Annual Report 2005 Telekom Austria

2-000-015-490

TELEKOM AUSTRIA

Creating Value is an Art ...

Annual Report 2005

... of which the Telekom Austria Group is a master.

Even if it is not "old masters" that form the focus of the Group's strategic interest, but the "young" flourishing markets of southeast Europe with their promising growth potential which are at the heart of Telekom Austria's expansion strategy. In 2005 the completion of the acquisition of Mobiltel, the leading mobile communications provider in Bulgaria, marked a significant milestone in the achievement of this value-oriented growth strategy. One could say that the Telekom Austria Group has acquired a veritable new gem for its collection.

The two segments wireline and wireless form the operational pillars of the Telekom Austria Group.

The wireline segment focuses mainly upon the Austrian market and comprises the fixed line activities of the Telekom Austria Group. It is actively countering the decline in traditional voice telephony caused by migration to mobile networks by expanding broadband technology and the multi-media products that build upon it, offering roughly 3 million customers a highly innovative range of products.

The wireless segment encompasses the mobile communications activities of the Telekom Austria Group. In Austria it is the market leader with mobilkom austria and in Bulgaria with Mobiltel. Telekom Austria also holds a strong position in Croatia with Vipnet, in Slovenia with Si.mobil and also with mobilkom liechtenstein. At year-end 2005 the segment had almost 9 million customers who reap the benefits of service and technology leadership and innovative products from the Vodafone partnership.

Telekom Austria is the largest telecommunications company in Austria. With revenues of approximately EUR 4.4 billion and almost 15,600 employees, the Group is one of the leading corporations in the country. Telekom Austria has been listed on the Vienna Stock Exchange and the New York Stock Exchange since November 2000. The more than two-fold increase in market value since then is impressive proof of the success of the value-oriented growth strategy of the Telekom Austria Group.

Key Figures of Telekom Austria Group

Key Data - Operational	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Wireline			
Fixed access lines (in '000s)	2,801.9	2,906.7	3,010.8
• Thereof ADSL wholesale (in '000s)	105.8	85.2	53.5
• Thereof ADSL retail (in '000s)	468.5	298.4	207.6
Total ADSL lines (in '000s)	574.3	383.6	261.1
Fixed access channels (in '000s)	3,433.7	3,570.7	3,684.2
Internet customers in Austria ('000s)	1,424.2	1,187.0	1,026.6
Customers Czech On Line (in '000s)	187.9	247.1	279.4
Wireless			
Customers			
• in Austria (in '000s)	3,392.2	3,273.6	3,163.2
• in Bulgaria (in '000s)	3,594.2	-	-
• in Croatia (in '000s)	1,612.9	1,308.6	1,210.5
• in Slovenia (in '000s)	359.6	363.3	361.5
• in Liechtenstein (in '000s)	4.2	3.5	2.5
Total (in '000s)	8,963.1	4,949.0	4,737.7
Employees at year-end [1]	15,595	13,307	13,890

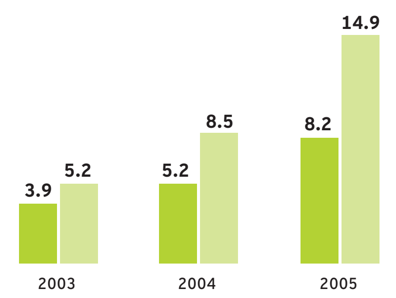
Key Data - Financial (in EUR million)	2005	2004	2003
Telekom Austria Group [2]			
Operating revenues	4,377.3	4,056.3	3,969.8
Revenues excluding third-party value-added service revenues [3]	4,377.3	4,056.3	3,923.9
Operating income	620.0	452.7	369.8
Net income	417.1	227.3	134.2
Adjusted EBITDA [4]	1,757.2	1,568.8	1,509.8
Cash flow generated from operations	1,513.7	1,304.7	1,219.9
Capital expenditures [5]	627.6	548,2	599.7
Net debt [4]	3,082.1	1,973.9	2,637.3
Equity	2,869.5	2,741.6	2,639.4
Equity ratio (in %)	34.1	37.9	33.4
Adjusted EBITDA margin (in %) [3,4]	40.1	38.7	38.5
Net debt to equity (in %)	107.4	72.0	99.9
Return on Invested Capital - ROIC (in %) [4]	8.2	5.2	3.9
Return on Equity - ROE (in %) [4]	14.9	8.5	5.2

Key Data - Stock Exchange	2005	2004	2003
Market capitalization as of Dec. 31 in EUR billion	9.5	7.0	4.9
Stock price as of Dec. 31 in EUR	19.00	13.95	9.80
Stock price - high in EUR	19.55	14.40	11.10
Stock price - low in EUR	13.86	9.80	8.79
Earnings per share in EUR	0.85	0.46	0.27
Dividend per dividend-bearing share in EUR	0.55 [6]	0.24	0.13

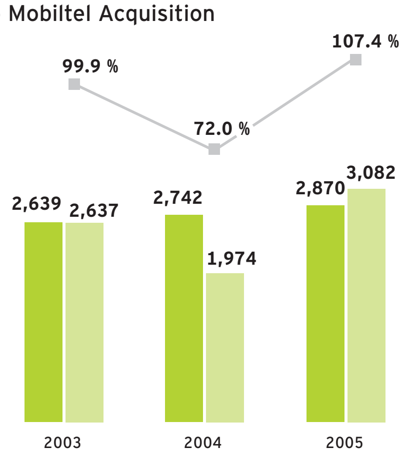
1 Full-time employees
2 The consolidated financial results for 2005 include the financial results of Mobiltel for the period July 12, 2005 to December 31, 2005. The financial results of Mobiltel are not included in the results for 2004 and 2003.
3 For comparative purposes, prior periods have been adjusted to reflect the change in the accounting for third-party value-added services in the fourth quarter of 2003. Revenues excluding third-party value-added service revenues form the basis for the calculation of the adjusted EBITDA margin.
4 For definitions see glossary.
5 At the beginning of 2004 the reporting of capital expenditures was changed. This item no longer refers to "additions to property, plant and equipment" according to the fixed asset register but to "capital expenditures for tangible and intangible assets" as included in the "cash flow used for investment activities" in the cash flow statement.
6 According to proposal to the Annual General Meeting.

Telekom Austria Group Continues Along the Road to Success in 2005

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

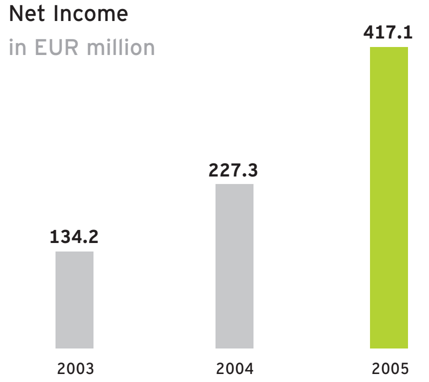


Increase in Net Debt due to Mobiltel Acquisition



- Equity in EUR million
- Net Debt in EUR million
- Net Gearing (Net debt to equity) in %

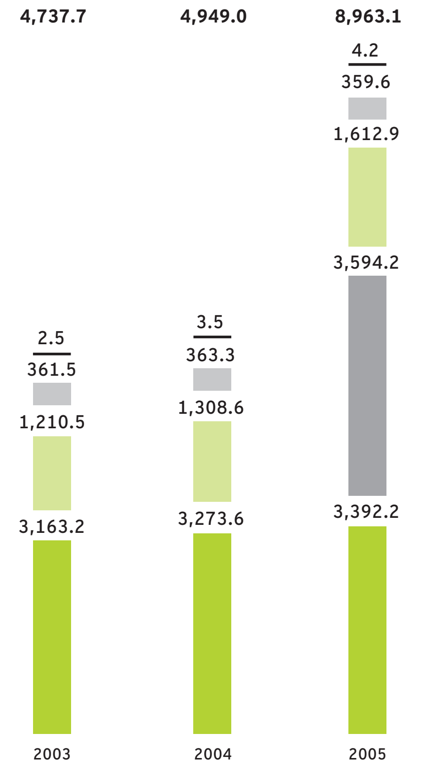
Net Income in EUR million



Wireless Segment Reports Growth in All Countries

- Revenues incl. contribution from Mobiltel: +17.1% to EUR 2.5 billion; Increases in all countries
- Operating income: +35.5% to EUR 552.2 million
- Adjusted EBITDA: +26.6% to EUR 969.0 million
- Data share of traffic-related revenues rose from 15.0% to 18.2%
- Cooperation with Vodafone brings competitive advantage and reinforces innovation and technology leadership

Customer Development by Mobile Communications Company in '000s

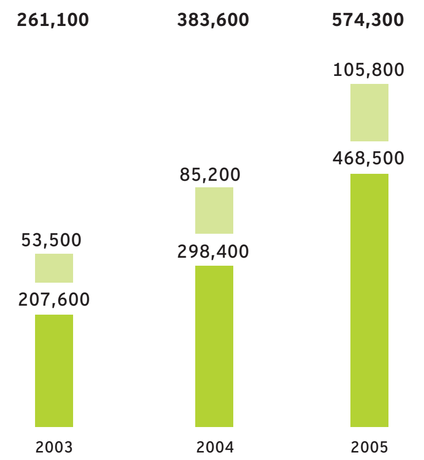


- mobilkom austria
- Mobiltel
- Vipnet
- Si.mobil
- mobilkom liechtenstein

Wireline Segment Defies Market Environment

- Migration to mobile networks resulted in revenue decline of 2.3% to EUR 2.1 billion
- Operating income: +18.1% to EUR 65.9 million
- Adjusted EBITDA: -3.4% to EUR 786.7 million
- Voice telephony market share including Internet dial-up traffic expanded to 55.7%
- ADSL access lines: +49.7% to 574,300
- Fast-growing broadband business partly offsets decline in voice telephony

Development of ADSL Access Lines



- ADSL lines, retail
- ADSL lines, wholesale

Outlook and Strategy

- Growth targets 2005 to 2009: compound annual growth of approximately +2% revenues, +2.5% adjusted EBITDA, +13% net income
- Dividend payout of 65%
- Safeguard development of revenues and results in Austria and expand in foreign markets
- Further value-enhancing expansion steps in central and southeast Europe are planned

At http://ar2005.telekom.at you can find more information about the figures shown here by mouse click and download them as Excel-file for further calculations.

Company Addresses

Telekom Austria AG
Lassallestrasse 9, A-1020 Vienna
Tel.: +43 (0)59 059 1 0
Fax: 0800 100 109 (national)
+43 59059 1 34800 (international)
www.telekom.at

mobilkom austria AG & Co KG
Obere Donaustrasse 29, A-1020 Vienna
Tel.: +43 1 331 61 0
Fax: 0800 664 601 (national)
+43 664 664 664 (international)
www.mobilkomaustria.com

Mobiltel EAD
1, Kukush Str.
Ilinden district, BG-1309 Sofia
Bulgaria
Tel.: +359 88 8500031
Fax: +359 88 8500032
www.mtel.bg

Vipnet d.o.o.
Vrtni put 1, HR-10000 Zagreb
Croatia
Tel.: +385 1 4691 091
Fax: +385 1 4691 099
www.vipnet.hr

Si.mobil d.d.
Šmartinska cesta 134 b, SI-1000 Ljubljana
Slowenia
Tel.: +386 40 940 804
Fax: +386 40 443 599
www.simobil.si

mobilkom liechtenstein AG
Äulestrasse 20, FL-9490 Vaduz
Liechtenstein
Tel.: +423 79 79 000
Fax: +423 79 79 009
www.mobilkom.li

Czech On Line a.s.
U Nákladového nádraží 8, CZ-130 00 Praha 3
Czech Republic
Tel.: +420 246 000 333
Fax: +420 246 000 118
www.col.cz

Annual Report 2005




Introduction by the Management Board

Dear Shareholders,

I am pleased to announce that with this Annual Report I can present you with the best result the Telekom Austria Group has achieved since it went public in 2000. This success has also been reflected in the positive development of the share price. In 2005 the Telekom Austria share hit an all-time high, with a performance of plus 36.2% compared to the previous year. Since November 21, 2000, the day of the initial public offering on the Vienna and New York Stock Exchanges, the share has gained approximately 120%, more than doubling the market value of Telekom Austria.

However, the most important strategic milestone was achieved in 2005, with the successful acquisition and rapid integration of Mobiltel, the leading Bulgarian mobile operator. At the time the deal was concluded it was the largest acquisition ever by an Austrian company abroad. In order to ensure financing, two bonds with a total volume of EUR 1,000 million were successfully placed early in 2005. In July, after successful preliminary agreements, an earlier date than originally planned was agreed for the purchase of Mobiltel. Despite this expansion and the resulting change to the balance sheet structure, the rating agencies Moody's and Standard & Poor's improved Telekom Austria's rating, thus confirming our successful positioning.

Important decisions were also made regarding the future organization of the company: in December 2005 the Supervisory Board approved our proposal to optimize Group structure by establishing a lean holding company as an umbrella for the two strong operational units. In January 2006 I announced my intention to resign at the Annual General Meeting on May 23, 2006. Boris Nemsic, COO Wireless, has been appointed to succeed me while Rudolf Fischer, COO Wireline, will take over as his deputy. I will continue to serve Telekom Austria as a consultant, with a mandate to support the planned expansion in Serbia.

