria AG) initiated a Euro Medium Term Note ("EMTN") Programme, which provided borrowing facilities of EUR 2,500,000 and was increased to EUR 5,000,000 in December 2005. The payments of all amounts due in respect of notes issued by Telekom Finanzmanagement GmbH under this framework agreement are unconditionally and irrevocably guaranteed by Telekom Austria AG.

Under this program, the Company launched (i) a Eurobond with face value of EUR 750,000, a coupon of 5.00% and 10-year maturity in July 2003 and (ii) two Eurobonds with face value of EUR 500,000 each, maturities of 5 and 12 years, and coupons of 3.375% and 4.250%, respectively, in January 2005. In January 2005, the bonds were issued at a discount including issue cost of EUR 3,358 and EUR 7,693, respectively, which are amortized over the related terms. For Eurobonds with a face value of EUR 800,000, the Company entered into fixed to floating interest rate swap agreements to reduce fluctuations of the bond's fair market value.

Bank debt

Bank debt incurred by the Company after its privatization is not guaranteed by the Federal Republic of Austria. These contracts are described in more detail as follows:

On August 30, 2006, the Company entered into a loan agreement of EUR 300,000, of which EUR 210,000 have a fixed interest rate and a maturity date of June 30, 2011 and EUR 90,000 have a variable interest rate and a maturity date of February 28, 2008.

In December 2005, the Company entered into a loan agreement of EUR 180,000 with the European Investment Bank. As of December 31, 2006, the loan is outstanding in full. Under the terms of this agreement, the Company must observe covenants requiring it to meet certain financial ratios.

In March 2000, the Company entered into a loan agreement for EUR 145,000 with the European Investment Bank. As of December 31, 2006, EUR 29,000 of the loan is outstanding in accordance with the repayment terms. Under the terms of this agreement, the Company must observe covenants requiring it to meet certain financial ratios.

Furthermore, in October 2000 the Company entered into a loan agreement for EUR 232,553 to fund the acquisition of Czech On Line a.s. (COL). As of December 31, 2006 the loan is outstanding in full in accordance with the repayment terms. Under the terms of the contract the Company has to maintain a minimum equity in COL, otherwise the loan becomes due. The interest rates vary depending on the rating of the Company.

As of December 31, 2006, EUR 295,160 of a syndicated loan granted to mobilkom austria was outstanding. The original loan totaled EUR 305,000 and was guaranteed by Telekom Austria AG.

In March 1999, Si.mobil entered into a loan agreement amounting to EUR 36,000 (original currency: Deutsche Mark 71,000) to finance the construction of the GSM network in Slovenia. The loan is secured by bills of exchange, property, receivables and shares of Si.mobil with a carrying amount of EUR 11,213 for the pledged assets. The loan is repayable through March 2007.

(all amounts in EUR '000s)

Bank debt guaranteed by the Federal Republic of Austria

Bank debt of EUR 89,024 which was entered into before the Company's privatization is guaranteed by the Federal Republic of Austria.

As of December 31, 2006, all bank debt incurred by the Company was denominated in Euro.

(20) LEASES

The Company leases equipment used in its operations. The leases are classified as either operating or finance leases. The lease contracts expire on various dates through 2015.

Future minimum lease payments for non-cancelable operating leases, finance leases and cross border leases as of December 31, 2006 are:

	Cross border leases	Other Finance leases	Operating leases
2007	9,385	43	41,823
2008	6,932	25	35,665
2009	27,865	14	34,339
2010	10,153	-	33,775
2011	10,135	-	33,518
after 2011	15,699	-	33,018
Total minimum lease payments	**80,169**	**82**	**212,138**
Less amount representing interest	(13,456)	(2)	-
Present value of lease payments	**66,713**	**80**	
Less current portion	(9,385)	(43)	
Non-current lease obligations	**57,328**	**37**	

Total rent expense was EUR 88,762, EUR 83,534 and EUR 79,204 in 2006, 2005 and 2004, respectively.

The Company will receive future minimum lease payments for non-cancelable operating lease contracts which mainly relate to private automatic branch exchange equipment (PABX). These payments are recognized as revenue straight line over the terms of the contracts. As of December 31, 2006, the cost of this equipment was EUR 30,949, accumulated depreciation was EUR 23,965 and the carrying value amounted to EUR 6,984. The future minimum lease payments to be received as of December 31, 2006 are as follows:

	Operating leases
2007	9,899
2008	8,106
2009	6,065
2010	4,105
2011	2,875
after 2011	5,823
Total minimum lease payments	**36,873**

(all amounts in EUR '000s)

Cross border leases

Between August, 1998 and November, 1999, Telekom Austria entered into a series of cross border sale and leaseback arrangements (the "CBLs") of certain digital switching equipment (the "equipment"). Under these arrangements, Telekom Austria sold the equipment to various US entities, for the benefit of various US institutional investors, and contemporaneously leased the equipment back for terms between 13 and 16 years, a period considered to be in excess of 75% of the remaining useful economic life of the equipment. The CBLs also provided that at fixed dates (typically after 10 to 13 years), Telekom Austria has an option to repurchase the equipment for a fixed purchase price.

In addition, in December 2001, Telekom Austria entered into a further CBL with another US investor in the form of lease-in lease-out transaction ("LILO"), the leaseback under which resulted in finance lease classification.

With the proceeds from these sales of the equipment, Telekom Austria funded deposits and other investments, the principal and accrued interest under which are sufficient to provide a cash flow stream to cover the periodic leaseback rentals as well as the fixed price purchase option.

At the inception of the lease-back agreements, the Company entered into Payment Undertaking Agreements ("PUA") with several counter-parties, whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for a deposit. The counterparties in the PUAs related to the 1999 and 1998 transactions received upfront payments totaling EUR 509,285 and EUR 113,763 for a portion of the debt assumed in 1999 and 1998, respectively. Interest accruing on the cash deposits matches interest on the debt portion financed through the deposit. In addition to the cash deposits, the Company purchased debt securities, deposited those securities with a custodian and pledged the securities to one of the counter-parties in the PUA; The counter-parties in the PUAs related to the 2001 transaction received upfront payments totaling EUR 200,526 for a portion of the debt assumed in 2001. In addition to the PUAs, the Company provided a loan of EUR 66,554 to the U.S.-based trust. Interest accruing on the PUAs and the loan match the interest on the debt portion.

As the Company remains the economic owner of the equipment and has the right to re-purchase the assets and the lease-back transactions meet the criteria of a finance lease transaction, the Company maintained the assets on its balance sheet and did not recognize any gain or loss from the sales transaction. The difference between the cash proceeds from the sale and the present value of the future minimum lease payments represents a gain on the sale of a tax benefit. The net cash effect resulting from these transactions relates to the total gain from the sale of the tax benefits which amounted to EUR 14,547, EUR 44,437 and EUR 7,337 in 2001, 1999 and 1998, respectively. The Company is amortizing these amounts over the term of the lease.

In accordance with SIC 27 "Evaluating the substance of Transactions Involving the Legal Form of a Lease" and the Framework for the 1998 and 1999 transactions, no assets or liabilities were recorded for the separate investment account and the lease payment obligations. The cash deposits, the securities purchased in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are not recorded in the balance sheet. The lease payment obligations are disclosed as contingent liabilities only.

However, for the 2001 transactions the major part of the investment accounts and the lease payment obligations have to be recorded as assets and liabilities because the Company is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the balance sheets. Accordingly, interest income and expenses in an equal amount totaling EUR 5,754, EUR 6,488 and EUR 5,367, have been recognized in 2006, 2005 and 2004, respectively. The amortization of benefit in 2006 and 2005 of EUR 6,962 and EUR 6,982 is recorded in interest income.

Total assets and liabilities recorded in connection with the cross border leases are as follows:

At December 31,	2006	2005
Deposits long-term	60,185	69,620
Deposits short-term	6,528	7,826
Total assets in connection with cross border leases	**66,713**	**77,446**
Cross border lease obligations	66,713	77,446
Of which current	9,385	8,908

(21) EMPLOYEE BENEFIT OBLIGATIONS

Long-term liabilities for employee benefits consist of the following:

At December 31,	2006	2005
Contractual termination benefits	5,031	10,456
Service awards	48,258	46,864
Severance	49,435	44,351
Pensions	8,043	6,462
Other	805	1,413
Employee benefit obligation	**111,572**	**109,546**

The expenses for pensions and severance of the Management Board and the senior management are provided below:

Year ended December 31,	2006	2005	2004
Management Board and Senior Management	2,380	3,723	2,330
Other employees	42,441	19,373	31,233
Total	**44,821**	**23,096**	**33,563**

Expenses consist of service cost, expenses for voluntary termination benefits, contributions to pension funds and other retirement benefits.

Contractual termination benefits

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs ("VRIPs") to civil servants. The present value of the obligation is determined based on current compensation levels and the respective legal regulations. An annual increase of 2.0% for future years and a discount rate of 4.5% are used. VRIPs are not funded. As of December 31, 2006, the accrual for the VRIPs related to 103 employees. In connection with VRIPs the Company made payments of EUR 3,170, EUR 3,436 and EUR 5,365 during 2006, 2005 and 2004, respectively. Expenses as well as the reversals of accruals are reflected as a component of employee costs in the accompanying consolidated statements of operations.

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Actuarial assumptions

The assumptions used in the measurement of obligations for service awards, severance payments and pensions are shown in the following table:

At December 31,	2006	2005	2004
Actuarial assumptions:			
Discount rate	4.5%	4.0%	5.0%
Rate of compensation increase – civil servants	5.0%	5.0%	5.0%
Rate of compensation increase – other employees	4.0%	4.0%	4.0%
Rate of increase of pensions	1.6%	0.8%	1.8%
Employee turnover rate	4.0%	4.0%	4.0%

Service awards

Civil servants and certain employees (together "employees") in Austria are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two months salary after 25 years of service and four months salary after 40 years of service. Employees with at least 35 years of service when retiring are also eligible to receive a bonus equal to four months salary. The compensation is accrued as earned over the period of service taking into account estimates of employees whose employment will be terminated or who will retire prior to reaching the required service period. All actuarial gains and losses are recognized immediately in the period realized.

The following table provides the components and a reconciliation of the changes in service awards for the years ended December 31, 2006 and 2005:

	2006	2005
Accrual at the beginning of the year	49,385	44,418
Change in reporting entity	-	48
Service cost	2,138	1,973
Interest cost	2,033	2,278
Recognized actuarial losses (gains)	(338)	2,861
Benefits paid	(2,459)	(2,193)
Accrual at the end of the year	**50,759**	**49,385**
Less short-term portion (see note (16))	(2,501)	(2,521)
Accrual at the end of the year, long-term	**48,258**	**46,864**

Of the defined benefit obligations for service awards less than 1% related to foreign subsidiaries as of December 31, 2006.