In addition to expansion and organizational changes, the main focus of our work in the year under review was to further develop our business operations. Both the wireline and wireless business segments must defend their positions in a highly competitive environment. However, the development of financial results at the Telekom Austria Group clearly demonstrates that we are successfully confronting this challenge: operating revenues improved by 7.9% to EUR 4,377.3 million in comparison with the previous year. Operating income rose by 37.0% to EUR 620.0 million, and together with lower tax expenses, produced net income of EUR 417.1 million, up by 83.5% compared to the previous year. We also want Telekom Austria shareholders to profit from the company's success to a greater degree and will therefore request the Annual General Meeting to approve payment of a dividend of EUR 0.55 per eligible share, with the aim of achieving a payout ratio of 65%, more than double that of the previous year.

Our consistently strong generation of cash flow stands as an impressive testimony to our successful business performance. Cash flow generated from operations rose by 16.0% to EUR 1,513.7 million in 2005. Due to payment of the cash purchase price for Mobiltel and higher capital expenditures, cash flow used in investment activities increased by 249.7% to EUR 1,780.9 million. Cash flow used in and generated from financing activities reported an inflow of EUR 96.2 million, despite repayments of long term debt and bonds, increased share buybacks and higher dividend payments due

From top left clockwise: Heinz Sundt, Boris Nemsic, Stefano Colombo, Rudolf Fischer to the issue of the aforementioned corporate bonds. Although the acquisition of Mobiltel, higher capital expenditures and the accelerated share buyback program resulted in an increase of net debt to EUR 3,082.1 million, at 107.4% it did not exceed our self-imposed leverage ratio of 120% of equity.

In the wireline segment operating revenues decreased by 2.3% to EUR 2,135.2 million, largely as a result of lower revenues from the traditional voice and data business. Higher revenues from Internet access (the number of ADSL access lines increased by 50% to 574,300) were only partially able to offset this decline. Falling personnel expenses and depreciation and amortization charges allowed operating income to rise by 18.1% to EUR 65.9 million. Adjusted EBITDA fell by 3.4% to EUR 786.7 million. The adjusted EBITDA margin declined only slightly from 37.3% in the previous year to 36.8%.

As of July 12 Mobiltel was included in the consolidated accounts of the Telekom Austria Group, increasing the number of wireless customers by 81.1% to roughly 9 million per year-end 2005; since then our markets outside Austria have accounted for 62.2% of our mobile customers. Operating revenues in the wireless segment including Mobiltel rose by 17.1% to EUR 2,489.2 million in 2005, with all companies in this segment contributing to this growth. Adjusted EBITDA increased by 26.6% to EUR 969.0 million, the adjusted EBITDA margin from 36.0% to 38.9%.

In 2006 we expect the wireline segment to show further decline in the traditional voice and data business. However, we are undertaking everything in our power to offset these losses as far as possible with innovative customer retention programs, by pushing the broadband business and developing new business areas such as aonDigital TV. In the wireless segment we expect a stronger convergence of multi-media applications and hand in hand with this development a continued strong increase in data traffic.

Mobiltel will be consolidated on a full-year basis for the first time in 2006. From the current perspective we are expecting an increase in operating revenues of approximately 5% and an increase in adjusted EBITDA of around 10% for the Telekom Austria Group. Depreciation and amortization expenses, which are expected to increase slightly, and the further optimization of profitability will lead to a probable increase in operating income of roughly 20%. In terms of net income we are aiming to achieve an increase of roughly 20%. In addition to the continuation of the share buyback program and contingent upon further expansion steps, a reduction of net debt is planned. Telekom Austria shareholders should therefore be able to benefit from a payout ratio of 65%. Our expansion strategy will continue to focus on southeast Europe, specifically on companies in Serbia and Bosnia-Herzegovina. However, given the prevailing political situation it is not possible to make a forecast regarding the realization of these plans.

As impressively as the development of Telekom Austria's financial results is demonstrated in figures, it is the dedication of our employees that forms the basis of this success. I would like to thank them both in my own name and on behalf of my fellow members of the Management Board, and at the same time ask them to work together with us to meet the challenges that still lie ahead.

Sincerely,

Heinz Sundt, Chairman of the Management Board and Chief Executive Officer

Management Board

Heinz Sundt – Chairman of the Management Board and Chief Executive Officer (CEO)
Heinz Sundt was born in 1947 and attended the School of International Trade in Vienna. He started his career at the Länderbank in 1967. From 1969 through 1986 he held management positions in the marketing and sales departments at IBM Austria, and from 1986 to 1989 was the head of the telecom and network divisions. In 1989, Mr. Sundt became head of marketing and sales at Neupack GmbH, a subsidiary of the Mayr-Melnhof packaging group. In 1996, Mr. Sundt became the head of mobilkom austria and played a key role in the highly successful development of the wireless segment. Heinz Sundt was appointed Chief Executive Officer of Telekom Austria in April 2000. At the end of the Annual General Meeting on May 23, 2006 Mr. Sundt will resign as Chairman of the Management Board of Telekom Austria, however, he will continue to serve Telekom Austria as consultant.

Boris Nemsic – Vice Chairman of the Management Board
Chief Operating Officer (COO) Wireless
Boris Nemsic, born in 1957, earned his diploma as an electrical engineer at Sarajevo Technical University. In 1990 he was awarded a doctorate at the Vienna Technical University. From 1990 until his employment with mobilkom austria he headed the departments for mobile communications development at Ascom and Bosch Telecom in Vienna, Solothurn (Switzerland) and Berlin. In 1997 Boris Nemsic was hired by mobilkom austria as division manager for network planning. In 1998 he took over as Managing Director of mobilkom austria's 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 is responsible for the wireless segment. On April 11, 2005 he was appointed Vice Chairman of the Management Board. As of May 24, 2006 Boris Nemsic will also assume the position of Chairman of the Management Board of Telekom Austria in addition to his current functions as Chief Operating Officer Wireless and CEO mobilkom austria.

Rudolf Fischer – Chief Operating Officer (COO) Wireline
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 Mr. Fischer was the 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 of the wireline segment. As of May 24, 2006 Mr. Fischer will assume the position of Vice Chairman of the Management Board in addition to his current function as Chief Operating Officer Wireline.

Stefano Colombo – Chief Financial Officer (CFO)
Stefano Colombo was born in 1961. After graduating from Luigi Bocconi University in Milan, he joined the corporate finance department of Mediobanca in 1986. From 1990 to 1994 he worked for the chemicals corporation Enimont. In 1994, he was appointed Chief Financial Officer of Olivetti Telemedia. From 1996 through 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 the Chief Financial Officer of the Marcolin eyeglass company. In April 2000 Stefano Colombo was appointed Chief Financial Officer of Telekom Austria.

Creating Value is an Art.

It takes discernment to recognize future value.

The clear vision the Telekom Austria Group has of its growth potential is also displayed in its expansion strategy in southeast Europe – with the successful takeover of Mobiltel in Bulgaria as the most recent masterpiece.

Report by the Supervisory Board

Ladies and Gentlemen,

The financial year 2005 was Telekom Austria's most successful since the company went public in November 2000. The acquisition of the Bulgarian company Mobiltel marked a new milestone in the achievement of our growth and internationalization strategy. By expanding our market and innovation leadership we are also securing the basis for the company's earning power and a consistent increase in shareholder value. Telekom Austria's shareholders will profit from this positive development to a greater degree as the dividend payment is more than doubled.

The business development and strategic focus of the Telekom Austria Group was discussed extensively at seven meetings of the Supervisory Board, four meetings of the Audit Committee, one meeting of the Financial Committee and three meetings of the Structural Committee and a strategy workshop. Particular attention was given in the year under review to integrating Mobiltel, continuing our value-oriented expansion strategy in the wireless segment, strategically positioning and successfully defending the standing of the two segments on the domestic market, and optimizing Group structure. At its meeting on December 13, 2005 the Supervisory Board approved the Management Board's proposal regarding the optimization of Group structure, with the provision that two strong operational units must be positioned under the umbrella of a lean management holding company.

To ensure optimal compliance with the more stringent corporate governance requirements, the Telekom Austria Supervisory Board was enlarged in 2005 to include additional experts. Peter Mitterbauer and Wilfried Stadler, two respected Austrian businessmen, agreed to join the Supervisory Board. Their appointment and the delegation of Markus Hinker as an additional personnel representative on the Board became effective on July 15, 2005.

Due to the resignation of the Chairman of the Management Board and Chief Executive Officer Heinz Sundt, the Supervisory Board at its meeting on January 12, 2006 appointed Boris Nemsic as Chairman of the Management Board and Rudolf Fischer as Vice Chairman of the Management Board of Telekom Austria effective as of May 24, 2006. Furthermore, a Personnel Committee was also established.

The Supervisory Board of Telekom Austria is strongly committed to compliance with the Austrian Corporate Governance Code and therefore to responsible company management and control aimed at sustainable value creation. In accordance with the provisions of the revised Code published in January 2006, which aims to strengthen the independence of the Supervisory Board and increase transparency vis-à-vis the capital market, the Supervisory Board of Telekom Austria has established criteria to determine its independence. According to these criteria eight of the ten shareholders' representatives are deemed to be independent.

Supervisory Board of Telekom Austria AG

Peter Michaelis[1, 2, 4, 6]
Chairman
Member since June 28, 2001
Spokesman of the Management Board of Österreichische Industrieholding AG (ÖIAG)
Member of 2 supervisory boards[5]

Edith Hlawati[1, 2, 6]
Vice Chairwoman
Member since June 28, 2001
Partner with Cerha Hempel Spiegelfeld Hlawati attorneys-at-law

Rainer Wieltsch[3, 4, 6]
Chairman of the Financial Committee
Member since June 12, 2002
Member of the Management Board of Österreichische Industrieholding AG (ÖIAG)
Member of 5 supervisory boards[5]

Johann Haider[6]
Member since June 4, 2003
Chairman of the Management Board of Österreichische Elektrizitätswirtschafts-AG

Stephan Koren
Member since September 17, 1999
Vice Chairman of the Management Board of BAWAG P.S.K. AG

Peter Mitterbauer[6, 7]
Member since July 15, 2005
Chairman of the Management Board of MIBA AG
Member of 3 supervisory boards[5]

Harald Sommerer[3, 4, 6]
Member since June 4, 2003
Chairman of the Management Board of Austria Technologie & Systemtechnik AG

Wilfried Stadler[6]
Member since July 15, 2005
Chairman of the Management Board of Investkredit Bank AG

Harald Stöber[4]
Member since June 4, 2003
Chairman of the Management Board of Arcor AG & Co KG

Otto G. Zich[6]
Member since September 17, 1999

Personnel representatives delegated by the Works' Council in accordance with § 110 (1) of the Austrian Labor Management Act:

Wilhelm Eidenberger
Member since April 30, 2001

Markus Hinker
Member since July 15, 2005

Walter Hotz[4]
Member since December 9, 2003

Michael Kolek[2, 3, 4]
Member since March 20, 2002

Franz Kusin
Member since August 6, 2004

1 Chairing Committee
2 Personnel Committee
3 Audit Committee
4 Structural Committee
5 Pursuant to Rule 56 of the Austrian Corporate Governance Code, the information on the number of supervisory board mandates refers to publicly traded companies that are not part of the Telekom Austria Group and also excludes Telekom Austria (chairmanship counts twice)
6 Independent pursuant to Rule 53 of the Austrian Corporate Governance Code
7 Peter Mitterbauer complies with Rule 57 of the Austrian Corporate Governance Code only with regard to publicly traded companies that are not part of the Telekom Austria Group

All shareholder representatives are elected until the Annual General Meeting which will vote upon the discharge for the financial year 2007 (probably May 2008)

As Telekom Austria is traded on the New York Stock Exchange it must also comply with the strict provisions of the U.S. corporate governance rules laid down in the Sarbanes-Oxley Act.

The frequency of meetings of the Audit Committee, which closely monitored the correctness of the financial reporting, the introduction of IFRS, the services of the auditors, the effectiveness of the internal control system and risk management demonstrate the value the Supervisory Board attaches to effective corporate governance mechanisms. At the same time, the Audit Committee meets the enhanced requirements that Austrian lawmakers have adopted with regard to the establishment of auditing committees as of 2006. The Chairman of the Audit Committee presented regular in-depth reports to the other members of the Supervisory Board on the Audit Committee's findings.

Both the Structural Committee and the Supervisory Board as a whole support the Management Board as it develops a new Group structure.

The annual financial statements of Telekom Austria AG and the consolidated financial statements were audited by KPMG 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 extensive discussion and review, the Supervisory Board approved the annual financial statements for 2005 in accordance with § 125 Para. 2 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board approved the consolidated financial statements, which were prepared in accordance with § 245 a of the Austrian Commercial Code pursuant to U.S. GAAP, as well as the reconciliation report that was prepared in accordance with § 245 a of the Austrian Commercial Code, the management report and the group management report.

The Supervisory Board agreed with the recommendation made by the Management Board to pay EUR 0.55 per dividend-bearing share and carry forward the remaining amount.

I would like to take this opportunity to express my appreciation to the management and employees of the Telekom Austria Group whose commitment and performance form the basis for Telekom Austria's success. In particular, I would like to thank the retiring Chief Executive Officer Heinz Sundt, under whose leadership the company has developed into a modern, successful player on the telecommunications market and an important Austrian stock. I would also like to thank all Telekom Austria customers and shareholders for their confidence and support. Please continue to stay with the company on its journey to success.

Peter Michaelis
Chairman of the Supervisory Board
Vienna, March 2006

Strategy and Success Factors

The strategic goals of Telekom Austria must be directed toward a sustained increase in shareholder value and safeguarding the company's future business success.

Strategic Focus of the Telekom Austria Group

Following the successful expansion of recent years the Telekom Austria Group, whose business operations are organized in two segments, wireline and wireless, is active not only in Austria but also in Bulgaria, Croatia, Slovenia, Liechtenstein and the Czech Republic. In Austria and in all its other mobile communications markets it is either the first or second ranking company on the market. The strategic goals of the two segments differ. In the wireline segment, the aim is to safeguard the generation of stable cash flows and develop innovative product areas. The wireless segment aims to utilize the moderate growth in Austria, fully exploit the potential of its existing international markets and realize further value-enhancing investments in southeast Europe.