The benefits expected to be paid over the next 10 years are shown in the following table:

2007	2,501
2008	2,538
2009	2,974
2010	3,370
2011	3,929
2012-2016	29,854

(all amounts in EUR '000s)

Severance

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans as described below. Following a legal change, obligations for employees starting to work for the Company after January 1, 2003 are covered by a defined contribution plan. The Company paid EUR 644, EUR 484 and EUR 330 to this deferred contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2006, 2005 and 2004, respectively.

Upon retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime and bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly installments over a period not exceeding ten months. In case of death, the heirs of an eligible employee will receive 50% of the severance benefits.

The following tables provide the components of the net periodic benefit cost and a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Service cost	5,215	4,914	2,853
Interest cost	2,513	2,140	1,467
Amortization of actuarial (gains) losses	411	(176)	(254)
Net periodic benefit cost	**8,139**	**6,878**	**4,066**

	2006	2005
Defined benefit obligation at the beginning of the year	58,930	40,810
Change in reporting entities	(31)	306
Service cost	5,215	4,914
Interest cost	2,513	2,140
Benefits paid	(3,118)	(2,934)
Actuarial losses (gains)	(3,829)	13,694
Defined benefit obligation at the end of the year	**59,680**	**58,930**
Unrecognized actuarial loss	(8,046)	(12,286)
Accrued liability at the end of the year	**51,634**	**46,644**
Voluntary severance obligation	262	4,902
Total accrued severance liabilities at the end of the year	**51,896**	**51,546**
Less short-term portion (see note (16))	(2,461)	(7,195)
Accrued severance liability at the end of the year, long-term	**49,435**	**44,351**

Of the defined benefit obligations for severance, approximately 2% related to foreign subsidiaries as of December 31, 2006.

The benefits expected to be paid over the next 10 years are shown in the following table:

2007	2,461
2008	1,957
2009	2,736
2010	2,666
2011	3,622
2012-2016	16,150

(all amounts in EUR '000s)

The liability for voluntary severance payments relates to individuals who are generally not entitled to severance payments, but have accepted a special offer by the Company to receive severance payments for voluntary termination of employment. The government offered to civil servants at a certain age early retirement at reduced future pension payments. The Company offered these eligible employees additional severance payments to further encourage the acceptance of the government offer. As of December 31, 2006, the Company had a remaining obligation of EUR 262, which was reported in short-term accruals and provisions.

Pensions

Defined contribution pension plans

Pension benefits are generally provided by social security for employees and by the government for civil servants in Austria. The Company is required to assist in funding the Austrian government's pension and health care obligations to the Company's current and former civil servants and their surviving dependents. The Company is legally obligated to make annual contributions to the Austrian government for active civil servants. In 2006, the rate of contribution amounted to a maximum of 28.3% depending on the age of the civil servants. 15.75% was borne by the Company and the remaining portion was contributed through withholdings by the civil servants. Contributions to the government, net of the share contributed by civil servants, were EUR 39,861, EUR 41,237 and EUR 46,854 in 2006, 2005 and 2004, respectively.

The Company sponsors a defined contribution plan covering substantially all employees of Telekom Austria and its Austrian subsidiaries. The Company's contributions to this plan are based on a percentage of the compensation not exceeding 5% of the salaries. The annual cost of this plan amounted to approximately EUR 11,057, EUR 9,339 and EUR 9,154 in 2006, 2005 and 2004, respectively.

Defined benefit pension plan

The Company provides defined benefits for certain former employees. All such employees are retired and were employed in Austria prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement including the pension provided by social security.

The Company uses the projected unit credit method to determine pension cost for financial reporting purposes. In conjunction with this method, the Company amortizes actuarial gains and losses using the corridor method.

The pension benefits for 2006, 2005 and 2004 are shown in the following table:

	2006	2005	2004
Interest cost	261	334	363
Amortization of actuarial gain	(14)	(15)	-
Net periodic pension benefit cost	**247**	**319**	**363**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2006 and 2005:

	2006	2005
Defined benefit obligation at the beginning of the year	6,397	6,650
Interest cost	261	334
Benefits paid	(847)	(691)
Past service cost	2,329	-
Actuarial net gain	(100)	(104)
Defined benefit obligation at the end of the year	**8,040**	**6,397**
Unrecognized net gain	822	736
Accrued pension liability at the end of the year	**8,862**	**7,133**
Less short-term portion (see note (16))	(819)	(671)
Accrued pension liability at the end of the year, long-term	**8,043**	**6,462**

(all amounts in EUR '000s)

The past service cost relates to an increase in pension payments for prior periods due to an unfavorable change in estimate, which could not be deferred to future periods.

The benefits expected to be paid over the next 10 years are shown in the following table:

2007	819
2008	783
2009	746
2010	708
2011	669
2012-2016	2,809

(22) STOCK-BASED COMPENSATION

In 2000, the Company launched a stock option plan (Stock Option Plan 2000), under which all exercisable options were exercised in the year ended December 31, 2004. In 2004, the Company launched a succeeding stock option plan with modified conditions. The new stock option plan (Stock Option Plan 2004) consists of three tranches. In each of the years between 2004 and 2006, one tranche was granted. The Company reported an overall compensation expense of EUR 13,015, EUR 20,864 and EUR 13,257 in 2006, 2005 and 2004, respectively.

The Company elected not to apply IFRS 2, "Share-based Payments" to equity instruments that were granted on or before November 7, 2002 and vested before the later of the date of transition and January 1, 2005.

Stock Option Plan 2000 (2000 plan)

On October 4, 2000, the shareholders of Telekom Austria approved a stock option plan for employees of the Company, which expired on February 27, 2004. Under this plan, the Company granted a total of 4,686,881 options, each of which entitled eligible grantees upon exercise of the option to receive at their choice either cash or shares equal to the difference between the average quoted price of Telekom Austria stock during the five trading days preceding the exercise and the IPO price of Euro 9. The options granted were exercisable on specific dates between May 31, 2002 and February 27, 2004, as long as the average share price during the five days prior to exercise exceeded the initial public offering price of Euro 9 by 30% or more. As of February 27, 2004, the average share price had exceeded the Initial Public Offering price by more than 30% for five consecutive days. Therefore, 3,230,718 options became exercisable and a compensation expense of EUR 8,736, excluding related payroll taxes and social contributions, was recorded in the year ended December 31, 2004.

The following table shows stock option activity under the 2000 Plan for the year ended December 31, 2004:

	2004
Outstanding as of January 1	3,268,850
Forfeited	(38,132)
Exercised	(3,230,718)
Outstanding as of December 31	-

The weighted average share price at the date of exercise was Euro 11.65 per share. The total intrinsic value of options exercised amounted to EUR 8,736 during 2004.

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Stock Option Plan 2004 (2004 plan)

Based on an authorization of the Annual General Meeting, the Supervisory Board of Telekom Austria approved the 2004 plan for members of the Management Board and senior members of management on April 16, 2004. Under this plan, the Company may grant a total of 10,000,000 options in three tranches between April 2004 and April 2006. Each tranche has to be approved separately by the Supervisory Board and has a vesting period of twelve months or longer and an exercise period of approximately three years. To be eligible to exercise options, plan members must hold a continuous investment in Telekom Austria shares until the options are exercised. In addition, in order for the stock options to vest, certain performance conditions must be achieved by the Company based on basic earnings per share adjusted for certain effects ("the hurdle"). The hurdle will be determined annually for each subsequent tranche of options and must be approved by the Supervisory Board. Each option entitles the holder to receive, at the Company's discretion, either shares at the exercise price or cash equal to the difference between the quoted market price of the Company's shares on the date of the option's exercise and the exercise price. The exercise price is defined as the average quoted closing price of Telekom Austria's stock during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. If one year's hurdle is not met, options will accumulate until the hurdle of the next tranche is achieved provided that it is set higher than the original hurdle. In this case the vesting period is adjusted until the next tranche becomes exercisable.

On April 19, 2004, the first tranche (ESOP 2004+) of 2,539,480 options was offered to the eligible employees. The exercise price of the first tranche is Euro 11.92 and for every 15 options awarded an eligible employee must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 2,392,925 options were granted to the eligible employees, of which 384,000 options were granted to the members of the Management Board. The first tranche had a vesting period of twelve months from the grant day and an exercise period of three years after becoming exercisable. The fair value of the options as of the grant date amounted to EUR 6,340 and the Company recognized a compensation expense from the first tranche amounting to EUR 1,128, EUR 7,837 and EUR 4,521, excluding related payroll taxes and social contributions, for the years ended December 31, 2006, 2005 and 2004, respectively. The fair value calculation was based on an expected forfeiture rate of 2.95% per year. The performance condition set for the first tranche was met as of December 31, 2004.

On January 19, 2005, the second tranche (ESOP 2005+) of 3,398,800 options was offered to the employees. The exercise price of the second tranche is Euro 13.98 and for every 20 (15) options awarded an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 2,874,100 options were granted to the eligible employees, of which 396,400 options were granted to the members of the Management Board. The second tranche had a vesting period of twelve months from the grant day and an exercise period of three years after becoming exercisable. The fair value of the options as of the grant date amounted to EUR 8,455 and the Company recognized a compensation expense from the second tranche amounting to EUR 4,095 and EUR 13,027 for the years ended December 31, 2006 and 2005. The performance condition set for the second tranche was met as of December 31, 2005.

On January 12, 2006, the third tranche (ESOP 2006+) of 4,232,992 options was offered to the eligible employees under the Stock Option Plan 2004 based on the relevant approval by the Supervisory Board. The exercise price was set at Euro 18.91. For every 28 (24) options awarded an eligible employee (Member of Management Board) must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 3,908,468 options were granted to the eligible employees, of which 360,000 options were granted to the members of the Management Board. The options have a vesting period of about twelve months from the grant date and an exercise period of three years after becoming exercisable. The fair value of the options as of grant date amounted to EUR 15,868 and the Company recognized compensation expense from the third tranche amounting to EUR 7,793 for the year ended December 31, 2006. The performance condition set for the third tranche was met as of December 31, 2006.

The compensation expense is measured based on the fair value of the options at each reporting date and recognized over the service period on a straight-line basis. The fair value estimation is based on the binomial option pricing model applying the following parameters:

	Stock option plans		
	2006	2005	2004
Expected average dividend per share	Euro 0.76 – 0.88	Euro 0.60 – 0.66	Euro 0.13 – 0.39
Expected volatility	23.0%	22.5%	25%
Risk-free interest rate range	3.690% – 4.134%	2.390% – 3.450%	2.053% – 4.280%
Fair value per option – first tranche	Euro 8.59	Euro 7.27	Euro 2.73
Fair value per option – second tranche	Euro 6.71	Euro 5.65	–
Fair value per option – third tranche	Euro 2.59	–	–

The first exercise dats and expected expiry dates of the options granted are as follows:

	Third tranche 2006	Second tranche 2005	First tranche 2004
First exercise date	March 8, 2007	March 16, 2006	April 20, 2005
Expected expiry date	March 31, 2010	May 29, 2009	May 30, 2008

The expected volatility used in the option pricing model is based upon the development of historical volatility for various observation periods and other indicators such as OTC ("over-the-counter") or implied volatility. The share prices as of December 31, 2006, 2005 and 2004 of Euro 20.30, Euro 19.00 and Euro 13.95, respectively, were used in the calculation. The Company's valuation model is not based upon an expected term of the option, but rather considers the exercise pattern of employees as a function of the intrinsic value of the options. The Company updates the estimates used in the valuation model annually by incorporating the most recent data about the actual distribution of exercises and forfeitures over the service and exercise period.