"Successful Increase in Corporate Value, Dividend Payment Doubled"

In January 2006 I announced my intention to resign from my position as Chief Executive Officer of the Telekom Austria Group at the end of the Annual General Meeting on May 23, 2006. I am taking this step at a point in time when the Group is extremely well positioned and can look to the future with confidence.

Since my appointment as Chairman of the Management Board almost exactly six years ago, Telekom Austria has undergone fundamental change and successfully repositioned itself in the highly competitive markets in which it operates. Two solid pillars, the wireline and wireless segments, now form a sustainable basis for the company's current and future business success.

The Telekom Austria Group also measures its business success in terms of a long-term increase in shareholder value. The development of the Telekom Austria share price demonstrates the extent to which this consistent focus is recognized by the international capital markets. Since the IPO in November 2000, the market value of Telekom Austria has more than doubled. As we also want our shareholders to benefit from this business performance in the form of a higher dividend, we will request the Annual General Meeting to approve the payment of a dividend of EUR 0.55 per eligible share for the financial year 2005, more than doubling last year's payment.

"Telekom Austria is extremely well-positioned for the future."

Heinz Sundt
Chief Executive Officer

Successfully
Entering New Markets is an Art.

Time and space are not the only dimensions for the development of the Telekom Austria Group.

In addition to the penetration of new regions in the wireless segment, the two business areas focus on future-proof innovations. Such as aonDigital TV and mobile broadband, the new building blocks of our interactive multimedia universe.

Strategic Goals
Wireline

In order to achieve the strategic goals laid down for 2009, key areas of implementation will be defined for each year. For 2006 these are:

To **stabilize and expand customer relationships** using measures to increase the attractiveness of fixed line access.

To **increase the share of the broadband market** by stepping up marketing activities and expanding the range of content and applications, particularly in the area of television.

To **optimize costs and investments** in the area of infrastructure and technology through gradual migration to an ALLmediaNET.

The Telekom Austria Group has defined clear financial targets for the period 2005 to 2009: average annual revenue growth of approximately 2%, an average annual increase in adjusted EBITDA of approximately 2.5% and an average annual improvement in net income of roughly 13%. In the medium term, the goal is to achieve a net gearing ratio of less than 120% while the relation of net debt to adjusted EBITDA should not exceed 2.0. The prime goal, however, is to achieve a sustainable increase in shareholder value to be safeguarded by the value management system which has been implemented. This system allows the analytical assessment of corporate decisions and, supported by transparent and consistent communication, a fair valuation by the capital market. In the long term, Telekom Austria aims to achieve an average increase in value which net of the weighted cost of capital is equivalent to an annual interest rate of 3.5% after taxes on the invested capital.

These ambitious corporate goals will be accompanied by rigorous management of employee costs in the wireline segment in particular and by a strong focus on cost efficiency across the Group. Key operational processes will be progressively improved with the aim of safeguarding high standards of quality and optimizing profitability.

The development of the stock market value of Telekom Austria, which starting from a capitalization of EUR 4.5 billion has more than doubled since the initial public offering in 2000, is a clear indicator of the success of this strategic approach. Total shareholder return, i.e. share price appreciation, dividends and share buy-backs, over this period amounts to more than EUR 5.2 billion, the equivalent of an average annual interest rate of roughly 16%. Telekom Austria is thus one of the top performing European telecommunications companies and also a leading stock on the Vienna Stock Exchange. The stated goal is to achieve a total shareholder return which continues to exceed that of comparable companies in the future.

Wireline

The wireline segment successfully maintains its leading edge position in a highly competitive environment by following a consistent strategy of optimally exploiting all market opportunities. In important market areas success is achieved with targeted measures such as sales initiatives, offers to safeguard access lines, innovative services and by pushing ahead with the expansion of broadband technology.

Strategic Goals
Wireless

The wireless segment has ambitious plans for the next few years: to safeguard existing markets and develop new growth areas.

To **pursue selective, value-enhancing expansion targets,** especially in the countries of southeast Europe such as Serbia and Bosnia-Herzegovina.

To **achieve optimal exploitation of synergies** between the mobile communications subsidiaries and bundle Group-wide activities. **Joint product developments** within the framework of the Vodafone partnership and support for local companies through a transfer of know-how.

To **achieve strong growth in data revenues** by consistently expanding quality and innovation leadership and expanding Vodafone live! services.

In particular the strategic focus is directed toward safeguarding revenues from traditional voice telephony and developing products which contribute to making fixed access lines more attractive and thus counteract the migration of traffic to mobile communication networks. This should also ensure that subscriber lines are preserved for future innovative services.

To ensure the successful development of business in the future, Telekom Austria is increasingly relying on a well-developed high-capacity broadband network that forms the basis for products and services. The expansion of the ADSL product portfolio and innovative branding, for example, resulted in an increase in the number of ADSL access lines in 2005 by almost 50% from 383,600 to approximately 574,300.

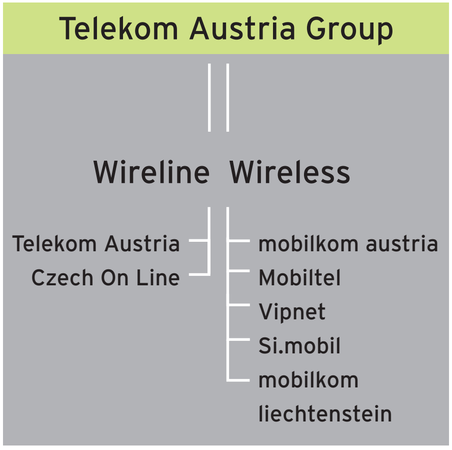
The Business Solutions division is using its technological leadership to develop new potential in Stability Solutions, Productivity Solutions and Marketing Solutions.

The development of aonDigital TV has created an important prerequisite for defending the residential customer market and has expanded the value chain of the wireline segment. For the first time, Telekom Austria will be able to offer customers a so-called triple play package comprising voice telephony, Internet and interactive television.

The dynamics of the market are leading to new technological challenges which will be countered by the gradual migration of existing network infrastructures for voice, data and Internet traffic to a convergent next generation All-IP-based network, the ALLMediaNET. This will make it possible to flexibly offer convergent services and applications, significantly reduce network complexity and contribute to optimizing the long-term development of costs.

Wireless

The strategy of the wireless segment is based upon a “global view” combined with a “local approach.” The acquisition of the Bulgarian mobile communications provider Mobiltel in 2005 considerably improved the overall performance of the Telekom Austria Group and integration of the new company will be continued in 2006. A shared service unit has been set up to coordinate and push Group aspects such as product developments (e. g. the Vodafone Mobile Connect Card HSDPA, the further development of Vodafone live!) and the exchange of know-how (e.g. m-parking, expansion of the 3G network) with the aim of achieving synergy effects. Marketing and sales initiatives, however, will continue to be tailored to the specific conditions on local markets. On the basis of benchmarking analyses and best practice sharing, cost-cutting potentials will be leveraged by means of the Group-wide purchase of SIM cards and terminal equipment, the hosting of shared solutions and the use of advertising material.



mobilkom austria – Austria

In the highly competitive Austrian market mobilkom austria is working to expand its share of contract customers and strengthen the business customer segment where it already holds two thirds of the market. The successful partnership with Vodafone means that new products and services can also be expected in 2006. The upturn in the data business will continue due to the proliferation of EDGE and UMTS/HSDPA handsets. A further important step was taken with the upgrading of the Vodafone Mobile Connect Card to HSDPA (High Speed Downlink Packet Access) technology in 1Q 2006. In the mobile broadband business the focus in 2006 will be upon pushing content utilization by increasing penetration in the private customer segment and, in the business customer market, by mobilizing business solutions.

Mobiltel – Bulgaria

The acquisition of the Bulgarian mobile operator Mobiltel in 2005 marked an important step in the expansion of the Telekom Austria Group; consolidation in the wireless segment started on July 12, 2005. Integration of the new company is being accompanied by a core team and is already showing positive effects. With approximately 3.6 million customers Mobiltel is the market leader in Bulgaria. In order to defend this position, sales structures will be expanded in 2006, the business customer segment systematically addressed, attractive price offers developed and customer retention programs, which will also focus on increasing average revenues per customer, launched.

Vipnet – Croatia

Vipnet was able to establish its position as a strong challenger in a dynamic market in 2005. With the aim of becoming the most attractive mobile communications provider in the country, the company is persisting in its endeavors to increase the share of contract customers, continuing customer retention programs and stepping up efforts to win new customer strata. Following the implementation of the UMTS network, Vipnet has become the first operator to offer 3G services in Croatia and one of the first companies in Europe to rely on a combination of UMTS and EDGE technology. Vipnet is relying on the Vodafone live! portal and the Vodafone Mobile Connect Card to increase data revenues. In addition, value-added services (m-commerce and ringback-tones) were added to the product portfolio in 2005 and further additions will be made in 2006. Services for business customers were expanded and due to the purchase of a license for fixed line services it will be possible to offer integrated communications services in future. The focus will now be upon increasing innovation and quality leadership, price campaigns, leveraging cross-selling and up-selling potential and strengthening the brand.

Si.mobil – Slovenia

In Slovenia Si.mobil has successfully positioned itself as the operator with the best price/performance ratio and has achieved considerable success with its "smart packages", a combination of selected handsets and low prices. The optimization of products and services for business customers will be stepped up in 2006. BlackBerry and the Vodafone Mobile Connect Card have already been launched as part of the implementation of the Group synergy strategy.

Corporate Governance

In 2005 Telekom Austria continued to optimize the control mechanisms mandated by the Austrian Corporate Governance Code and the Sarbanes-Oxley Act in order to further enhance security and transparency for stakeholders.

Quick Info

Telekom Austria rapidly **implemented amendments** to the Austrian Corporate Governance Code

Group-wide compliance guidelines to prevent the misuse of insider information

A **SOA-ICS Competence Center established** to strengthen the internal control system

Telekom Austria has successfully positioned itself as an attractive investment on the international capital markets and regards responsible and transparent company management and monitoring as a fundamental prerequisite for this success. As corporate governance provides an effective framework for these activities, Telekom Austria has made a voluntary commitment to compliance with the Austrian Corporate Governance Code. Due to its listing on the New York Stock Exchange Telekom Austria is also subject to the legal requirements of the Sarbanes-Oxley Act. The provisions of the Austrian Corporate Governance Code were therefore always implemented in close co-ordination with U.S. regulations.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act was enacted by the U.S. Congress in July 2002 in order to restore investor confidence which had been undermined by a series of financial scandals. The provisions of this law, which have been implemented in stages since 2003, focus upon protecting investors' interests. Penalties for violation include long prison terms and delisting from the stock exchange. In recent years Telekom Austria has implemented the most important provisions of the Sarbanes-Oxley Act. For example, the Audit Committee was established in December 2003, as an internal body designed to ensure the integrity of the financial statements and related aspects. The Disclosure Committee is responsible for correct and exhaustive external reporting. The Code of Ethics defines mandatory standards of ethical conduct for the Management Board and certain executives in all Telekom Austria's business activities. The main focus of activity in 2005 was the implementation of a company-wide internal control system.

Internal Control System

A cornerstone of the Sarbanes-Oxley Act are the provisions requiring the establishment and monitoring of the internal control system for financial reporting (SOA-ICS), which must be implemented by the end of 2006. The purpose of this system is to ensure the absolute integrity of internally generated data, which must be verified by both the company and the auditor. Any weaknesses which are identified must be reported to the Management Board and, if they are serious, to the Audit Committee as well. In the reporting year Telekom Austria pushed ahead with implementation of the internal control system throughout the entire Telekom Austria Group in accordance with the international rules for internal control systems (COSO) and the rules for IT processes (CObIT). Projects were set up in all the main group companies, the financial reporting risks identified and the relevant processes and systems adjusted to the requirements of the Sarbanes-Oxley Act. The establishment of an SOA-ICS Competence Center and the use of lean IT solutions provide a solid foundation for a safe and efficient internal control system in the field of financial reporting. Implementation is scheduled for completion on December 31, 2006.
As of spring 2007 the SOA-ICS report and

the certificate of attest of the auditor will be included each year in Form 20-F and forwarded to the Securities and Exchange Commission (the agency responsible for administering securities laws in the USA).

Form 20-F, a publication in English comparable to the Annual Report, provides information about the financial results and the risks associated with business operations as well as legal and regulatory aspects as required by the SEC. It is available on our website under www.telekom.at/ir

Austrian Corporate Governance Code

Starting with the publication of the Annual Report 2003, Telekom Austria voluntary committed itself to compliance with the Austrian Corporate Governance Code. In February 2005 the Code was adapted to the amendment of the Stock Exchange Act and revised in response to the amendment of the Austrian Company Law Act in 2005 and the recommendations of the European Commission regarding the tasks of the Supervisory Board and remuneration for directors.

Telekom Austria has subjected its adherence to the Austrian Corporate Governance Code to external verification by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. This audit found nothing which contradicted the undertaking given by the Management Board and the Supervisory Board of Telekom Austria regarding compliance with the Austrian Corporate Governance Code.

The statements contained in this Annual Report refer to the version of the Code published in January 2006 which comprises 80 rules. Of these, 29 are based upon mandatory legal requirements ("L rules" – legal requirements) such as stock exchange or stock corporation law. A further 45 rules are classified as comply or explain regulations ("C rules"), non-compliance has to be justified. The remaining six rules ("R rules" – Recommendations) are recommendations, in respect of which non-compliance need neither be disclosed nor explained. Telekom Austria meets all legal requirements of the Corporate Governance Code. Explanations have been issued with regard to 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 5:
Candidates for election to the Supervisory Board are presented on the company website if their names have been received in good time.

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

Rule 39:
Telekom Austria has not established a committee with authorization to take decisions in urgent cases, as the standing rules for the Supervisory Board allow the entire Supervisory Board to make decisions at short notice.

Rule 41:
The Personnel Committee assumes the function of the Nomination Committee.

Rule 43:
The Chairing Committee of the Supervisory Board assumes the functions of Compensation Committee.

Creating Double Value is an Art.

Since going public in November 2000 the price of the Telekom Austria share has risen by roughly 120%, more than doubling shareholder value.

Share price performance was up 36% in 2005 and a proposal will be made to more than double the dividend to EUR 0.55 per share. In short: a double plus for total shareholder return.

Independence of the Supervisory Board

On February 10, 2006, in accordance with Rule 53 of the Corporate Governance Code, the Supervisory Board of Telekom Austria approved guidelines to establish the independence of members of the Supervisory Board which comply with Appendix 1 of the Austrian Corporate Governance Code. The members of the Supervisory Board elected by the Annual General Meeting have verified their own independence. In accordance with Rules 39 and 53, the Supervisory Board has established that the Supervisory Board as a whole and its individual committees include a sufficient number of independent members. Furthermore, Rule 54, which applies to companies with more than 50% free float shares, is followed as the Supervisory Board not only has two but six independent members.

Compensation of the Management Board and Supervisory Board

Under the provisions of the Austrian Corporate Governance Code the Annual Report must include details of the compensation paid to members of the Management Board and the Supervisory Board. The information required by law is contained on pages 101–102 and 124 of the Notes to the Consolidated Financial Statements of this Annual Report.

The bonus payments awarded to members of the Management Board may not exceed 100% of their gross annual salary and are contingent upon the achievement of the targets defined by the Supervisory Board. These targets are based equally on operational figures (e.g. Economic Value Added (EVA), free cash flow generated from operations) and on the achievement of strategic objectives. 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 awarded 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 Annual General Meeting held on May 25, 2005 approved compensation of EUR 18,200 for the Chairman of the Supervisory Board, EUR 13,650 for the Vice Chairman and EUR 9,100 for all other shareholder representatives. All members of the Supervisory Board receive a meeting attendance allowance of EUR 220.

Compliance Guidelines

On January 1, 2005 the Europe-wide uniform legal framework to prevent and combat misconduct by insiders and market manipulation came into force in Austria; this framework has also been incorporated into the Austrian Corporate Governance Code.

The group-wide compliance guidelines issued by Telekom Austria to prevent the misuse or other distribution of insider information meet both current Austrian and U.S. capital market rules. Twenty-six classified units have been defined within Telekom Austria AG. 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, documentation and the distribution of sensitive data to prevent the misuse of insider information.

Investor Relations

International capital markets show diverse development in 2005;

ATX and the Telekom Austria share hit an all-time high.

Quick Info

Share price rises by 36% in 2005, outperforming the telecommunications sector by 38%

Share price has **more than doubled** since the IPO in 2000

Dividend more than doubled and massive increase in share buybacks

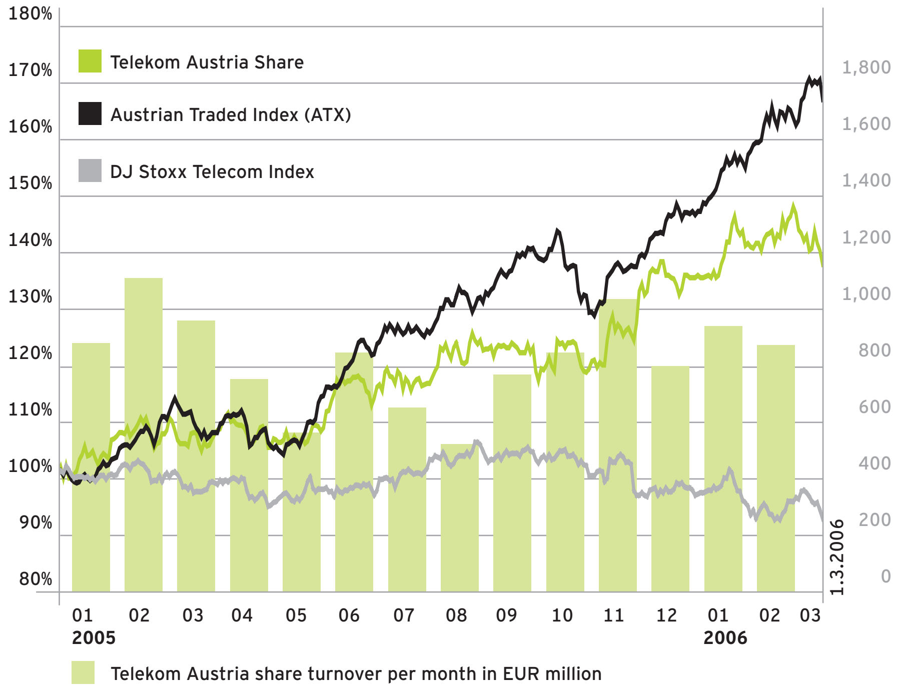
Planned payout ratio for the financial year 2006: **65%**

Opportunities in the East and M&A Activities

The high price of oil and the impact this had on the economic situation and inflation rate, as well as natural disasters and a more restrictive interest rate policy dampened the mood on the capital market in the U.S.A. leading to a fall in the Dow Jones Index of 0.6%. The trend in Europe contrasted sharply: measured against the FTSE 300 Eurotop Index, the European market rose by 22% in 2005, with the German index DAX gaining 27%.

Development of Telekom Austria Share Price
since 1.1.2005

Source: Datastream
Turnover in EUR million



In a sectoral comparison, the telecommunications industry performed negatively despite increased acquisition and merger activities, with the Dow Jones Stoxx Telecom Index losing 2%.

Following a 57% increase in 2004 the leading index on the Vienna Stock Exchange, the ATX, once again outperformed the most important international indices in 2005. Supported by the better than average results of the listed companies and proximity to the flourishing economies of central, eastern and southeast Europe, it hit an all-time high at the end of the year, closing on the last day of trading up 51% compared to the previous year.

Telekom Austria Share Hits Record High

By the fifth anniversary of the IPO on November 21, the price of the Telekom Austria share had more than doubled; in 2005 it gained 36.2% compared to the previous year, clearly outperforming the sector index. In November 2005 the Telekom Austria reached an interim high of EUR 19.55, followed on February 14, 2006 by an all-time record of EUR 20.72. After volatile development in 2004, the price showed a steady upward trend in 2005, only briefly interrupted by periods of consolidation in spring and fall. This trend was supported by positive quarterly results and the accelerated takeover of Mobiltel in Bulgaria.

Financial Calendar and Contacts

May 17, 2006	Results for the First Quarter 2006
May 23, 2006	Annual General Meeting Austria Center Vienna (starts 10:00)
May 26, 2006	Ex-dividend day
May 30, 2006	Dividend payment date
August 23, 2006	Results for the First Half 2006
November 14, 2006	Results for the First Nine Months 2006

Telekom Austria Investor Relations
Telephone: +43 (0)59 059 1 19000
Shareholder Hotline: 0800 100 111
investor.relations@telekom.at

Peter Zydek
Head of Investor Relations
peter.zydek@telekom.at

Gerald Wechselauer
gerald.wechselauer@telekom.at

Barbara Plößnig
barbara.ploessnig@telekom.at

The market capitalization of Telekom Austria rose by approximately 36% to EUR 9.5 billion compared to the previous year. An average trading volume (double count) of approximately 2.0 million unit shares was achieved on the Vienna Stock Exchange, a decline of 30% compared to the previous year. The stock exchange turnover in 2005 (double count without over-the-counter) fell by 8% to EUR 7.9 billion, making Telekom Austria the fourth most heavily traded stock on the Vienna Stock Exchange. The background to this decline is the extraordinarily high level of activity in 2004 caused by speculation about a takeover by Swisscom.

Turnover from over-the-counter trading (double counting) rose from EUR 3.2 billion to EUR 3.4 billion or approximately 30% of Telekom Austria's total stock market turnover. The average number of ADS (American Depository Shares) traded daily on the New York Stock Exchange declined from 5,000 to approximately 4,000 in a year-on-year comparison. The volume of ADS issued by the Bank of New York fell from 3.7 million to 434,300, returning to the level of 2003. The sharp increase in 2004 was due to the temporary building up of a stock position by a single large U.S. investor.

With a weighting of 14% at year-end 2005, (2004: 17%) the Telekom Austria share was the third heaviest weight in the ATX index of 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.

Corporate Bonds

In January 2005 Telekom Austria carried out the largest corporate bond transaction ever conducted by an Austrian company hitherto when it issued a two-tranche corporate bond with a total volume of EUR 1 billion in order to finance the acquisition of Mobiltel. The two bonds – which are both traded in Vienna and Luxembourg – each have a volume of EUR 500 million and maturities of five and twelve years. The record issue was placed within three hours and was oversubscribed by considerable margins.

In June 2005 two rating agencies improved their rating of Telekom Austria: Following the introduction of a new rating method for companies in which the state holds a participating interest, Moody's Investors Service increased Telekom Austria's rating from "Baa2 positive" to "A3 positive." Standard & Poor's upgraded Telekom Austria from "BBB positive" to "BBB+ stable" due to the company's solid business performance and conservative financial profile.

Stock Data

Stock number (Austria)	72000
SYMBOL	TKA
ISIN	AT0000720008
REUTERS	TELA.VI
BLOOMBERG	TKA AV
Traded on	Vienna Stock Exchange (VSE)
	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, 2005	482,502,894 shares
Common Stock	EUR 1,090,500,000
Stock price as of Dec. 31, 2005	EUR 19.00
Stock price – low (Jan. 10, 2005)	EUR 13.86
Stock price – high (Nov. 24, 2005)	EUR 19.55
Market capitalization as of Dec. 31, 2005	EUR 9.5 billion

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

Analyst Coverage
ABN AMRO
Bank Austria Creditanstalt
CAI Cheuvreux
Citigroup
Credit Suisse
Deutsche Bank
Dresdner Kleinwort Wasserstein
ERSTE Bank
EXANE BNP Paribas
Execution Limited
Goldman Sachs
HSBC
JP Morgan
Lehman Brothers
MainFirst
Merrill Lynch
Metzler
Morgan Stanley
New Street Research
Raiffeisen Centrobank
Sal. Oppenheim
UBS Limited
Volksbank IB
WestLB

Strong Interest from the Financial Community

A total of 24 investment banks published regular analyses of Telekom Austria in 2005, a figure virtually unchanged from the previous year. Investors were provided with information about the development of Telekom Austria at nine road shows in the U.S.A. and Europe, with the Management Board spending a total of 27 days meeting with investors in 2005. A highlight of these activities was the Capital Markets Day held at Telekom Austria headquarters in early December at which the development of Telekom Austria was presented to some 60 analysts and institutional investors. In 200 one-on-one meetings, 94 telephone conferences, 40 group meetings and ten international investor and telecommunications conferences the financial community received detailed information. The company also actively communicates with private investors at yearly financial fairs and over a free hotline for shareholders.

Award-Winning Web Presence

Following the comprehensive redesign of the corporate web presence www.telekom.at/ir last year, the challenge in 2005 was to maintain a high standard of online information. In order to ensure that all investors have the same quality of information access, Telekom Austria offers webcasts via which potential investors can follow the Capital Markets Day, the Annual General Meeting or the press conference for the financial result presentation live. These efforts were once again honored with a number of awards in 2005: PIROL – Prize for Best Investor Relations Online (for the third consecutive year), the international ARC Award and the IR Global Ranking Award for the best online annual report in the world in the Telecom and Media segment.

Dividend Policy

Following an 85% increase in the dividend for the financial year 2004 to EUR 0.24 per eligible share, a further increase is planned for 2005. The Management Board of Telekom Austria will ask the Annual General Meeting to be held on May 23, 2006 to approve a dividend of EUR 0.55 per eligible share. This represents an increase of 129% compared to the previous year. Due to Telekom Austria's sustained earnings power and strong cash flow, a payout ratio of 65% is planned for 2006.

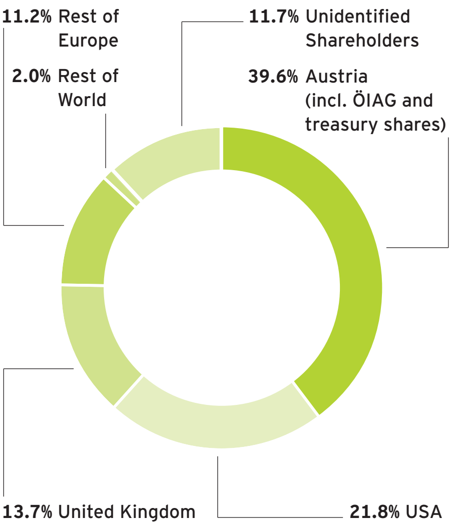
Resolutions Passed by the Annual General Meeting

The fifth Annual General Meeting of Telekom Austria was held on May 25, 2005 at the Austria Center Vienna and was attended by approximately 450 shareholders. The resolutions which were adopted included:

- The discharge of the members of the Management Board and Supervisory Board for the financial year 2004.
- Unchanged compensation for members of the Supervisory Board.
- Appointment of KPMG Alpen-Treuhand GmbH as the auditors.
- Approval of the proposed dividend payment of EUR 0.24 per eligible share.
- Amendment of the Articles of Association to increase the number of Supervisory Board members from eight to ten.
- Amendment of the Articles of Association to introduce an age limit for Members of the Supervisory Board, according to which appointment would be permissible until the age of 65, as stipulated in the Austrian Corporate Governance Code.
- Extension of the authorization of the Management Board to acquire treasury shares up to the maximum extent legally permitted, for a period of 18 months at a minimum price of EUR 9 and a maximum price of EUR 21 per share. At the same time, the Management Board was also authorized to use or sell the repurchased shares.