The following tables show the stock option activity and weighted-average exercise price under the 2004 plan:

Number of Options	**2006**	**2005**	**2004**
Outstanding as of January 1	3,482,480	2,363,925	–
Granted	3,908,468	2,874,100	2,392,925
Forfeited	(411,625)	(92,195)	(29,000)
Exercised	(2,554,630)	(1,663,350)	–
Outstanding as of December 31	**4,424,693**	**3,482,480**	**2,363,925**
of which exercisable as of December 31	854,345	662,680	–

Weighted-average exercise price	**2006**	**2005**	**2004**
Outstanding as of January 1	13.59	11.92	–
Granted	18.91	13.98	11.92
Forfeited	18.02	13.13	11.92
Exercised	13.55	11.92	–
Outstanding as of December 31	**17.90**	**13.59**	**11.92**
of which exercisable as of December 31	13.66	11.92	–

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Weighted-average exercise price, remaining contractual term and total intrinsic value for outstanding and exercisable options developed as follows:

	At December 31, 2006	2005	2004
Outstanding Options			
Weighted average exercise price	17.90	13.59	11.92
Weighted average remaining contractual term (in years)	3.1	3.2	3.4
Total intrinsic value (in 000 EUR)	10,637	18,847	4,799

	At December 31, 2006	2005
Exercisable Options		
Weighted average exercise price	13.66	11.92
Weighted average remaining contractual term (in years)	2.3	2.4
Total intrinsic value (in 000 EUR)	5,675	4,692

The weighted average share price at the exercise date was Euro 19.31 in 2006 and Euro 16.65 in 2005. The total intrinsic value of options exercised amounted to EUR 14,692 and EUR 7,629 during 2006 and 2005, respectively.

The options under the third tranche of Stock Options 2004 will be exercisable on March 8, 2006. A total compensation cost of EUR 1,455 was not yet recognized as of December 31, 2006 for the remaining vesting period.

In March 2005, the Company decided to settle the options of the first tranche in cash only. As a result, amounts originally recorded in additional paid-in capital were reclassified to liabilities.

As the performance condition of the second tranche was achieved with the publication of the financial results for 2005 in accordance with US-GAAP on March 14, 2006, the options of the second tranche have become exercisable. The Management Board decided to settle the second tranche of the 2004 program in cash.

Due to its past experience of cash settlement, the Company also assumes cash settlement of the third tranche and records a liability in accordance with IFRS 2.41.

Employee Participation Program

The Employee Participation Program ("EPP") is a voluntary benefit and does not require the employee to complete a specific period of service or to achieve performance conditions in the future or to render service during a vesting period.

In December 2006, Telekom Austria introduced the EPP based on the authorization of the annual general meeting held on May 23, 2006. The EPP was granted to active employees in Austria who were not eligible to participate in the stock option programs. On December 12, 2006, the Supervisory Board authorized the first tranche of 500,503 shares corresponding to 0.1% of shares issued. Shares in the amount of Euro 900 per full time employee were offered to 11,383 employees (part time and full time employees) in Austria. The fair value of the shares granted is measured at the grant date – the date of authorization by the Supervisory Board – and was immediately expensed. A compensation expense of EUR 10,065 was recorded in 2006 based on a price per share of Euro 20.11. Telekom Austria used treasury shares to serve this program leading to a corresponding increase in shares outstanding and an increase in equity.

For subsequent tranches until 2010, subject to the approval of the Supervisory Board, it is intended to allocate shares worth Euro 600 per employee and year.

(all amounts in EUR '000s)

American call option

On November 21, 2000, Telekom Austria purchased 3,832,248 American call options for a premium of EUR 12,527. The expiration date was February 27, 2004. The underlying share of the American call option was the share of Telekom Austria AG. The American call option was used to satisfy any obligation resulting from the Stock Option Plan 2000. On February 27, 2004, the Company exercised 3,326,881 call options. The total acquisition cost of the treasury shares amounted to EUR 38,664.

(23) INCOME TAXES

Income before income taxes is attributable to the following geographic locations:

Year ended December 31,	2006	2005	2004
Domestic	362,787	344,086	286,683
Foreign	295,114	169,118	69,223
Total	**657,901**	**513,204**	**355,906**

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2006, 2005 and 2004 consist of the following:

	2006	2005	2004
Current			
Domestic	53,168	18,523	22,266
Foreign	34,523	23,308	14,800
	87,691	**41,831**	**37,066**
Deferred			
Domestic	28,754	54,166	97,497
Foreign	(20,384)	8,274	905
	8,370	**62,440**	**98,402**
Total	**96,061**	**104,271**	**135,468**

The allocation between current and deferred income taxes in the amount of EUR 2,561 was adjusted for 2005 due to the finalization of the purchase price allocation of Mobiltel (see note (2))

The table below provides information about total income tax allocation in the financial statements:

	2006	2005	2004
Continuing operations	96,061	104,271	135,468
Unrealized gains on securities (charged to equity)	(3)	197	(779)
Unrealized gain on hedging activities (charged to equity)	-	1,058	2,623
Unrealized gain on translation adjustments (charged to equity)	(6)	308	-
Total	**96,052**	**105,834**	**137,312**

(all amounts in EUR '000s)

The following table shows the principal components for the difference between the reported income tax expense and the amount of income tax expense that would result from applying the Austrian statutory income tax rate to income before income taxes of 25%, 25% and 34% in 2006, 2005 and 2004, respectively:

	2006	2005	2004
Income tax expense at statutory rate	164,475	128,301	121,008
Foreign tax rate differential	(23,698)	(18,897)	(10,018)
Non-deductible expenses	2,808	3,524	2,879
Tax incentives	(2,515)	(1,923)	(3,450)
Tax-free income from investments	(190)	(134)	(185)
Change in tax rate	(18,684)	47	41,884
Impairment charges	-	4,079	-
Taxes previous years	(344)	3,048	(579)
Deferred tax assets recognized or (subsequently) not recognized	(16,405)	(14,125)	(14,863)
Release of accrual for tax uncertainties	(8,690)	-	-
Other	(696)	351	(1,208)
Income tax expense	**96,061**	**104,271**	**135,468**
Effective income tax rate	14.6%	20.3%	38.1%

Non-deductible expenses mainly consist of interest expenses on shareholder loans and representation expenses. Tax incentives principally consist of research and education incentives and other government grants.

In October 2006, the national assembly of the republic of Bulgaria enacted a tax reform, which will become effective as of January 1, 2007. The reform reduces the corporate income tax rate from 15% to 10%, which results in an overall tax benefit of EUR 21,240 from the revaluation of the estimated deferred tax assets and liabilities in 2006. Additionally, in accordance with the tax reform goodwill, amortization will no longer be deductible for tax purposes starting January 1, 2007 which will result in higher future tax payments.

On November 2, 2006, the Slovenian parliament passed an act reducing gradually the corporate income tax rate from 25% to 23% in 2007, to 22% in 2008, to 21% in 2009 and to 20% in 2010 and allowing indefinite carry forward of tax losses. The effective tax rate is expected to decrease accordingly. The change in the corporate income tax rate resulted in an overall tax expense of EUR 2,556.

The effect of change in tax rate in 2005 is due to a revaluation of the tax assets of COL following a reduction of the corporate tax rate from 26% to 24 %, for 2006 and the following periods.

On May 6, 2004 the Austrian National Council passed a tax reform, which became effective as of January 1, 2005. Among other regulations, the reform reduced the corporate tax rate from 34% to 25%, which resulted in an overall tax expense of EUR 41,884 from the revaluation of the deferred tax assets and liabilities as of December 31, 2004.

In 2006, deferred tax assets totaling EUR 16,405 were recognized which were previously not recognized. This benefit resulted mainly from the recognition of a deferred tax asset in the amount of EUR 16,260 (before the effect of the change in tax rate) due to further changes in Slovenian tax law and improved business prospects for Si.mobil.

In 2005, deferred tax assets totaling EUR 14,125 were recorded which were previously not recognized. This benefit resulted from the recognition of a deferred tax asset in the amount of EUR 17,190 (i) due to changes in Slovenian tax law resulting in an increase of the expiration period for tax loss carry-forwards and (ii) due to changed circumstances leading to a change in judgment regarding the utilization of the current loss of 3G Mobile. However, this effect was partially offset by not recognizing deferred tax assets on current losses of EUR 3,715.

(all amounts in EUR '000s)

In 2004, deferred tax assets totaling EUR 2,594 were not recognized. This expense was more than offset by the recognition of deferred tax assets of EUR 17,457 not recorded in prior periods. The net increase in deferred tax assets of EUR 14,863 resulted from a change in management estimate caused by changed circumstances regarding the realizability of the related deferred tax asset in future years.

In 2003, the Company recognized an intra-group loss on the sale of 100% of the shares of one of its subsidiaries. Effective January 1, 2004, the corporate income tax law in Austria has been changed to allow companies an election such that all capital gains/losses arising from future transactions in the shares (sales) of a foreign subsidiary will not be taxable for income tax purposes. Due to the uncertainty related to the Company's tax position in prior years, an income tax liability was recorded and the recognition of the tax benefit was deferred in the consolidated financial statements until such uncertainties become resolved. Based on the election discussed above which had been filed in 2006 and upon resolution of any tax uncertainties on completion of a tax audit, the related accrual for uncertainties of EUR 8,690 was realized in income.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are shown below.

	2006	**2005**
Deferred tax assets		
Goodwill	48,449	60,645
Intangible assets	438	1,246
Deferred deduction for write-downs of investments in subsidiaries	14,728	26,142
Operating loss carry-forwards	19,642	16,810
Accounts receivable	4,030	7,088
Deferred credits and other liabilities	6,932	4,197
Other current assets and prepaid expenses	1,001	774
Provisions long-term	16,889	20,306
Employee benefit obligations	7,704	7,188
Property, plant and equipment	20,811	10,037
Other	1,770	4,560
Total deferred tax assets	**142,394**	**158,993**
Deferred tax liabilities		
Goodwill	(9,688)	(2,076)
Property, plant and equipment	(8,706)	(13,589)
Other intangible assets	(108,704)	(122,718)
Accrued liabilities	(1,118)	(375)
Other	(5,053)	(2,764)
Total deferred tax liabilities	**(133,269)**	**(141,522)**
Net deferred tax asset	**9,125**	**17,471**
Thereof deferred tax assets	53,373	68,325
Thereof deferred tax liabilities	(44,248)	(50,854)

In accordance with IFRS 3, the Company has finalized its provisional initial accounting of the acquisitions of Mobiltel in the third quarter 2006 and adjusted 2005 comparative amounts for EUR 32,943 (see note (2)).

As of December 31, 2006 and 2005, the Company did not recognize deferred tax assets of EUR 20,426 and EUR 39,556 respectively. The unrecognized amount relates mainly to net operating loss carry-forwards.

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In assessing the recoverability of deferred tax assets, management considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable that the Company will realize the benefits of the recognized deductible differences and operating loss carry-forwards.

At December 31, 2006, the Company had approximately EUR 171,334 of operating loss carry-forwards. Thereof, EUR 102,063 relate to foreign subsidiaries. Of these loss carry-forwards relating to foreign subsidiaries, EUR 15,388 have expiration dates as follows:

Years	Amount
2007	-
2008	15
2009	689
2010	40
2011	13,448
2012	1,196
Total	**15,388**

The remaining amount of operating loss carry-forwards without any expiration dates related mainly to companies located in Austria and Slovenia. In Austria, the annual usage is limited to 75% of the taxable income for that year.

In 2006, Telekom Austria did not recognize a deferred tax liability in the amount of EUR 220 for temporary differences related to investments in associates.

(24) FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company to manage its exposure to adverse fluctuations in interest and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, approval, reporting and monitoring of derivative financial instrument activities. The Company is not a party to leveraged derivatives and the policies prohibit the holding or issuing of financial instruments for speculative purposes.

The Company uses various types of financial instruments including derivative financial instruments in the normal course of business for purposes other than trading.

By their nature, all such instruments involve risk, including market risk and credit risk of nonperformance by counterparties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, as of December 31, 2006, and 2005, in the management's opinion the probability of nonperformance of the counterparties in these financial instruments was remote.

Credit risk

The Company monitors its exposure to credit risk. The Company does not have any significant exposure to any individual customer or counterparty, nor does it have any major concentration of credit risk related to any financial instrument other than noted under section concentration of credit risk in significant accounting policies.

The Company does not require collateral in respect to financial assets. In order to reduce the risk of nonperformance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

(all amounts in EUR '000s)

Market risk

The market risk is monitored by using value-at-risk models for interest rate as well as currency risk for the long-term debt and derivative portfolios.

The following table presents the exposure of financial instruments to interest rate risk and provides information regarding maturity dates and carrying values:

Assets subject to interest rate risk at December 31, 2006
Maturities, year ended December 31,

	2007	2008	2009	2010	2011	2012 and thereafter	Total	Fair Value
ASSETS								
Cash and cash equivalents								
Fixed rate	125,147	-	-	-	-	-	125,147	125,147
Average interest rate (%)	3.72%	-	-	-	-	-	3.72%	-
Marketable securities								
Securities available-for-sale	23,135	-	-	-	-	-	23,135	23,135

Liabilities and related derivative instruments subject to interest rate risk at December 31, 2006
Maturities, year ended December 31,

	2007	2008	2009	2010	2011	2012 and thereafter	Total	Fair Value
LIABILITIES								
Bank Overdrafts								
Fixed Rate	16,839	-	-	-	-	-	16,839	16,839
Average interest rate (%)	3.42%	-	-	-	-	-	3.42%	
Short-term borrowings								
Fixed Rate	242,560	-	-	-	-	-	242,560	242,560
Average interest rate (%)	3.69%	-	-	-	-	-	3.69%	
Asset backed security loan (ABS)	150,541	-	-	-	-	-	150,541	150,541
Bonds								
Fixed rate*)	41,590	(1,280)	(1,280)	482,215	(1,280)	1,244,340	1,764,306	1,832,099
Average interest rate (%)	4.32%	-	-	3.38%	-	4.70%	4.34%	
Loans								
Fixed rate	7,458	186,042	236,939	-	210,000	-	640,439	572,646
Average interest rate (%)	7.00%	5.33%	4.75%	-	2.40%	-	4.17%	
Variable rate	93,677	141,234	243,756	4,724	4,724	-	488,115	488,115
Average interest rate (%)	3.63%	5.00%	4.07%	4.26%	4.26%	-	4.26%	
INTEREST RATE SWAP AGREEMENTS								
Fixed to variable swaps in EUR								
Fixed to variable	-	-	-	500,000	-	300,000	800,000	14,133
Average pay rate (%)	-	-	-	3.19%	-	3.78%	3.41%	
Average receive rate (%)	-	-	-	3.38%	-	5.00%	3.98%	

*) The negative amounts shown in the line bonds fixed rate relate to the amortization of discounts from the issuance of the bonds.

(all amounts in EUR '000s)

The modified duration (sensitivity) was 2.64% in 2006 and 2.82% in 2005. The sensitivity is based on the assumption of a one percentage point change in market interest rates occurring at the balance sheet date.

Information with respect to cash flow hedges

Changes in the fair value of interest rate swaps designated as hedging instruments for the variability of cash flows associated with variable rate long-term debt are reported in other changes in equity. These amounts are subsequently classified into financial income as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affect earnings. All cash flow hedges were recognized in 2005 and no hedge ineffectiveness occurred in all periods presented.

Interest rate swap agreements

The Company entered into interest rate swaps to reduce the aggregate exposure to changes in floating interest rates and fair market value fluctuations of the debt portfolio. Fixed interest rate payments as of December 31, 2006, ranged from 3.38% to 5.00%. Floating-rate payments are based on rates tied to different inter-bank offered rates.

In line with its risk policy, the Company entered into fixed to floating interest rate swaps in 2005. The interest rate swap hedges the risk of fluctuation of the fair value of the underlying due to interest rate changes. The floating rate is based on EURIBOR and enables the Company to participate in the currently low level of short-term interest rates.

The following table indicates the types of swaps in use at December 31, 2006 and 2005, and their weighted-average interest rates and the weighted-average remaining terms of the interest rate swap contracts. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts:

	2006	2005
Fixed to variable swaps in EUR (fair value hedge)		
Notional amount in EUR	800,000	800,000
Average receive rate	3.98%	3.98%
Average pay rate	3.41%	2.62%
Average maturity in years	4.44	5.38

The interest rate swap transactions resulted in a decrease of interest rates by 4.9% and 12% in 2006 and 2005 for hedged transactions.

Foreign exchange agreements

The following table indicates the types of foreign exchange agreements in use at December 31, 2006 and 2005, and, if applicable, their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

	2006	2005
Forward exchange contracts – USD		
Notional amount in EUR	5,984	2,794
Notional amount in USD	7,640	3,300
Forward exchange rate (weighted)	1.27	1.18
Exchange rate as of the balance sheet date	1.31	1.18
Longest term of the contracts	January 2007	February 2006

The notional amounts of the derivative instruments above do not represent amounts exchanged by the parties and, therefore, are not a measure of the Company's exposure. The Company's exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

(all amounts in EUR '000s)

The following table summarizes the fair values of financial instruments:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial instruments				
Cash and cash equivalents	125,147	125,147	116,756	116,756
Accounts receivable - trade	712,434	712,434	714,281	714,281
Balances due from related parties	3,291	3,291	23	23
Accounts payable - trade	(508,357)	(508,357)	(544,233)	(544,233)
Payables to related parties	(11,830)	(11,830)	(11,254)	(11,254)
Securities held-to-maturity	-	-	6,091	6,091
Securities available-for-sale	23,135	23,135	16,448	16,448
Long-term debt	(2,750,135)	(2.836,638)	(2,557,703)	(2,786,345)
Derivative financial instruments				
Interest rate swap agreements (fair value hedge)	(14,133)	(14,133)	(5,311)	(5,311)
Foreign currency forward contracts	(190)	(190)	-	-

(25) SHAREHOLDERS' EQUITY

Share Capital

At the Annual General Meeting on June 3, 2004 the Management Board was authorized to issue convertible bonds, which grant the holders subscription and/or conversion rights of up to 90,000,000 shares. The authorization was given for a period of 5 years from the day of authorization, ending in 2009.

In addition, the Management Board was authorized to increase the share capital by up to EUR 109,050 by issuing 50,000,000 ordinary shares to holders of convertible bonds to the extent that they exercise their subscription and/or conversion rights.

At the Annual General Meeting on June 4, 2003, the Management Board was authorized to increase the share capital by up to EUR 21,810 in order to provide employee stock options for a period of five years, ending 2008. Based on this authorization and following the relevant approvals by the Supervisory Board, the Management Board decided to increase conditionally the share capital by up to EUR 9,487 (3,600,000 shares), EUR 7,415 (3,400,000 shares) and EUR 6,543 (3,000,000 shares) in order to settle options granted under the Stock Option Plan 2004 on December 6, 2005, December 13, 2004 and March 23, 2004, respectively (see note (22)).

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2006, 2005 and 2004 are presented below:

	2006	2005	2004
Shares (zero par value) authorized	560,000,000	560,000,000	510,000,000
Shares (zero par value) issued	500,000,000	500,000,000	500,000,000
Shares (zero par value) in treasury	(38,307,473)	(17,497,106)	(6,255,694)
Shares (zero par value) outstanding	461,692,527	482,502,894	493,774,306

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Dividend Payment

On May 23, 2006 the shareholders approved at the Annual General Meeting a dividend distribution of Euro 0.55 per zero par value share. The overall payment on May 30, 2006 amounted to EUR 261,201. On May 25, 2005 a dividend distribution of Euro 0.24 was approved by the shareholders and the overall dividend payment of EUR 117,867 was distributed on June 6, 2005. On June 3, 2004 a dividend distribution of Euro 0.13 was approved by the shareholders and the overall dividend payment of EUR 64,578 was distributed on June 15, 2004.

The net income of Telekom Austria AG according to Austrian GAAP amounts to EUR 956,187, EUR 301,778 and EUR 412,683 in the years 2006, 2005 and 2004, respectively. According to Article 126 of the Stock Corporation Act, the Supervisory Board and the Management Board decided to transfer an amount of EUR 572,666, EUR 50,000 and EUR 271,931 from Telekom Austria AG 2006, 2005 and 2004 net income of EUR 956,187, EUR 301,778 and EUR 412,683 to retained earnings, resulting in unappropriated profits of EUR 402,115, EUR 279,794 and EUR 145,882 in the years 2006, 2005 and 2004, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting on May 30, 2007 to distribute from unappropriated earnings a dividend of Euro 0.75 per share.