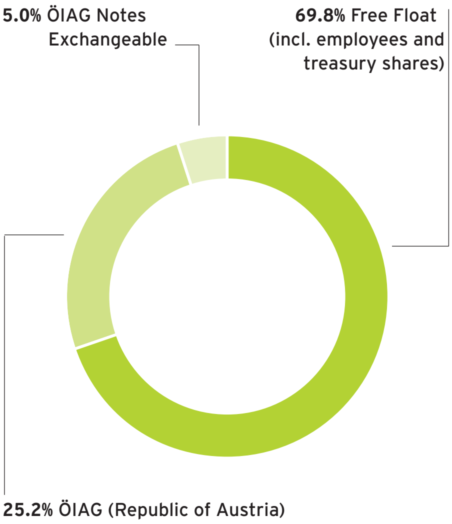
Shareholder Structure by Country

as of Dec. 31, 2005



Shareholder Structure

as of Dec. 31, 2005



Share Buyback Program

The Management Board of Telekom Austria is authorized to purchase a maximum of 10% of the share capital or 50 million shares; at the last Annual General Meeting a resolution was adopted authorizing an increase in the maximum price from EUR 18 to EUR 21 per share. In 2005, 11.2 million shares were purchased through the stock exchange for an average price of EUR 16.4. On December 31, 2005 Telekom Austria held approximately 17.5 million treasury shares which may be used to service the stock option programs and convertible bonds, but also as considera-tion for acquisitions, or for resale and retirement. The company plans to spend approximately EUR 1.8 billion on share buybacks and dividend payments between 2006 and 2009, whereby the execution of the share buyback program will be coordinated with planned expansion steps.

Free Float Remains High

Following two private placements of Telekom Austria shares by Telecom Italia and ÖIAG in 2004 there were no further placements in the year under review.
At year-end 2005 slightly less than 70% of the common stock was free float (including 3.5% treasury shares) while the remaining 30.2% was held by ÖIAG. In July 2003 ÖIAG placed notes exchangeable with a maturity in August 2006 and which are exchange-able for 25 million existing shares of Telekom Austria (5% of common stock) at an exchange price of EUR 13. Due to the partial conversion of these notes the share holding of ÖIAG on January 31, 2006 declined to 29.99%.

As Telekom Austria stock is comprised of bearer shares it was only possible to identify some 90% of the shareholders in the most recent analysis carried out in January 2006. According to this survey, roughly 22% of the shares are held by investors from the U.S.A, approximately 14% by British investors, while a substantial 40% are held by Austrian investors (including ÖIAG and treasury shares). The remaining stock is held in other European countries. The percentage of shares owned by Telekom Austria employees has fallen from 0.6% to 0.4%.

Capital Research & Management (Delaware) which holds just under 10.0% and Capital International (California) with 4.2% disclosed their holdings as of December 31, 2005. As the managers of the individual funds controlled by these companies make their investment decisions independently of one another, these shares are regarded as free float.

Successful Teamwork is an Art.

Even the highest aspirations can be achieved when people combine their efforts.

The Telekom Austria Group relies on the valuable teamwork of almost 15,600 employees, and both the two segments as well as all international operations reap the benefits of their collective know-how.

Human Resources

As a result of increasing internationalization some 26% of employees work at foreign subsidiaries. The mobility of employees and the further development of executives across the Group were stepped up in 2005.

Quick Info

Due to the acquisition of Mobiltel **the number of employees** rose by approximately 17% to 15,595

An internal job market promotes employee **mobility between the wireline and wireless companies in Austria**

Stock option program and performance management system to **strengthen a performance-oriented work ethic**

Human Resources Strategy

The successful expansion of the Telekom Austria Group, a highly competitive environment and the extremely rapid pace of technological development demand both a high level of commitment from all employees and ongoing investment in their continuing education and further training. In addition to this, Telekom Austria is dedicated to creating a working environment which values health and safety and enhances the work-life balance.

One key aspect of Telekom Austria's human resources strategy is to open up the internal job market to employees in Austria, in order to encourage mobility between the individual business units. The wireline segment has also set itself the goal of lowering the age structure of its work force (from 2006 on, 100 new apprenticeship positions will be offered each year) and further improving the qualifications of its employees. The wireless segment is focusing upon its development into a high performance organization, with priority in 2005 being given to identifying top performers. Stronger networking throughout the Group will be used to identify best practices and exploit synergy effects more effectively.

Continuing Training and Further Education

In the financial year 2005 the Telekom Austria Group invested some EUR 12.8 million or approximately EUR 800 per employee in continuing education and training. In the wireline segment, employees attended a total of 33,400 seminar days (3.5 seminar days per employee) focusing on technology, electronic data processing, management and project management. Employees of mobilkom austria attended some 12,000 seminar days (5.4 seminar days per employee). In addition to expanding its range of e-learning courses, the wireless segment focused on customer relation management, and technology and project management training. Individual training measures from a catalogue of in-house and outside programs are agreed with employees during their annual performance review. Throughout the company great importance is attached to identifying and developing executives, and 21 employees are currently taking part in the MBA program established in 2003.

Telekom Austria attaches great importance to training young people, both in order to meet its own needs for skilled specialists, but also out of a sense of social responsibility. Every year from 2006 onward 100 apprentices will be able to start their career in information and communications technology (ICT) in the wireline segment. At the end of 2005, 138 apprentices, including 41 young women, were being trained as communications technicians for electronic data processing and telecommunications at the two training centers in

Vienna and Graz. In addition to receiving sound technical training, they are being familiarized with product information, acquiring the necessary technical qualifications to work in customer service.
In order to ensure that the 3.5-year course is as practically relevant as possible, Telekom Austria's ICT apprentices are also sent to gain work experience in various departments throughout the company. Moreover, all apprentices are given the opportunity to take the European Computer Driving License (ECDL) and train as a Cisco Certified Network Associate (CCNA).

Attractive Employer

The successful expansion of the Telekom Austria Group in southeast Europe and increased cooperation between the regional business units are creating greater international career opportunities in a dynamic and exciting environment. Moreover, efforts are made to fill as many positions as possible through an internal job market. In 2005 the wireline segment was able to fill 88% of approximately 380 vacancies from within the company, while the wireless segment was able to fill 29% of 830 vacancies internally. Efforts to promote mobility between the wireline and wireless segments were also intensified in 2005, and this is expected to have a positive impact on internal cooperation.

The Telekom Austria Group is strongly committed to improving career opportunities for women. In 2005 the percentage of women holding management positions was 22%, with women accounting for 32% of the total workforce. With the support of FemTech – an initiative of the Austrian Council for Research and Technology Development, the Ministry of Education, Science and Culture, the Ministry of Transport, Innovation and Technology and the Ministry of Economic Affairs and Employment – the A-Gender Technology Management project was started in the year under review. This project proactively addresses the issues related to women in technology and diversity management, and aims to increase the percentage of women employed in the scientific and engineering professions.
Telekom Austria can confidently stand comparison with other companies on personnel issues and participates in the competition to be the "Most Women and Family-Friendly Company in Vienna."
The results of the competition form the basis for the implementation of further measures designed to bring about improvements.

Personnel Development by Segments			**Change**
Full-time employees at year-end	**2005**	**2004**	**in %**
Wireline	9,557	9,682	-1.3
Wireless*	6,038	3,625	66.6
Telekom Austria Group	15,595	13,307	17.2
of which in Austria	11,562		

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

			Change
Productivity Figures per Employee	**2005**	**2004**	**in %**
Revenue per employee in EUR	303,900	297,400	2.2
Adjusted EBITDA per employee in EUR	122,000	115,000	6.1
Fixed lines per wireline employee	293	300	-2.3
Mobile communications customers per wireless employee	1,484	1,365	8.7

The Telekom Austria Group has used teleworking to improve the flexibility of the working environment based upon mutual agreement between the individual employee and the company. In the wireless segment this "mobile working" model has not only introduced greater flexibility in terms of when and where work is carried out, it has also enabled the company to test new products such as MOBILE OFFICE and optimize contact with customers and business partners.

All members of the Austrian workforce with permanent employment contracts are covered by a pension plan to which the company contributes 5% of the employees' gross monthly salaries. The plan registered an average return of 11% in 2005. Under the terms of the collective bargaining agreement all employees in Austria received a wage increase of 2.9%, but at least EUR 80, as of January 1, 2006.

Performance Management

In order to foster a performance-oriented work ethic, performance contracts and bonus schemes have been implemented throughout the company. In the wireless segment almost all employees are covered by these schemes. In the wireline segment such performance contracts have been concluded with one in three employees and plans are in place to use them more widely. The performance management system was refined in the year under review across the entire company and the remuneration system was developed to better reflect market trends. The parameters for performance-related remuneration and bonuses for employees were developed on the basis of the strategic corporate goals.

In April 2004 Telekom Austria launched the multi-year Employee Stock Option Program (ESOP) for certain executives. The ESOP program aims to increase the profitability and earning power of the Telekom Austria Group by linking the development of the company's stock market value to financial incentives for management. It is also an important means of enhancing managers' loyalty to the company over the long term. The key indicator for the exercise of the option is the earnings per share ratio. ESOP was issued in three separate tranches with vesting periods of 12 to 14 months and a three-year option life (ESOP 2004+ in April 2004, ESOP 2005+ in January 2005). In January 2006 ESOP 2006+ was issued to some 280 key managers of the Telekom Austria Group. Each tranche had to be authorized anew by the Supervisory Board, thus redefining the circle of eligible participants each year.

Improved Performance

The Telekom Austria Group workforce grew by 17.2% to 15,595 in 2005. Excluding employees of Mobiltel, the number of employees dropped by 1.2%, a trend which reflected the strategic goal of increasing profitability. Due to the Bulgarian acquisition the number of employees in the wireless segment rose 66.6% to 6,038. The wireline segment reported a headcount reduction of 125 employees, which was achieved in the most socially responsible manner possible. Assisted by the company's work foundation, the employees affected by restructuring measures are able to retrain for a maximum period of four years. In total 70 employees are currently making use of this facility. Productivity measured in terms of wireless customers per employee rose from 1,365 to 1,484 in the reporting year. In comparison to the previous year, the number of fixed lines per employee declined marginally in 2005.

Approximately 43.6% (2004: 51.5%) of the Telekom Austria Group workforce had civil service status at the end of 2005.

Sustainability

Telekom Austria is dedicated to achieving its corporate business goals and technological progress without losing sight of its social responsibility and the limited supply of natural resources.

Quick Info

Campaigns stepped up to provide **all segments of the population with access to digital technology**

Environmental protection measures continued

Telekom Austria listed in the **FTSE4Good** index of sustainable investment products

Current Sustainability Report available at www.telekom.at

Telekom Austria actively seeks to maintain an ongoing dialogue with its stakeholders by pursuing a transparent communications policy. To this end, every two years – most recently in fall 2005 – a report is published documenting the sustainability projects and activities which have been planned and implemented across the various departments and depicting sustainability processes at Telekom Austria. Key economic, environmental and social figures and targets are used to measure and evaluate these developments. These Sustainability Reports are available for downloading at www.telekom.at under Responsibility.

The positive evaluations of external rating agencies confirm the Telekom Austria Group's commitment to the principles of sustainable corporate management. Since 2001 Telekom Austria has been included in the FTSE4Good index, which lists companies that exhibit a high level of corporate social responsibility. In 2002 the Munich-based rating agency oekom-research AG also included Telekom Austria in its list of sustainable investment products.

Environmental Protection

In fall 2005 the environmental management system in the wireline segment was recertified in accordance with ISO 14001. The goals are clearly defined: to continuously reduce the negative impact of business operations on the environment and ensure careful use of natural resources. The approaches are varied: increased use of energy-optimized air conditioning systems, for example, has resulted in energy savings of up to 70%. As part of a program to reduce fuel consumption and pollutant emissions Telekom Austria started to systematically replace its vehicle fleet in 2000. The wireline segment has introduced a routing system which co-ordinates the schedules of the service technicians.

Following fluctuations in the wireline segment in recent years due to the dismantling of installations, the volume of telecommunications waste declined by 1.3% in 2005. Paper consumption was reduced by 2.8% in the year under review.

Environmentally-friendly purchasing terms which are binding upon suppliers prevent the use of medically or ecologically dubious chemicals in care products and cleaning agents. The packaging materials which must be used are specified and compliance with internal company waste separation rules is mandatory.

In 2005 mobilkom austria took part in the City of Vienna's Ecofit project. The purpose of this project is to implement environmental protection in a manner which is not only sustainable and integrative, but also profitable. The goal is to reduce the quantity of residual waste from three quarters of the original total volume to one eighth within the next year.