Treasury shares

At the Annual General Meeting held on May 23, 2006, the authorization of the Management Board to acquire treasury shares was extended to the maximum extent legally permitted. During a period of 18 months, the Company may acquire treasury shares at a minimum price of Euro 10 and at a maximum price of Euro 25 per share, ending November 2007. The Management Board was empowered (i) to use this treasury stock to satisfy obligations under the stock option programs described in note (22), (ii) to use it to satisfy obligations resulting from the issue of convertible bonds, (iii) to use it as consideration for acquisitions (iv) to retire up to a maximum of 10% of common stock (EUR 109,050) or (v) to sell it in the stock exchange or in a public offering.

On February 27, 2004, the Company exercised its 3,326,881 American call options on treasury shares which were acquired during the Initial Public Offering in November 2000 to limit the Company's exposure under the Stock Option Plan 2000 that expired on February 27, 2004. The strike price of each call option was Euro 9. This resulted in total acquisition cost of treasury shares of 38,758 including the fair value of the American call options as of the exercise date, which represent ancillary cost. Following the exercise of the American call option, the Company held 3,326,881 shares in treasury, 0.67% of its share capital and available for issuance to employees under the Stock Option Plan 2000, of which 3,230,718 had been awarded and were exercisable by employees. During the year ended December 31, 2004, 89,748 options were exercised by employees at the exercise price of Euro 9. The remaining option holders elected to receive cash for the difference between the exercise price and the average quoted price of Telekom Austria stock.

Furthermore, the Company acquired 21,310,870, 11,241,412 and 3,018,561 shares of treasury stock at an average purchase price of Euro 19.09, Euro 16.41 and Euro 11.34 in the years ended December 31, 2006, 2005 and 2004, respectively.

In 2006, Telekom Austria used 500,503 treasury shares in the amount of EUR 8,553 under its Employee Participation Program (see note (22)).

As of December 31, 2006 and 2005, the Company held 38,307,473 and 17,497,106 shares in treasury at an average purchase price of Euro 17.09 and Euro 14.65 per share reported as a reduction to shareholders' equity in the amount of EUR 654,597 and EUR 256,396, respectively.

Earnings per share

Basic earnings per share and diluted earnings per share for the years ended December 31, 2006, 2005 and 2004 are calculated as follows:

	2006	2005	2004
Net income attributable to shareholders of Telekom Austria AG	561,816	408,931	219,835
Weighted average number of common shares outstanding	472,668,763	489,050,517	496,495,378
Dilutive effect of Stock Option Plan 2004	-	-	29,449
Dilutive effect of Stock Option Plan 2000	-	-	101,793
Weighted average number of dilutive shares outstanding	**472,668,763**	**489,050,517**	**496,626,620**
Basic earnings per share	Euro 1.19	Euro 0.84	Euro 0.44
Diluted earnings per share	Euro 1.19	Euro 0.84	Euro 0.44

On April 19, 2004 the first tranche of 2,392,925 options was granted to the eligible employees of Stock Option Plan 2004 as described in note (22). The dilutive effect of this transaction had no impact on earnings per share, which are reported on the face of the Consolidated Statements of Operations. In March 2005, the Company announced its intention to settle the first tranche of the Stock Option Plan 2004 in cash. In March 2006, the Company decided to settle the second tranche of the 2004 program in cash as well. Due to its past experience of cash settlement the Company also assumes cash settlement of the third tranche which therefore have no dilutive effect.

In 2004, 101,793 of outstanding dilutive employee share options issued under the Stock Option Plan 2000 were originally excluded from the calculation of diluted EPS. The inclusion of these options in the calculation of diluted earnings per share would not have had an effect on reported diluted EPS. The comparative information for 2004 was adjusted accordingly. For further details about the Stock Option Plan 2000 and the American call options see note (22).

Shares held by members of the Management Board

The members of the Management Board hold shares in the Company as follows:

	Number of shares	
	January 1, 2006	**December 31, 2006**
Heinz Sundt	13,011	-
Boris Nemsic	13,110	13,110
Stefano Colombo	13,012	13,012
Rudolf Fischer	13,007	13,007

Mr. Heinz Sundt, who resigned as Chief Executive Officer as of May 23, 2006, held 13,011 shares. For more information about the changes in the Company's Management Board, see note (32).

Accounting for derivative and hedging activities

For derivatives designed either as fair value or cash flow hedges, changes in the time value of the derivatives are excluded from the assessment of hedge effectiveness and are recorded in earnings. Hedge ineffectiveness, determined in accordance with IAS 39, had no impact on the Company's earnings for the years ended December 31, 2006, 2005 and 2004. No fair value hedges were derecognized or discontinued during the years ended December 31, 2006, 2005 and 2004. All cash flow hedges were recognized in 2005.

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Revaluation reserves and currency translation adjustment

Revaluation reserves and currency translation adjustment consist of the following items:

	Unrealized gain (loss) on securities	Unrealized gain (loss) on hedging activities	Foreign currency translation	Total
Balance at January 1, 2004	1,365	(7,147)	(10,679)	(16,461)
Change of tax rate	(25)	(406)	-	(431)
Changes, net of income tax	1,096	4,032	(3,696)	1,432
Realized, net of income tax	(2,655)	268	-	(2,387)
Balance at December 31, 2004	**(219)**	**(3,253)**	**(14,375)**	**(17,847)**
Changes, net of income tax	602	-	14,386	14,988
Realized, net of income tax	(8)	3,253	-	3,245
Balance at December 31, 2005	**375**	**-**	**11**	**386**
Changes, net of income tax	15	-	800	815
Realized, net of income tax	(15)	-	-	(15)
Balance at December 31, 2006	**375**	**-**	**811**	**1,186**

(26) REVENUES

Year ended December 31,	2006	2005	2004
Revenues from services	4,436,849	4,081,131	3,797,491
Revenues from sales of merchandise	322,711	284,116	245,377
Operating revenues	**4,759,560**	**4,365,247**	**4,042,868**

(27) OTHER OPERATING INCOME

Year ended December 31,	2006	2005	2004
Rental revenue	10,104	9,936	10,503
Own work capitalized	28,813	29,857	26,592
Foreign exchange gains	1,004	-	2,397
Other	19,251	15,019	11,004
Other operating income	**59,172**	**54,812**	**50,496**

Own work capitalized represents the value of work performed for own purposes consisting mainly of employee costs, material expenses and direct overhead capitalized as part of property, plant and equipment and software. Foreign exchange gains and losses are netted and are reported as other operating income or other operating expenses depending if a net gain or a net loss is reported:

Year ended December 31,	2006	2005	2004
Foreign exchange gains	4,463	783	10,482
Foreign exchange (losses)	(3,459)	(1,282)	(8,085)
Net foreign exchange gains (losses)	**1,004**	**(499)**	**2,397**

(all amounts in EUR '000s)

(28) OTHER OPERATING EXPENSES

Year ended December 31,	2006	2005	2004
Interconnection	535,791	489,585	452,171
Repairs	186,522	176,144	177,277
Services received	264,135	238,478	206,446
Advertising and marketing	271,559	229,580	198,138
Other support services	109,132	110,076	109,721
Rental expenses	88,762	83,534	79,206
Commission expenses	67,413	56,409	41,301
Bad debt expenses	34,323	43,393	23,597
Legal and other consulting	37,283	38,862	40,353
Travel expenses	25,633	22,777	22,302
Energy	25,496	23,599	21,824
Training expenses	13,245	12,928	11,657
Other taxes	8,853	6,185	8,023
Net loss from retirement of fixed assets	1,430	7,839	28,795
Foreign exchange losses	-	499	-
Other	88,835	73,021	67,527
Total	**1,758,412**	**1,612,909**	**1,488,338**

(29) COMMITMENTS AND CONTINGENCIES

The following table shows the purchase obligations:

Years	2006	2005
Up to 1 year (short-term)	252,855	503,868
1 to 3 years	34,757	543,708
4 to 5 years	9,550	3,635
After 5 years	24,695	-
Total	**321,857**	**1,051,211**

These obligations include purchase commitments for property, plant and equipment as well as for intangible assets and other non-cancelable contractual commitments such as service agreements and interconnection obligations. Of these purchase obligations, EUR 95,672 and EUR 341,069 relate to property, plant and equipment and intangible assets as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the Company has incurred lease obligations totaling EUR 718,997 and EUR 862,501, respectively, in connection with the cross border lease transactions (note (20)) which were not recorded as a liability in accordance with SIC 27 and the framework. In 2001, two banks issued letters of credit to the trust for the liabilities of the Company resulting from the 1998 and 1999 transactions. As of December 31, 2006 and 2005, these letters of credit totaled EUR 60,885 and EUR 70,774.

In 2006, the Austrian consumer organization brought action against our subsidiary mobilkom austria AG regarding its billing model. Most of mobilkom Austria AG's tariffs of voice services are billed 60/30, which means that every first minute and thereafter every half minute of a phone call is billed regardless of the duration of a call which might be shorter than the billed unit. mobilkom austria AG did not recognize a provision because it is not probable that an outflow of resources will be required to settle the obligation. The maximum potential exposure amounts to EUR 5,646.

130 Telekom Austria 2006 (all amounts in EUR '000s)

In the normal course of business, the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and outcomes are not predictable with certainty. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2006. These matters could affect the operating results or cash flows of any one quarter when resolved in future periods. However, management believes that after final disposition, any monetary liability or financial impact to the Company beyond that provided for at year-end would not be material to its consolidated financial statements.

(30) CASH FLOW STATEMENT

The following is a summary of supplemental cash flow information:

Year ended December 31,	2006	2005	2004
Cash paid for			
Interest	150,366	145,709	161,057
Income taxes	95,960	57,349	23,330
Cash received for			
Interest	4,650	14,148	8,080
Income taxes	157	-	-

Cash and cash equivalents acquired in acquisitions totaled EUR 28,638 in 2005.

(31) SEGMENT REPORTING

The following segment information has been prepared in accordance with IAS 14, "Segment Reporting". The accounting policies of the segments are the same as those described in note (1).

The Company operates in three business segments: wireline, wireless and other activities. These segments are determined based on the nature of services provided and reflect the management structure of the organization. The reporting system reflects the internal financial reporting and the predominant sources of risks and returns in the Company's businesses.

Wireline includes fixed line, data communications and internet services and focuses on wholesale and retail customers. Wholesale customers including telecommunications operators and service providers are offered network-based services, while retail customers, including business and residential end-users are offered voice telephony, data communications, internet and other services.

Wireless, operated by our mobile communications segment, offers a full range of digital mobile communications services to business and residential customers.

Other activities contain the financing and other activities of the Company.

Segment revenue, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Those transfers are eliminated in consolidation.

(all amounts in EUR '000s)

Adjusted EBITDA is defined as net income excluding interest, income tax expense, depreciation and amortization, impairment charges, equity in earnings of affiliates, income/loss from investments and foreign exchange differences. This equals operating income before depreciation, amortization and impairment charges. The Company uses adjusted EBITDA to measure the performance of segments because it is commonly used in the telecommunications industry as a comparative measure of financial performance. In addition, the Company believes it is a widely accepted indicator of its ability to incur and service debt.