Social Sponsoring
Light into Darkness
Doctors without Borders
Austrian Blind Union
mirno more peace flotilla
"Rat auf Draht" children's helpline
Life Ball
Pink Ribbon – Breast Cancer Awareness
Youth hotline time4friends

Art and Cultural Sponsoring
Ars Electronica Center Linz
Cloud of Sound in Linz
ZOOM Children's Museum
Ludwig Foundation at the Museum of Modern Art in Vienna
Vienna Children's Theater
Vienna Children's Opera
Children's University Vienna
The Burgtheater in Vienna
Vienna International Festival VIENNALE

Sports Sponsoring
Austrian Ski Federation
aon VolleyLeague and aon hotVolleys
A1 Beach Volleyball Teams
A1 Beach Masters Tour
A1 Beach Volleyball Grand Slam
Austrian Sports Aid
Austrian Paralympics Committee (ÖPC)
Austrian Golf Federation
Austrian Football Federation

Besides carrying out its own analyses, mobilkom austria continuously supports research projects investigating the impact of electro-magnetic fields and makes the scientific information obtained from these studies available to all interested parties. Brochures on safety, UMTS, limit values, health and infrastructure can be ordered free of charge by sending an e-mail to umweltteam@mobilkom.at. A regular newsletter that can be ordered from www.mobilkomaustria.com using the menu items Social Commitment and Environment provides information on the current status of debate.

Social Commitment

The sponsoring activities of the Telekom Austria Group not only serve to build brand image, they also demonstrate the company's social commitment in a wide range of areas. The projects are carefully selected and subject to the condition that Telekom Austria's technological expertise can be put to beneficial use. The local decision-making competence of the different business units also ensures that maximum consideration is given to regional circumstances and needs.

For many years now Telekom Austria has maintained a partnership with Light into Darkness, Austria's largest charitable fundraising campaign for the needy. mobilkom austria supports the Austrian section of Doctors without Borders, the world's largest independent medical aid organization. Telekom Austria is also taking targeted action to help overcome the technological barriers which impede access to modern communications infrastructures and the ability to use computer and Internet technologies. By entering into partnerships with municipalities which have a low level of telecommunications coverage due to their geographical location, Telekom Austria is working to counteract the digital exclusion of disadvantaged sections of the community. The "Seniorkom" campaign carried out jointly with the Austrian Council of Senior Citizens facilitates access to electronic sources of information for senior citizens via training and special products. Together with the Austrian Blind Union (ÖBSV) Telekom Austria developed a website www.derdurchblick.at which is suitable for the visually impaired.

A project launched in 2005 by the Austrian development organization ICEP (Institute for Cooperation in Development Projects), Microsoft and Telekom Austria has enabled the Fanusi Training Center in Nairobi to expand its activities to include a free vocational IT training program for women.

Preparing children and adolescents to make responsible use of the new communications media such as mobile telephones, e-mail and text messaging is an important aspect of mobilkom austria's social commitment. Since 2001 the company has supported the ZOOM Children's Museum where children can explore and familiarize themselves with the new communications technologies while having fun at the same time. In 2005 mobilkom austria and the ZOOM Children's Museum organized the third Children's Symposium at which 250 children and young people between the ages of 10 and 16 gave creative and playful thought to the work-life balance, "how do network families juggle the job, school and leisure time". The ROUNDABOUT KIDS platform initiated by mobilkom austria provides experts, parents, educators and other interested people with a forum to discuss the challenges facing children and young people in the information age.

Innovation and Technology

Telekom Austria's research and development activities are directed toward increasing customer convenience and the development of high-quality future-oriented network infrastructures.

Quick Info

EUR 43.0 million
invested in R&D

Expansion of **innovation and technology leadership**

Migration to **ALLmediaNET** pushed ahead

Development of a **nationwide mobile broadband network**

The information and communications technologies are becoming increasingly important factors to safeguard the standing of a country as a business location in international competition. Due to its dedicated pursuit of research and development activities, Telekom Austria is regarded as a key innovation driver in the national communications industry and one which makes a significant contribution to technological and economic progress in Austria. In 2005 EUR 43.0 million were invested in research and development, both within the company and in numerous partnerships with research institutes and suppliers, the prime objective being to consolidate the company's innovation leadership.

Key Areas in R&D – Wireline

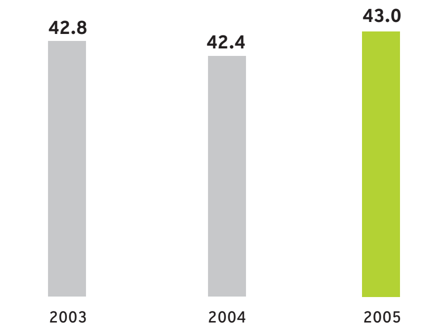
Research and development activities in the wireline segment were concentrated upon the customer-focused and value enhancing shaping and development of the product portfolio. New application opportunities are being opened up by broadband technologies, the integration of communications and information technology, and content digitalization. In 2005 the main area of emphasis was the continued migration of network infrastructures for voice, data and Internet services to a convergent next-generation All-IP network (ALLmediaNET).

A number of new products were presented in the multimedia area in the reporting year: For example, under the motto "Post your Life" Telekom Austria offers a blogging and podcasting service with which aon customers can make personal online content accessible to an exclusive circle of visitors. The company has also developed the prototype of future community television on the basis of broadband technology with the innovative project "Buntes Fernsehen" in Engerwitzdorf. The "user-generated content" approach has transformed what in the past was a passive mass media into one which can be individually shaped. The Upper Austrian community of Engerwitzdorf has attracted worldwide attention with the project, which was presented at the World Summit on Information Society in Tunis and awarded the State Prize for Multi-Media & E-Business in its category.

In February 2005 the roll-out of the e-card commenced, ushering in a new information age in the Austrian healthcare system. Telekom Austria's modern, high-availability broadband infrastructure permits the reliable exchange of data between physicians and the central server of the Main Association of Austrian Social Security Associations. This innovative solution was also awarded the Best Broadband IP Services of the Year Award by Cisco Systems and IDG Global Solutions.

"Converging Media" is the vision behind the development of the ALLmediaNET, which integrates voice and data communications, mobility and multimedia end-to-end solutions. Various multimedia portals which support the new media formats in the areas of e-health, e-government and e-education were presented at the Technology Forum in Alpbach in August 2005. Another premier was the first broadband broadcast using High Definition Television Technology (HDTV), the new television standard with a better picture resolution and higher sound quality.

Total Expenses for Research and Development
in EUR million



Innovations – Wireless

Research and development activities in the wireless segment focused upon the market-oriented utilization and further development of the application spectrum of technologies. Moreover, regular controls safeguarded the technical basis for the segment's business success: The stability and high quality of voice and data transmission of the A1 network was once again corroborated by independent institutes in 2005.

Work also continued in 2005 on the further development of mobile broadband technologies and the Vodafone Mobile Connect Card. mobilkom austria is the first and only network operator in Austria to offer mobile high-speed services on the basis of UMTS and EDGE through a nation-wide 3G network. New accents were set in the multimedia segment with A1 RADIO ZONE and A1 LIVE TV, which make it possible to receive international podcasts, radio and television livestreams on the mobile phone.

New applications were also presented in the m-business segment. A professional fleet management product was offered for the first time with the A1 FLEET-MANAGER, and a mobile navigation system with A1 NAVI.

mobilkom austria's innovative strength is also reflected in the company's regular nominations for the internationally renowned GSM Award. The A1 SIGNATUR product developed last year allows all dealings with official channels to be carried out online and received an award in the category "Mobile in the Community" in February 2005.

In 2005 preparations also started for the roll-out of High Speed Downlink Packet Access (HSDPA). This technology permits transmission rates of up to 1.8 Mbit/s and is a further building block in the multi-layer strategy of mobilkom austria's network. HSDPA will become available in Vienna in 1Q 2006 to be followed later in the year by other provincial capitals. This will make one or more high-speed technologies available to customers, depending on their location.

R&D Partnerships

To ensure the earliest possible market-oriented introduction of increasingly complex products and services, Telekom Austria has entered into several partnerships with the market leaders in the relevant areas of expertise. The focus of these frequently internationally-oriented cooperations is directed toward applications for new technologies, especially IP technologies, multi-media, tele-medicine and telematics, as well as quality standards and user-friendliness. Moreover, Telekom Austria 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.

Closer cooperation with Vodafone in product and technology management has allowed mobilkom austria to become involved in global development projects, ensuring the efficient coordination of new product developments and a harmonized market launch. In 2005 the Vodafone live! service was improved and expanded to include full track music download and additional live TV-channels.

Innovation Highlights 2005

Wireline
January: Presentation of FutureHome
May: e-card roll out
August: First HDTV broadcast using the Telekom Austria broadband network at Forum Alpbach
September: Innovation Prize for "Buntes Fernsehen" in Engerwitzdorf awarded to Telekom Austria
December: Launch of aonDigital TV with Friendly Customers
December: Weblife on aon.at, weblog for aon customers

Wireless
January: Launch of UMTS+EGDE
March: A1 FLEETMANAGER
April: Live demonstration of HSDPA (mobile TV)
June: A1 RADIO ZONE – live radio reception by mobile phone (more than 50 radio stations)
July: UMTS+EDGE become available throughout Austria
September: first UMTS+EDGE data card
November: A1 LIVE TV – Live TV Streaming

Investments that Bear Fruit are an Art.

With a Return on Invested Capital of 8.2% Telekom Austria substantially improved its profitability in 2005, providing fertile ground for strong growth.

Future yields will also be used to continue the company's expansion strategy, reduce debt and provide a solid return for shareholders.

Group Management Report 2005

Stable Economic Growth

Austria experienced steady economic growth in 2005 with GDP rising by 1.9% in real terms. This increase was driven by successful export performance in the markets of central and southeast Europe, stronger consumer demand and economic policy measures. The unemployment rate (as calculated by Eurostat) rose from 4.5% to 5.2% during the year. Due to increases in the costs of housing, water and energy, inflation rose modestly from 2.1% to 2.3%, a figure slightly higher 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. GDP rose by 5.3% in Bulgaria, by 4.0% in Croatia, by 3.8% in Slovenia and by 4.8% in the Czech Republic.

Information and Communications Technologies (ICT) Driving Growth and Innovation

The European Union has acknowledged that information and communications technologies play a vital role in driving growth and innovation in the European economy, as this sector alone accounts for approximately one quarter of annual economic growth. In Austria this is equivalent to 0.5 percentage points of the total increase in GDP in 2005.

In order to leverage the opportunities presented by technological change in the traditional voice and data business, investments must be made in All-IP networks. Such investments, however, are only economically justifiable in a regulatory environment which ensures that investments can be planned and protected.

Market Environment

Voice telephony traffic continued to shift in favor of mobile communications in 2005, with nationwide full-coverage networks, fierce price competition on the Austrian mobile communications market and new technological applications promoting this development. According to the latest Telekom Austria estimates, roughly 60% of all voice traffic is carried over mobile communications networks. However, the company does not believe that Voice over IP (VoIP) represents a serious threat to the wireline segment at present as only a small percentage of revenues – primarily from international calls – is affected by this technology.

Compared to the previous year the volume of voice traffic carried by the Austrian fixed line network declined by 9.4% to 9.3 billion minutes in 2005.
In this business environment Telekom Austria was able to increase its market share by 1.0 percentage point to 55.4%.

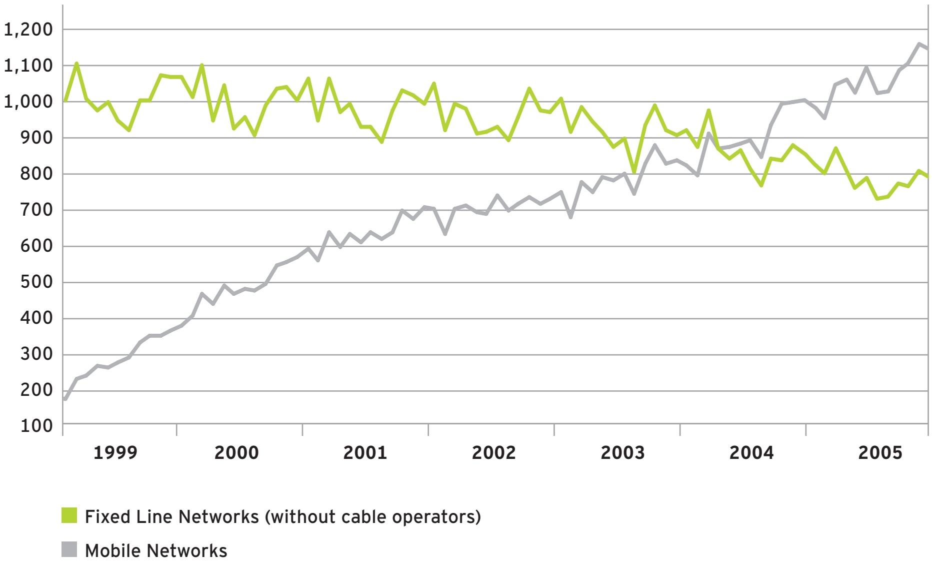
The share of the broadband market (including wholesale customers) rose by 4.7 percentage points to 51.0%. The take-over of Inode by UPC Telekabel has led to a consolidation of the Austrian broadband market; this, however, is not expected to ease intense competition in this segment.

Encouraged by lower tariffs traffic volume on the Austrian mobile communications market rose by 16.7% to approximately 12.7 billion minutes, while the mobile penetration rate increased by 8.0 percentage points to 106.0%. With a market share of 39.1% and a steady lead over its main rival, mobilkom austria successfully defended its position as market leader on the highly competitive Austrian mobile communications market. The Bulgarian mobile communications market also displayed dynamic growth with the penetration rate increasing by 19.8 percentage points to 79.5%. At the same time, the recent entry onto the market of a fourth provider has resulted in increased competition. At the end of 2005 Mobiltel held a market share of 57.6%, as compared to 64.4% at the end of 2004. Vipnet's share of the market fell from 46.0% in the previous year to 44.1% at the end of 2005 after a second competitor started operations. The penetration rate of the Croatian mobile communications market rose from 64.5% in 2004 to 82.9%, whereby this dynamic development was characterized by aggressive acquisition campaigns by both Vipnet and its rivals. With a virtually unchanged penetration rate of 80.1% and a market share of 22.7% at year-end 2005, Si.mobil is the second largest provider in Slovenia. The competitive conditions on this market remain unfavorable due to the difficult regulatory environment.