	Wireline	Wireless	Other activities	Eliminations	Consolidated
Year ended December 31, 2006					
External revenues	1,948,928	2,810,662	(30)	-	4,759,560
Intersegmental revenues	170,590	91,924	-	(262,514)	-
Total revenues	**2,119,518**	**2,902,586**	**(30)**	**(262,514)**	**4,759,560**
Other operating income	48,034	14,868	-	(3,730)	59,172
Segment expenses	(1,438,152)	(1,742,051)	(456)	268,747	(2,911,912)
Adjusted EBITDA (excl. Impairment charges)	**729,400**	**1,175,403**	**(486)**	**2,503**	**1,906,820**
Impairment charges	(7,938)	(2,542)	-	-	(10,480)
Adjusted EBITDA (incl. Impairment charges)	**721,462**	**1,172,861**	**(486)**	**2,503**	**1,896,340**
Depreciation and amortization	(628,635)	(495,717)	-	421	(1,123,931)
Operating income	**92,827**	**677,144**	**(486)**	**2,924**	**772,409**
Interest income					20,050
Interest expense					(133,498)
Equity in earnings of affiliates					20
Other income					(1,080)
Tax expense					(96,061)
Net income					**561,840**
Segment assets	4,446,606	5,003,399	2,874,172	(4,764,488)	7,559,689
Segment liabilities	(2,704,528)	(2,336,162)	(2,870,029)	3,174,546	(4,736,173)
Capital expenditures	283,937	712,789	-	-	996,726
Other non-cash expenses	25,432	37,786	(14)	-	63,204

(all amounts in EUR ‘000s)

	Wireline	Wireless	Other activities	Eliminations	Consolidated
Year ended December 31, 2005					
External revenues	1,965,366	2,399,834	47	-	4,365,247
Intersegmental revenues	158,518	85,003	-	(243,521)	-
Total revenues	**2,123,884**	**2,484,837**	**47**	**(243,521)**	**4,365,247**
Other operating income	50,699	10,514	-	(6,401)	54,812
Segment expenses	(1,385,206)	(1,527,620)	(148)	251,421	(2,661,553)
Adjusted EBITDA (excl. Impairment charges)	**789,377**	**967,731**	**(101)**	**1,499**	**1,758,506**
Impairment charges	(16,317)	(1,071)	-	-	(17,388)
Adjusted EBITDA (incl. Impairment charges)	**773,060**	**966,660**	**(101)**	**1,499**	**1,741,118**
Depreciation and amortization	(705,010)	(416,850)	-	420	(1,121,440)
Operating income	**68,050**	**549,810**	**(101)**	**1,919**	**619,678**
Interest income					32,663
Interest expense					(144,917)
Equity in earnings of affiliates					570
Other income					5,210
Tax expense					(104,271)
Net income					**408,933**
Segment assets	4,751,075	4,841,827	2,713,676	(4,609,850)	7,696,728
Segment liabilities	(2,694,599)	(2,426,508)	(2,700,869)	3,044,014	(4,777,962)
Capital expenditures	314,145	313,494	-	-	627,639
Other non-cash expenses	36,826	30,831	7	-	67,664
Year ended December 31, 2004					
External revenues	2,004,109	2,038,731	28	-	4,042,868
Intersegmental revenues	166,361	82,661	-	(249,022)	-
Total revenues	**2,170,470**	**2,121,392**	**28**	**(249,022)**	**4,042,868**
Other operating income	43,719	11,734	-	(4,957)	50,496
Segment expenses	(1,395,233)	(1,355,590)	(67)	243,075	(2,507,815)
Adjusted EBITDA (excl. Impairment charges)	**818,956**	**777,536**	**(39)**	**(10,904)**	**1,585,549**
Impairment charges	(1,334)	-	-	-	(1,334)
Adjusted EBITDA (incl. Impairment charges)	**817,622**	**777,536**	**(39)**	**(10,904)**	**1,584,215**
Depreciation and amortization	(757,176)	(357,993)	-	421	(1,114,748)
Operating income	**60,446**	**419,543**	**(39)**	**(10,483)**	**469,467**
Interest income					17,497
Interest expense					(142,109)
Equity in earnings of affiliates					552
Other income					10,499
Tax expense					(135,468)
Net income					**220,438**
Segment assets	4,710,046	3,050,803	1,250,757	(2,330,465)	6,681,141
Segment liabilities	(2,678,892)	(1,440,405)	(1,250,406)	1,487,002	(3,882,701)
Capital expenditures	280,390	267,779	-	-	548,169
Other non-cash expenses	32,417	14,038	8	(9)	46,454

(all amounts in EUR '000s)

The segments are reported on a consolidated basis. Segment assets and segment liabilities do not include income tax assets and income tax liabilities. The elimination and reconciliation column contain the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and intangible assets.

Other non-cash expenses mainly consist of pension expense, compensation expenses for stock option programs, compensation expenses for EPP, accretion expense and additions to provisions for bad debt.

Telekom Austria provides geographical segment reporting as secondary segment information. External revenues are allocated by geographical location of Telekom Austria's customers. Segment assets and capital expenditures are reported by geographical location of assets. The following table presents selected financial information by the main geographical regions:

	Austria	Bulgaria	Croatia	Other countries	Reconciliation & Eliminations	Consolidated
Year ended December 31, 2006						
External revenues	3.243.155	570.473	390.258	555.674	-	4.759.560
Segment assets	6.673.404	1.828.582	475.553	314.735	(1.732.585)	7.559.689
Long lived assets	3.594.950	1.089.435	283.053	103.613	-	5.071.051
Capital expenditures	803.234	100.046	64.595	28.851	-	996.726
Year ended December 31, 2005						
External revenues	3.254.530	259.216	367.048	484.453	-	4.365.247
Segment assets	6.975.187	1.828.554	498.059	310.824	(1.915.896)	7.696.728
Long lived assets	3.713.357	1.135.247	296.358	102.088	-	5.247.050
Capital expenditures	488.066	52.977	71.152	15.444	-	627.639
Year ended December 31, 2004						
External revenues	3.284.832	2.050	329.613	426.373	-	4.042.868
Segment assets	6.388.418	-	385.146	174.843	(267.266)	6.681.141
Long lived assets	4.188.827	-	290.420	110.211	-	4.589.458
Capital expenditures	440.935	-	89.148	18.086	-	548.169

(32) REMUNERATION PAID TO THE MANAGEMENT AND SUPERVISORY BOARD

In 2006, 2005 and 2004, remuneration expenses for members of the Management Board amounted to EUR 1,385, EUR 1,537 and EUR 1,374 and attributable bonuses of EUR 1,619, EUR 1,314 and EUR 750, respectively. Benefits derived from the stock option programs amounted to EUR 3,364, EUR 867 and EUR 1,499 in 2006, 2005 and 2004, respectively. The actual bonuses depend on specific performance goals and are finally determined in the subsequent year. Fees paid to the members of the Supervisory Board totaled EUR 188, EUR 114 and EUR 101 in 2006, 2005 and 2004, respectively.

In January 2006, the Company announced the resignation of Chief Executive Officer (CEO) Mr. Heinz Sundt as of May 23, 2006. On May 24, 2006, Mr. Boris Nemsic became CEO of the Company in addition to his position as CEO of mobilkom austria. Mr. Rudolf Fischer became successor deputy CEO. The Company's Supervisory Board extended their management mandates for five years until April 30, 2011.

On October 23, 2006, Hans Tschuden was appointed by the Supervisory Board as new Chief Financial Officer of Telekom Austria AG for a period of 5 years until March 31, 2012. Mr. Tschuden will succeed Stefano Colombo and will commence on April 1, 2007.

(all amounts in EUR '000s)

Key Management personnel compensation was as follows:

Year ended December 31,	2006	2005	2004
Short-term employee benefits	14,065	11,827	9,101
Long-term employee benefits	2	2	-
Post-employment benefits	715	610	614
Termination benefits	1,665	2,856	336
Share-based payments	4,033	8,350	6,304
Total	**20,480**	**23,645**	**16,355**

(33) EMPLOYEES

The average number of employees during the business years 2006, 2005 and 2004 was 15,493, 14,403 and 13,639, respectively. As of December 31, 2006, 2005 and 2004, respectively, the Company employed 15,428, 15,595 and 13,307 employees in full time equivalents.

(34) SUBSEQUENT EVENTS

The Management Board approved the financial statements on February 21, 2007.

Based on the approval by the Supervisory Board, an additional ("fourth" or "ESOP 2007+") tranche of 4,047,472 options was granted to the eligible employees of Telekom Austria under the extension of Stock Option Plan 2004 (see note (22)) on January 8, 2007. The extension of the original Stock Option Plan 2004 ("Stock Option Plan 2004 Extension") for another three tranches in the years 2007, 2008 and 2009 was authorized at the last Annual General Shareholder's Meeting on May 23, 2006. The exercise price for the fourth tranche of Euro 20.34 was defined as the average quoted closing price of Telekom Austria stock during a period of twenty trading days ending two days before the granting of options. For every 30 (25) options awarded an eligible employee (Management Board member) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The options have a vesting period of 12 months from the grant date and an exercise period of three years after they have vested. Telekom Austria may exercise the authorization for a conditional increase in the Company's share capital up to EUR 9,815 (corresponding to 4,500,000 shares). The conditional capital increase will only take place if the Company does not decide to serve the options by means of treasury shares or cash compensation.

Telekom Austria intends to establish a holding structure, which will manage and support the wireline and wireless segments and be the interface with the financial community. The holding organization will represent all segments of the Company, consolidate the strategy and set the financial targets for the Company as a whole. The holding Company will be headed by Boris Nemsic, Rudolf Fischer and Hans Tschuden, the latter will assume the position of CFO as of April 1, 2007. The newly established "Telekom Austria Fixnet AG" will take over the sole responsibility for the wireline segment in full separation from the holding functions of Telekom Austria. It is planned that this change in the legal structure will be presented for shareholders' approval at the Annual General Meeting in 2007 and will take effect retroactively as of January 1, 2007. The segment information of prior years will be adjusted accordingly for comparative purposes as soon as the new organization is in place (in accordance with IAS 14 "Segment Reporting").

On December 20, 2006, Telekom Austria agreed to acquire 100 % of the share capital of the operating companies of eTel for a purchase price of approximately EUR 90,000. The transaction includes all operating activities of eTel in Austria, Hungary, Czech Republic, Slovakia, Germany and Poland. eTel is a European integrated operator owned by a consortium of international investors with operations in Austria and Central-Eastern Europe. In 2005, eTel had revenues of approximately EUR 100,000. Merger control approval is pending and the transaction is expected to close in the first quarter of 2007.

On February 5, 2007 Telekom Austria announced that its mobile subsidiary, mobilkom austria, won the tender for the GSM 900/1800 license for the Republic of Macedonia. The cost of the license amounted to EUR 10,000. The license shall be granted for a period of 10 years, renewable for a further 10 years. mobilkom austria will enter into negotiations to finalize the license contract. The license conditions include a requirement to launch operations within 6 months following the license grant date and to provide specified coverage levels of the population within specified time periods.

(all amounts in EUR '000s)

(35) AFFILIATED COMPANIES

Name and Corporate Seat	Share in capital as of Dec. 31, 2006 %
Fully consolidated subsidiaries	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Austria Fixnet AG, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
mobilkom austria AG, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien Beteiligungsverwaltungs GmbH, Vienna	100.00
mobilkom Bulgarien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
Jet2Web Hungary Kft, Budapest	100.00
Jet2Web Slowakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
Czech On Line a.s., Prague	100.00
World-Direct eBusiness Solutions GmbH, Vienna	100.00
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft m.b.H., Vienna	100.00
A1 Bank AG, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
paybox central eastern europe AG, Munich	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00
TopNet d.o.o, Belgrade	100.00
Alabin 48 OOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria AD, Sofia	100.00
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)	
Affiliated companies consolidated using the equity method	
paybox austria GmbH, Vienna	83.33
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10

All affiliated companies have December 31 as their reporting date except for Omnimedia which has June 30 as its reporting date.

Unqualified Independent Auditor's Report

Report on the consolidated financial statements

We have audited the accompanying **consolidated financial statements** of
Telekom Austria Aktiengesellschaft, Wien,

for the financial year from 1 January to 31 December 2006. These consolidated financial statements comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2006, and of its financial performance and its cash flows for the financial year from 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

Report on group management report

Laws and regulations applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group.

In our opinion, the group management report is consistent with the consolidated financial statements.

Vienna, 21 February 2007

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed:

Mag. Michael Schlenk	Mag. Yann-Georg Hansa
Wirtschaftsprüfer	Wirtschaftsprüfer

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the financial statements are identical with the audited version attached to this report. § 281 Abs 2 öUGB applies.

Glossary

ADSL (Asymmetric Digital Subscriber Line): Digital transmission technology that allows asymmetrical data transmission rates to the customer (download) and from the customer (upload) via standard telephone copper lines.

All-IP Network: An Internet Protocol (IP) based network that combines data communications and voice telephony.

ALLmediaNET: Universal network on All-IP basis, in which backbone and access technologies as well as open media platforms converge to form a single standard for interactive multimedia services. Using the ALLmediaNET all forms of media (voice, Internet, television, video-on-demand, unified messaging) can be transported over a single network, providing highly diverse target groups with a wide range of content.

Blog: Abbreviated term for weblog; describes an online journal or diary in which the author (blogger) regularly writes entries about specific topics. In addition to blogs (texts), there are also phlogs (photo blogs), moblogs (mobile blogs) and Vlogs (video blogs).

Churn Rate: The number of customers who change to another provider, as a percentage of the average subscriber base.

Competence Networks: EURECOM, ETSI, ITU, BSF, UMTS-Forum, OMA, 3GP-I2010 Initiative:Networks which bundle the various levels of knowledge and experience of companies and institutions in order to achieve progress.

Converging Media: Refers to the convergence of various media such as voice, data (Internet) and television to form innovative multimedia content, i.e. the integration of such content on a joint platform.

Digital Terrestrial Television: Transmission of TV signals via digital technologies based on a terrestrial connection.

DVB-H (Digital Video Broadcasting - Handheld): Transmission standard with which digital broadcasts can be received by stationary and/or mobile receivers.

EDGE (Enhanced Data Rates for GSM Evolution) Network: A mobile communications system based on the existing GSM infrastructure. It is characterized by high transmission rates and designed for video or Internet telephony.

Fair Use: Form of invoicing with no volume limit. However, the operator reserves the right to take measures if certain limits are exceeded in order to offer all customers the same quality of service.

GPRS (General Packet Radio Service): Data carrier service based on GSM. GPRS allows data transmission at rates between 56 and 114 Kbit/s.

GSM (Global System for Mobile Communications): Internationally standardized digital radio network that allows both voice and data transmission.

Hosting: IT outsourcing; operation management of IT equipment for third parties.

HSDPA (High Speed Downlink Packet Access): The latest network technology to follow UMTS. Permits the transmission of data or high-speed multimedia services such as mobile Internet at speeds up to eight times higher than conventional connections.

HSUPA (High Speed Uplink Packet Access): Transmission method belonging to the UMTS mobile communications standard which permits higher upload transfer speeds.

Interconnection: Interconnection of different telecommunications networks that enables direct or indirect communication between the users of these different networks.

Internet Dial-up: Gateway to the Internet via fixed line telephone or ISDN modem.

Internet Protocol (IP): Supplier-independent transmission protocol for communications between networks. IP specifies the format of the packets (datagram) and serves as an addressing scheme.

ISDN (Integrated Services Digital Network): Digital telecommunications network that allows simultaneous voice and data transmission over an access line (bandwidth 2 x 64 Kbit/s to 2 Mbit/s).

ISP (Internet Service Provider): Companies that provide access to the Internet.

Jet Stream: Telekom Austria's redundant and high-performance optical fiber ring which covers large parts of Europe and is connected to Telekom Austria's earth station.

Live Stream: Real-time video transmission.

Mobile Connect Card: Card for transferring data to notebooks. The SIM card provides mobile access to the Internet, to the corporate network or e-mail client via HSDPA, HSUPA, UMTS, EDGE or GPRS.

Mobile Penetration: Penetration with a product that can be measured in a variety of ways, e.g. as a percentage of households or per capita.

Mobile Virtual Network Operator (MVNO): Telecommunications operator that has no network of its own, but is able to offer services through national roaming agreements with existing mobile communications operators.

NGM (Next Generation Media): Technical platform which integrates television, video, Internet, and e-commerce and permits the use of various content offers (TV channels, niche and sectoral programs, video on demand, interactive multimedia applications, electronic program guide, Internet and e-mail, online gaming) on any kind of appliance (television set, PC, laptop, PDA, mobile telephone).

Payphone Access Charge: Charge for the use of public payphones.

Podcast: Mainly audio files, but to a lesser extent also video files, which can be easily produced (using only a PC with a sound card, microphone, MP3 recorder and Internet connection) and made available to other users online.

Prepaid Market: Market for prepaid mobile communication services on the basis of rechargeable mobile phone cards.

Retail: End customer market; the spectrum of customers ranges from individuals to small and medium-sized enterprises and large corporations (key accounts).

RFID (Radio Frequency Identification) Marker: Radio technology for the remote marking, localization and identification of objects comprising a transponder (chip or tag) and a reading device and connection to an IT platform (server, points of sale and merchandise management systems).

Roaming: Is the possibility to use mobile telephones in a third party network abroad. Prerequisite is a roaming agreement between one's own mobile communications provider and at least one partner provider in the corresponding country.

SDSL (Symmetric Digital Subscriber Line): Technology that allows the same data transmission rate to the customer (download) and from the customer (upload).

Termination Charge: The operator of a subscriber network delivers calls, which are initiated in a third party communications network to a subscriber in its own network and charges the operator of the network from where the call originated a fee (interconnection fee).

UMTS (Universal Mobile Telecommunications System): Mobile communications standard that enables high-performance services on the basis of high data transmission rates; approximately 40 times faster than with a GSM handset.

UMTS Coverage: the number of households covered by the UMTS network as a percentage of the total population.

Unbundling: Obligation to make subscriber lines, providing access to the end customer, available to alternative network operators and Internet service providers.

Universal Service: Minimum range of public telecommunications services to which all end users must have access at an affordable price irrespective of their place of residence or business location.

User-generated content: Digital content (e.g. podcasting, blogging and video-blogging) generated by the user and offered over the media platform of a provider.

Value Added Services: Services that extend beyond the usual product range provided by a telecommunications network or enhance existing services

Video on Demand: Allows users to retrieve and play videos from a video server directly and in real time whenever they choose.

VoIP: Voice over IP (Internet Protocol) – refers to the use of the Internet as a means of voice transmission (IP telephony).

VPN (Virtual Private Network): Encrypted, secure connection between corporate computers or networks using the public Internet on the basis of a VPN client-server architecture.

Wholesale: Reseller market; in the telecommunications industry it refers to providers of voice telephony, data communications, mobile communications and Internet services.

WiMAX License: Worldwide Interoperability for Microwave Access; international standard for broadband, wireless access networks. Supports high bit rates within a radius of 3 to 10 km and can carry up to 40 Mbit/s per channel. WiMax does not require a direct line-of-sight connection between a fixed/portable terminal device and the base station and is therefore suitable for last mile applications such as Internet connectivity, TDM voice and data traffic or voice over Internet

WLAN (Wireless Local Area Network): Wireless local network in which high-frequency radio waves are used for communicating between the appliances connected in the network.

xDSL: All types of broadband network based on traditional copper lines. The most important xDSL technologies are ADSL (asymmetric), SDSL (symmetric), HDSL (high data rate) and VDSL (very high) digital subscriber line.

Stock Exchange & Finance

8th EU Audit Directive: Lays down rules governing the qualification of statutory auditors, auditor independence, quality contol and public supervision of the auditors.

A3 Positive, BBB+ Positive Rating: Credit rating for issuers and bond quality assigned by Standard & Poor's and Moody's with the following meaning: An obligation rated 'BBB' exhibits adequate protection parameters, positive outlook. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

ADR (American Depositary Receipt): An ADR is a depositary receipt issued by U.S. banks which evidences the ownership of a certain number of American Depositary Shares (ADS), the value of which depends upon the value of the foreign share originals.

ARPU (Average Revenue Per User): Average revenue per customer; traditional figure in the mobile communications industry.

ATX (Austrian Traded Index): The key index of the Vienna Stock Exchange.

Audit Committee: Companies which are listed on a U.S. stock exchange are required to establish an audit committee. This body supervises the company's reporting process, and oversees the production of the company's financial statements.

Austrian Futures and Options Exchange (ÖTOB): Platform at the Vienna Stock Exchange which organizes the trade in options and futures contracts, carries out the settlement of trades and ensures that the transaction is honored.

Business Code of Conduct: Regulates the acceptance and giving of gifts, condemns all forms of dishonesty and bribery of or by employees of the Telekom Austria Group.

CAC 40: French lead index comprising the 40 largest French companies listed for trading on the Paris Stock Exchange.

Capital Expenditures: Defined as "capital expenditures for tangible and intangible assets", as included in the "cash flow used for investment activities" in the cash flow statement.

Code of Ethics: Companies traded on a U.S. stock exchange are required to issue a code of ethics. This policy includes written rules for managers in the financial area and also mandates complete, timely, transparent, exact and understandable reporting and announcements, and establishes penalties for violation of these rules.

Compliance Guidelines: Corporate regulations that specify organizational measures to prevent stock trading based on price-relevant information that is not yet available to the public as well as the confidential treatment of such insider information.