Technological progress and changes in the core business areas necessitate the ongoing reorientation of the Telekom Austria Group to take account of new business areas. The implementation of an ALLmediaNET for example will create an All-IP network in the wireline segment which will allow the merger of Internet, television and telephony. Broadband technology is also being pushed and at the end of 2005 a household coverage rate of some 90% had been achieved. Approximately 25% of Austrian households currently have broadband access. In the wireless segment mobilkom austria has become the first and only network operator in Austria to offer mobile broadband services across the country with a 97% coverage rate using UMTS and EDGE technology.

Development of Voice Telephony Volumes in the Fixed and Mobile Communications Network

in millions of minutes per month



Important
Regulatory Decisions

In 2005, the procedure that started in 2004 to define the 17 telecommunications markets envisaged within the European legal framework was completed with the analysis of the Austrian broadband market. The result of many of these market analyses is that numerous areas will remain subject to regulation. On the basis of the detailed instructions in the directives, Telekom Austria's four existing standard offers for interconnection, unbundling, resale and ADSL wholesale were adjusted and an additional offer was drawn up for leased lines prior to commercial launch. According to the results of the analysis of the Austrian broadband market, a "naked ADSL" wholesale product was made compulsory. The most important regulatory decisions in the reporting year for the wireline segment included the reduction of the unbundling fees for the subscriber line

"The focus in the next few years will be upon increasing shareholder value even further"

By streamlining organizational structures at the company and steadily reducing debt levels we have been able to significantly improve our results in recent years. These measures have made it possible for us to distribute dividends, buy back treasury shares and consistently pursue our growth strategy, particularly with the acquisition of Mobiltel.

The corporate bonds issued in January 2005 not only represented the largest bond transaction ever carried out by an Austrian company, they also provided us with favorable and solid financing for the expansion of the Telekom Austria Group to Bulgaria. Although the level of net debt increased following the acquisition of Mobiltel, the Telekom Austria Group was able to improve its rating.

In the coming years we will focus upon increasing shareholder value still further. To achieve this goal, we plan to spend more than EUR 5 billion on acquisitions, share buybacks and dividend payments in the period up to 2009. The Return on Invested Capital (ROIC) was increased by 3.0 percentage points to 8.2% in 2005 and this indicator will remain a key benchmark for the success of our strategy in the future.

"In 2005 the Return on Invested Capital (ROIC) rose to 8.2%."

Stefano Colombo
Chief Financial Officer

between Telekom Austria and Tele2/UTA by 1.8% as of January 2006 and other amendments to the regulations regarding collocation space rental fees. The decision requiring the Austrian government to provide the regulatory authority with at least 25% of its financing, applicable retroactively from 2005 onward, has lessened the financial burden on the Telekom Austria Group.

On December 15, 2005 the regional parliament of Lower Austria withdrew the controversial law to tax the transmission masts of mobile communications providers. A decision taken by the regulator on December 19, 2005 initiated the process of reducing the differing mobile termination charges for all mobile operators. The reduction will take place according to a gliding path model; by January 1, 2009 all mobile providers must have reached a termination charge of 6.79 Cents.

Financial Figures (in EUR million)	2005	2004	Change in %
Revenues	4,377.3	4,056.3	7.9
Operating income	620.0	452.7	37.0
Net income	417.1	227.3	83.5
Earnings per share in EUR	0.85	0.46	84.8
Adjusted EBITDA*	1,757.2	1,568.8	12.0
Capital expenditures	627.6	548.2	14.5
Net debt	3,082.1	1,973.9	56.1

* See glossary for definition.

Operating Expenses (in EUR million)	2005	2004	Change in %
Material expenses	346.5	324.5	6.8
Employee costs	679.0	673.7	0.8
Depreciation, amortization and impairment charges	1,137.2	1,116.1	1.9
Other operating expenses	1,594.6	1,489.3	7.1

Change in the Financial Statements according to U.S. GAAP

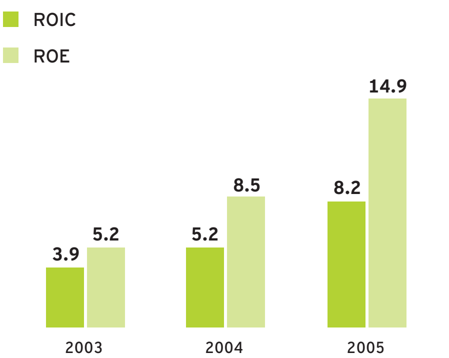
The income generated by Mobiltel between July 12 and December 31, 2005 is included in the consolidated financial statements.

Telekom Austria plans to change its Group reporting from U.S. GAAP to IFRS in 2006. This change of Group reporting is not expected to have a significant impact on the key financial figures.

Development of Results

In 2005 the Telekom Austria Group was able to increase operating revenues by 7.9% to EUR 4,377.3 million. Falling revenues in the wireline segment due to weaker voice and data business were more than offset by growth in the wireless segment. The wireless segment not only profited from the consolidation of Mobiltel for the period July 12 to December 31, 2005, but also from an increase in subscriber numbers and strong data business. The share of revenues generated by the Group's international activities climbed to approximately 19% in 2005, up from 12.2% in 2004.

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



Due to the increased number of subscribers in the broadband area and the wireless segment and the resulting higher expenses for equipment, material expenses rose by 6.8% to EUR 346.5 million in 2005.

At EUR 679.0 million, employee costs were 0.8% higher than in 2004. Lower expenses for personnel restructuring in the wireline segment could not fully offset the increase in employee costs, due to the wage increases under the collective bargaining agreement and the first-time inclusion of employees from Mobiltel. Depreciation, amortization and impairment charges increased by a total of 1.9% to EUR 1,137.2 million. Despite an impairment charge of EUR 16.3 million which was mostly attributable to the adjustment of the goodwill of Czech On Line, depreciation, amortization and impairment charges in the wireline segment were lower than in the previous year. Higher depreciation, amortization and impairment charges in the wireless segment were mainly due to the acquisition of Mobiltel and the partial allocation of the purchase price to the fair value of the acquired subscriber base, which is amortized over a period of seven years.

Other operating expenses essentially comprise expenses from interconnection, repair and maintenance, services received, and marketing and advertising costs. Total expenses reported under these items rose by 7.1% to EUR 1,594.6 million in 2005, mainly due to the consolidation of Mobiltel and higher marketing costs.

The Telekom Austria Group boosted its operating income by 37.0% to EUR 620.0 million. Both segments were able to increase their contributions to earnings, with the wireless segment making an especially strong contribution due to the consolidation of Mobiltel. Operating income excluding expenses for depreciation, amortization and impairment charges (adjusted EBITDA) rose by 12.0% to EUR 1,757.2 million, with the wireless segment more than compensating for a slight decline in the wireline segment. As measured by the adjusted EBITDA margin the Telekom Austria Group improved its profitability by 1.4 percentage points to 40.1%.

The optimal exploitation of more favorable interest rates, Telekom Austria's improved external rating and the repayment of high-interest liabilities resulted in an 8.2% reduction in net interest expenses to EUR 109.1 million, accompanied by an increase in net debt due to expansion. Other non-operating income in 2005 fell from EUR 15.6 million to EUR 12.0 million due to lower foreign exchange gains.

Although income before taxes and minority interests rose by 49.5% to EUR 523.5 million, corporate income tax expenses fell by 12.9% to EUR 106.4 million. The main factor behind this development was the reduction in the rate of corporate income tax in Austria from 34% to 25%, which became effective on January 1, 2005. The resulting revaluation of the deferred tax assets and liabilities in 2004 led to a one-off tax expense of roughly EUR 22 million. The effective tax rate in 2005 amounted to 20.3%. The difference between the effective tax rate and the Austrian statutory tax rate of 25% is due to tax credits and lower foreign income tax rates (2004: 28.7%).

Net income increased by 83.5% to EUR 417.1 million compared to the previous year. Earnings per share thus rose from EUR 0.46 to EUR 0.85. 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 0.55 per eligible share. This represents an increase of 129.2% compared to the previous year; the pay-out ratio thus rose from 52.0% in 2004 to roughly 65%.

The Telekom Austria Group further increased its earnings quality in the reporting year 2005. Within the framework of the value management system, the Return on Invested Capital (ROIC) was defined as the decisive management variable. Measured in terms of ROIC, the return on capital rose from 5.2% in 2004 to 8.2% in 2005, meaning that the average weighted costs of capital were exceeded and the intrinsic value of the company continued to increase. Improved efficiency was also reflected in the better return on equity (ROE) which rose from 8.5% to 14.9%.

Segment Reporting

Revenues (in EUR million)	2005	2004	Change in %
Wireline	2,135.2	2,184.7	-2.3
Wireless	2,489.2	2,125.5	17.1
Other & eliminations	-247.1	-253.9	2.7
Consolidated revenues	**4,377.3**	**4,056.3**	**7.9**
Wireless revenues on a comparable basis, excluding Mobiltel	2,227.3	2,125.5	4.8

Operating Income (in EUR million)	2005	2004	Change in %
Wireline	65.9	55.8	18.1
Wireless	552.2	407.4	35.5
Other & eliminations	1.9	-10.5	-
Consolidated operating income	**620.0**	**452.7**	**37.0**
Wireless operating income on a comparable basis, excluding Mobiltel	458.2	407.4	12.5

Adjusted EBITDA* (in EUR million)	2005	2004	Change in %
Wireline	786.7	814.3	-3.4
Wireless	969.0	765.4	26.6
Other & eliminations	1.5	-10.9	-
Consolidated adjusted EBITDA	**1,757.2**	**1,568.8**	**12.0**
Wireless adjusted EBITDA on a comparable basis, excluding Mobiltel	814.4	765.4	6.4

* See glossary for definition.

Slight Decline in Earnings in the Wireline Segment

Despite the increasing migration of call volumes to mobile communication networks, the wireline segment was able to expand its market share of voice minutes by 1.0 percentage point to 55.4% (including Internet dial-up 55.7%) thanks to a successful customer retention policy and attractive product offers. As Internet dial-up customers moved to higher value broadband products the volume of voice minutes including Internet dial-up traffic fell by 16.2% to 7.4 billion. Telekom Austria's volume of pure voice calls declined by 6.3% to 5.1 billion minutes, while the total market shrunk by 9.4% to 9.3 billion. The number of Telekom Austria fixed lines fell by 3.6% to 2.8 million. The broadband business continued to grow steadily in 2005. The number of ADSL lines (including wholesale customers) rose by 49.7% to 574,300, with 190,700 net additions.

The wireline segment saw revenues decline by 2.3% to EUR 2,135.2 million in 2005. Adjusted for a one-off gain in 2004 of EUR 14.9 million charged to alternative providers for the provision of universal services between 1999 and 2004, the decline was reduced to 1.6%. While the sharp increase in subscriber numbers in the broadband business boosted revenues from Internet access and media, this trend was unable to compensate for declines in revenues from monthly rentals, data and IT solutions including wholesale in 2005.

Operating income grew by 18.1% to EUR 65.9 million in 2005 mainly due to lower depreciation and amortization expenses. As cost-cutting measures were only partially able to compensate for lower revenues, operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) declined by 3.4% to EUR 786.7 million. Personnel costs decreased compared to 2004 as a result of the lower head-count. As expenses for personnel reduction amounting to EUR 19.3 million had been incurred in 2004, a provision of EUR 3.7 million was released in 2005. Depreciation, amortization and impairment charges decreased by 5.0% to EUR 720.8 million, notwithstanding impairment charges for goodwill, which were largely attributable to an adjustment at Czech On Line.

Czech On Line saw revenues rise by 12.8% to EUR 23.0 million in 2005. Due to flagging demand for dial-up products and the unfavorable regulatory environment, operating income dropped, resulting in a loss of EUR 1.9 million and adjusted EBITDA declined from EUR 3.4 million to EUR 0.5 million.

Successful Expansion in the Wireless Segment

Supported by the acquisition of the Bulgarian provider Mobiltel, which was included in the consolidated financial statements for the period from July 12 to December 31, 2005, the wireless segment reported substantial increases in revenues and earnings in 2005. The number of mobile subscribers rose to 9.0 million at the end of 2005, an increase of 81.1% compared to the previous year.

In the year under review, revenues including those generated by Mobiltel rose by 17.1% to EUR 2,489.2; adjusted to exclude Mobiltel revenues rose by 4.8% to EUR 2,227.3 million. Despite higher depreciation and amortization costs due, among other things, to the amortization of Mobiltel’s customer base, operating income including Mobiltel improved by 35.5% to EUR 552.2 million (excluding Mobiltel, an increase of 12.5% to EUR 458.2 million). Operating income excluding depreciation and amortization expenses (adjusted EBITDA) rose by

26.6% to EUR 969.0 million. Higher revenues more than compensated for the higher cost of materials and interconnection. Excluding Mobiltel adjusted EBITDA grew by 6.4% to EUR 814.4 million.

Despite a penetration rate of 106.0% and extremely fierce competition in Austria, mobilkom austria was able to increase its customer base by 3.6% to approximately 3.4 million subscribers, successfully defending its market leadership with a market share of 39.1%. Despite strong sustained pressure on prices, mobilkom austria was able to improve revenues by 2.4% to EUR 1,719.1 million compared to 2004. This rise in revenues offset higher interconnection expenses and expenses for purchased services, so that operating income rose by 5.2% to EUR 358.8 million. Excluding depreciation, amortization and impairment charges (adjusted EBITDA) operating income rose by 3.3% to EUR 612.8 million.