Corporate Governance: "Corporate constitution"; the corporate governance code represents a set of rules for the responsible management and control of a company.

COSO (Committee of Sponsoring Organizations): Publisher of the COSO rules for the implementation of SOA-ICS. These rules are designed to ensure effective and efficient processes, reliable financial reporting and compliance with laws and regulations.

DAX: German stock index.

Director's Dealings: The trading of shares in a publicly listed company by the management of that company.

Disclosure Committee: Supports the Management Board in fulfilling its responsibility to ensure that all information released to shareholders and the public is correct and complete, and reflects the actual financial and operating position of the Group.

DJ Euro Stoxx Telecom: The Dow Jones Stoxx Telekom Index comprises 25 European telecommunications companies.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), adjusted:
Telekom Austria defines adjusted EBITDA as net result excluding interest, taxes, depreciation and amortization, impairment charges, dividend income, equity in earnings of affiliates, other non-operating income and expenses, minority interests and the cumulative effect of the change in accounting principles.
This equals operating income before depreciation, amortization and impairment charges.

EBITDA Margin: Ratio of EBITDA to revenues in percent.

Effective Tax Rate: Actual tax burden. This is dependent upon how the assessment basis is defined.

Employee Stock Option Program (ESOP): Stock option program for members of the Management Board and other executives who strongly influence the company's business success.

Enterprise Code (UGB): The new Enterprise Code became effective on January 1, 2007 and replaces the Austrian Commercial Code (HGB).

Euro Medium Term Note Program (EMTN): Internationally recognized documentation (terms and conditions) for bonds, which also forms the basis for subsequent issuances.

Exchangeable Notes: Debt instruments which give the holders of these notes the right to exchange them under certain conditions for one or more shares of a stock corporation.

EVA (Economic Value Added): Return less cost of capital deployed. Indicator measuring a company's creation of value.

Form 20F: Annual report prepared in accordance with standards issued by the U.S. Securities and Exchange Commission (SEC), which must be published each year by companies that are listed in the U.S. but domiciled in other countries.

FTSE 300 Eurotop: European stock index that includes 300 blue chips in Western Europe and is weighted by market capitalization.

FTSE4Good Index: Group of indexes, which includes companies that meet international standards for responsibility to the environment and stakeholders (owners, employees, customers, society).

IFRS (International Financial Reporting Standards): Accounting standards drawn up by the International Accounting Standards Board (IASB – formerly International Accounting Standards Committee, IASC), whose task is to draw up generally accepted international accounting standards. In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the IASB they also comprise the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the interpretations of the Standing Interpretations Committee (SIC).

IPO (Initial Public Offering): The first offering by a company not previously traded on a stock exchange; frequently called "new emission" or "going public".

Net Debt: Debt less cash and cash equivalents.

Net Gearing (debt-to-equity ratio): Net debt divided by equity; an indicator of financial security.

OTC (Over the Counter) Market: Market where securities are traded directly between dealers outside the stock exchange.

Performance Management System: Systematic, data-oriented approach to measuring, analyzing and improving the efficiency and effectiveness of all corporate processes.

Return on Invested Capital (ROIC): This is calculated by dividing operating income after taxes by the average invested capital.

ROE (Return on Equity): Net income divided by average equity, an indicator that measures the yield on equity.

SEC (US Securities and Exchange Commission): U.S. regulatory authority for capital markets.

SOHO/SME (Small Office & Home Office und Small & Medium Enterprises): Customer segment comprising small and medium-sized enterprises that is targeted with special products and solutions.

Syndicated Credit Line: Binding undertaking on the part of a group of banks to extend a loan to a company with differing amounts, terms and currencies.

Total Shareholder Return (TSR): Total return comprising share price appreciation, share buybacks and dividends.

Unrestricted ADR Level 1 Program: Telekom Austria is listed on the New York Stock Exchange (NYSE) through an ADR Level 2 Program.

Up- und Cross-Selling: The sale of supplementary or higher quality products or services to existing subscribers.

Value Management System: Value-oriented approach to management to increase shareholder value.

Whistleblower Directive: Telekom Austria Group's employees may notify their superior or the General Counsel in confidence if they suspect that legally dubious practices are taking place in their working environment. In the case of matters concerning the integrity of the financial reporting, they may contact the Disclosure Committee or the Audit Committee of the Supervisory Board directly.

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Online Annual Report
The Annual Report 2006 of Telekom Austria is also available in a user-friendly online version on the Internet. This data base-supported online report provides fast access to information, search functions, a sitemap, a glossary, Excel and pdf downloads, linked content, and direct subject access to compile a report for your special interests under:
http://ar2006.telekom.at

Form 20-F
The annual report as filed with the US Securities and Exchange Commission (SEC) is referred to as Form 20-F and is available in English directly from Telekom Austria Investor Relations department or on the corporate website under
www.telekom.at

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Forward-looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as "believe", "intend", "anticipate", "plan", "expect" and similar expressions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- the effects of our tariff reduction initiatives or other marketing initiatives;
- the impact of insolvencies of our major customers or international suppliers;
- the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- our ability to achieve cost savings and realize productivity improvements;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings of our newly integrated subsidiaries;
- our ability to secure the licenses we need to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of our domestic and international investments, joint ventures and alliances;
- the impact of our new business strategies and transformation process including the reintegration of subsidiaries and restructuring of operations;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditures;
- the outcome of current and future litigation in which we are or will be involved;
- the level of demand for our shares which can affect our business strategies;
- our ability to further reduce our existing workforce;
- concerns over health risks associated with the use of wireless handsets or radio frequency emissions from transmission masts;
- changes in the law including regulatory, civil servants and social security, pensions and tax law; and
- general economic conditions, government and regulatory policies, new legislation and business conditions in the markets we serve.

Fig. 2 / page 20
Discerner: It is important to be able to tell the difference between a "rising star" and a "shooting star". Place the corner of the cut-out in the top left corner of the illustration and voilà: A star is born. In the case of the holding, it is a rising star.

Fig. 6 / page 54
Enlightener: This works on the same principle as blinkers, which as everyone knows, prevent horses from taking fright. By blending out optical interferences, which confuse the eye, you can have a clear view of reality again. But see for yourself.

Fig. 5 / page 36
Detector: If you place one end of the cut-out on the dot, you will see it is located exactly in the middle of the vertical axis on the base of the triangle.

Management Board page 2
Management Board Gauge: Use the gauge to take the measure of our Management Board. Do you still see differences in size?

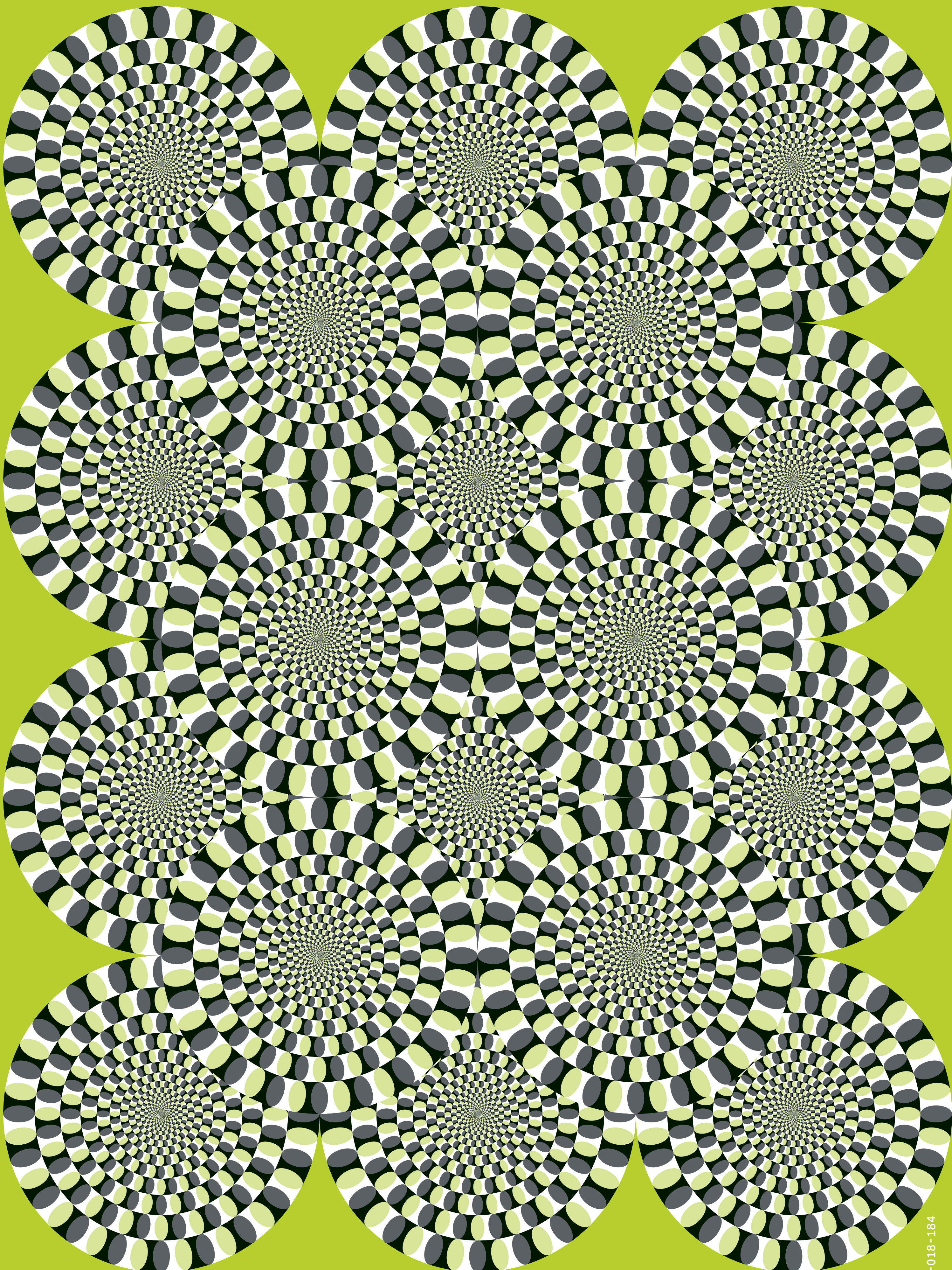
Fig. 8 / page 64
Gyrocompass: You know the feeling: Too much distraction and suddenly everything is spinning. The gyrocompass helps our superficial and fickle eye to concentrate and see the facts soberly again.

Fig. 10 / page 76
Converter: You are convinced that no one can tell you that an X is a U. Then test your judgment here and now with our small aid and compare fields A and B. Are you still as convinced of your powers of observation?

Fig. 9 page 70
Rectifier: "Vive la différence." You can forget it here. The rectifier reveals the special effect of this perplexing arrangement.

More than meets the eye

If you thought our
annual reports offered you
excellent insight up to now,
look again. Now we're really
going to open your eyes.
Have fun!



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