With a market share of 57.6% and some 3.6 million customers as of December 31, 2005 Mobiltel is the leading Bulgarian mobile communications provider. In 2005 market penetration in Bulgaria increased from 59.7% to 79.5%. Other companies active on the Bulgarian market in addition to Mobiltel include Globul and Vivatel, a subsidiary of the local fixed line operator. Average revenues per user (ARPU) at Mobiltel in 2005 amounted to EUR 12.3. Since July 12, 2005 Mobiltel has been consolidated within Telekom Austria's wireless segment. Mobiltel's contribution to the consolidated financial results of the Telekom Austria Group amounted to EUR 262.6 million in terms of revenues, EUR 94.0 million in terms of operating income and EUR 154.6 million in terms of adjusted EBITDA.

Vipnet increased its subscriber numbers by 23.3% to approximately 1.6 million in 2005. Revenues in 2005 grew by 12.4% to EUR 422.0 million, a development which was largely attributable to higher roaming revenues and the successful products from the Vodafone partnership. Operating income rose by 27.1% to EUR 86.4 million. Excluding depreciation, amortization and impairment charges (adjusted EBITDA) operating income rose by 9.3% to EUR 166.9 million.

Operating revenues at Si.mobil rose by 14.8% in the reporting year 2005 to EUR 100.8 million. Operating income increased from EUR 0.1 million in 2004 to EUR 3.5 million in 2005. Operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) rose by 20.1% to EUR 24.5 million.

Increase in the Balance Sheet Total due to the Acquisition of Mobiltel

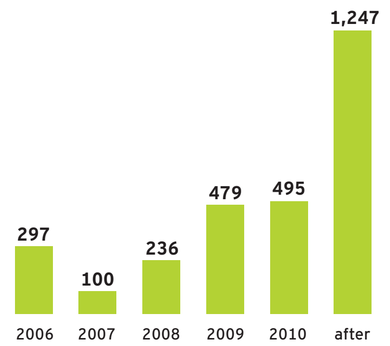
The balance sheet total of the Telekom Austria Group rose by 16.1% to EUR 8.4 billion in year-on-year terms. The main factor behind this increase in the balance sheet total was the acquisition of Mobiltel, which was reflected above all in the two-fold increase in goodwill and other intangible assets. Current assets declined by 5.4% to approximately EUR 1.2 billion, and cash and cash equivalents reported under this item decreased by EUR 171.4 million because they were deployed for the acquisition of Mobiltel. Despite additions to property, plant and equipment of EUR 274.0 million generated by the acquisition of Mobiltel and increased total investment in property, plant and equipment, the total fixed asset base decreased from EUR 3.9 billion to EUR 3.8 billion, due to depreciation and amortization. Other assets of EUR 851.0 million mainly include other long-term receivables and assets stemming largely from cross-border lease transactions, which are offset by U.S. dollar denominated lease obligations of the same amount. The appreciation of the dollar against the euro led to an increase in receivables and lease obligations of the same amount.

Long-term debt increased by EUR 910.5 million to approximately EUR 2.6 billion following the issue of corporate bonds at the start of 2005. Employee benefit provisions were reduced in line with the reduction of the obligations for the voluntary retirement incentive programs. An increase in current liabilities was mainly due to higher current financial liabilities and prepaid expenses.

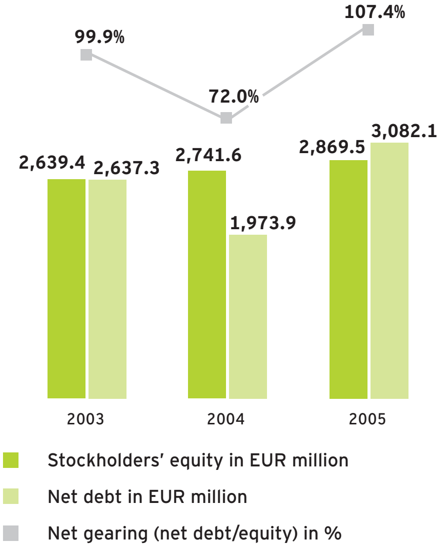
Development of Balance Sheet (in EUR million)	**Dec. 31, 2005**	**Dec. 31, 2004**	**Change in %**
Current assets	1,204.6	1,273.9	-5.4
Property, plant and equipment	3,774.6	3,888.7	-2.9
Goodwill	1,149.2	596.6	92.6
Other intangible assets	1,432.5	667.3	114.7
Other assets	851.0	816.0	4.3
ASSETS	**8,411.9**	**7,242.5**	**16.1**
Current liabilities	1,919.2	1,872.1	2.5
Long-term debt, net of current portion	2,557.7	1,647.2	55.3
Lease obligations, net of current portion	817.9	761.1	7.5
Employee benefit obligations	107.3	110.0	-2.5
Other liabilities	140.3	110.5	27.0
Stockholders' equity	2,869.5	2,741.6	4.7
LIABILITIES AND STOCKHOLDERS' EQUITY	**8,411.9**	**7,242.5**	**16.1**

Net Debt (in EUR million)	**Dec. 31, 2005**	**Dec. 31, 2004**
Long-term debt, net of current portion	2,557.7	1,647.2
Short-term borrowings	785.8	751.1
- short-term portion of capital and cross-border leasing	-122.7	-95.3
+ capital lease obligations (short term and long term)	0.6	1.6
Cash and cash equivalents, short-term and long-term investments	-139.3	-312.9
Financial instruments, included in other assets	0.0	-17.8
Net debt of Telekom Austria	**3,082.1**	**1,973.9**
Net debt/equity (net gearing)	107.4%	72.0%

Maturity of Long-term Liabilities
(in EUR million as of Dec. 31, 2005)



Net Gearing



Stockholders' equity reported an increase of 4.7% to approximately EUR 2,869.5 million in comparison to the previous year, resulting in an equity ratio of 34.1% (2004: 37.9%). This increase in stockholders' equity is largely attributable to net income of EUR 417.1 million, minus the dividend payment of EUR 117.8 million for the financial year 2004 and minus intensified share buy-backs of EUR 184.4 million in 2005.

On May 25, 2005 the Annual General Meeting authorized the Management Board of Telekom Austria to purchase treasury shares to the maximum extent legally permitted of 10% of stockholders' equity, for a period of 18 months at a minimum price of EUR 9 and a maximum price of EUR 21 per share. This authorization, which ends on November 24, 2006, entitles the Management Board to use the repurchased shares to service the stock option programs and convertible bonds, but also as consideration for acquisitions and for resale. Shares which are not used for one of these purposes may be retired without the prior consent of the Annual General Meeting. Telekom Austria purchased 11,241,412 treasury shares in the 2005 financial year at an average price per share of EUR 16.41. In 2004 6,255,694 treasury shares were purchased, bringing the total number of treasury shares held by the company as of year-end 2005 to 17,497,106. This reduced stockholders' equity by EUR 247.8 million.

Net debt in the reporting year rose by EUR 1,108.2 million to EUR 3,082.1 million, mostly as a result of the Mobiltel acquisition, increasing the debt-to-equity ratio (net gearing) at year-end 2005 from 72.0% to 107.4%.

Development of Cash Flow

The rise in cash flow generated from operations by 16.0% to EUR 1,513.7 million is mainly due to a higher full-year result in 2005. The change in working capital basically corresponds to the level of the previous year. The acquisition of Mobiltel and higher capital expenditures increased the cash flow used in investing activities by approximately 250% to EUR 1,780.9 million. Proceeds from the issuance of two corporate bonds in early 2005 exceeded the repayments of long-term debt, the intensified share buybacks and the dividend payment, which increased compared to the previous year. This resulted in a positive cash flow from financing activities of EUR 96.2 million.

Capital Expenditures

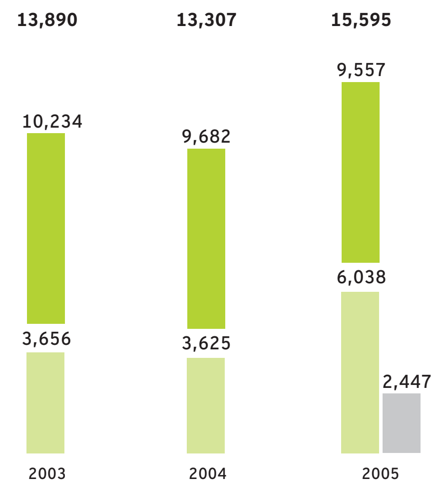
Total capital expenditures for tangible and intangible assets in 2005 increased by 14.5% to EUR 627.6 million, of which EUR 617.9 million (an increase of 22.2%) was for tangible assets. Due to investments in the expansion of broadband technology and implementation of the Austrian Surveillance Ordinance, capital expenditures in the wireline segment rose by 12.1%. The consolidation of Mobiltel and the continued upgrading of the Austrian mobile communications network with EDGE and UMTS technology raised capital expenditures in the wireless segment by 34.7% to EUR 303.9 million. In 2004 capital expenditures for intangible assets of EUR 42.6 million were due, among other things, to the purchase of a UMTS license by Vipnet totaling EUR 17.2 million. Capital expenditures for intangible assets declined to EUR 9.7 million in the year under review. They also include the acquisition of a WiMAX license by Mobiltel.

Cash Flow (in EUR million)	**2005**	**2004**
Cash flow generated from operations	1,513.7	1,304.7
Cash used in investing activities	-1,780.9	-509.3
Cash generated from (used in) financing activities	96.2	-704.9
Effect of exchange rate changes	-0.4	-4.2
Reduction / increase in cash and cash equivalents	**-171.4**	**86.3**

Capital Expenditures (in EUR million)	**2005**	**2004**
Tangible wireline	314.0	280.0
Tangible wireless	303.9	225.6
Tangible	**617.9**	**505.6**
Intangible	9.7	42.6
Total	**627.6**	**548.2**

Workforce

Employees at Year-End*



Wireline
Wireless
of which Mobiltel

*Full-time employees

On December 31, 2005 the Telekom Austria Group employed 15,595 employees. The headcount increase of 17.2% compared to the previous year is due to the first time inclusion of the 2,447 employees of Mobiltel. Excluding Mobiltel, personnel decreased by 1.2%. The wireline segment reported a headcount reduction of 125 employees, mostly as a result of natural attrition. In the wireless segment the number of employees, including Mobiltel, rose by 66.6% to 6,038. Excluding Mobiltel, the headcount fell by 0.9% or 34 employees. In total, 43.6% of the Telekom Austria Group's workforce had civil servant status by year-end 2005 (2004: 51.5%).

Research & Development

Research and development activities at the Telekom Austria Group focus on expanding the company's innovation leadership and thus securing the basis for its future business success. In 2005 the wireline segment concentrated on the convergence of communications and information technologies, the digitalization of content and further expansion of broadband technology. Work continued on the migration of existing networks to the ALLmediaNET, an All-IP network, which forms the basis for the communications products and services of the future. The wireless segment focused upon expanding mobile communication applications in 2005. Product development highlights included the further development of mobile broadband, the Vodafone Mobile Connect Card and new applications such as A1 NAVI, a mobile navigation system. Total research and development expenditure by the Telekom Austria Group in 2005 amounted to EUR 43.0 million, up from EUR 42.4 million in the previous year.

Environmental and Social Responsibility

The Telekom Austria Group also pays special attention to environmental and social aspects in the pursuit of its business objectives. With the help of an ongoing evaluation of key figures such as pollutant emissions and energy consumption, Telekom Austria monitors the extent to which it meets the defined environmental protection targets and at the same time controls its use of resources. In fall 2005 the environmental management system that was introduced in the wireline segment in 2004 to continuously monitor and reduce ecological impact was recertified in accordance with ISO 14001.

In order to ensure a supply of skilled workers for the future, the Telekom Austria Group is also relying to a greater extent on apprenticeship training at its own training centers. To minimize the fluctuation risk, measures are in place to improve the work-life balance, equal opportunities for women and job security. Employees are also covered by a company pension plan. Further information about Telekom Austria's commitment to social and environmental responsibility can be found in the Sustainability chapter as well as in the Sustainability Report, which is available in a user-friendly online version on our website under http://sr2004.telekom.at

Risk Management

The Telekom Austria Group is active on various markets (fixed line communications, Internet and mobile communications) and is successfully positioned both in Austria and abroad. The Group uses this diversity to reduce the multiple risks with which it is confronted as a company operating on international markets.

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

The wireline segment has installed a value-oriented risk management system to ensure systematic, proactive and transparent risk management. 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 also covers the international subsidiaries and is steered by a committee comprised of members from the management boards of the individual mobile communications companies. Effective steering and control systems are in place to identify early on and evaluate risks, and ensure that appropriate action is taken. Furthermore, an internal audit department regularly examines the conduct of business and organizational procedures for their correctness and fairness, 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 extremely fierce competition which prevails in the two business segments will ease off. In the wireline segment's fixed line business Inode has been taken over by UPC Telekabel, while the mobile communications industry is waiting to see whether tele.ring will be taken over by T-Mobile Austria. Since the acquisition of Mobiltel a fourth mobile communications provider has started operating in Bulgaria, thereby increasing competitive pressure in that country. In Croatia, the market entry of a third provider is now expected to be followed by a fourth, which will increase competition and lower tariff levels. 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 November 2005 the mobile termination charges for the Austrian mobile communications market were lowered and a further reduction is expected. Future regulatory developments could also have an impact on business performance in the 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 the company to identify problems early on and take measures to counter 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 the infrastructure becomes obsolescent. 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 southeast Europe. The realization chances and the future value of these investments will, however, also depend on the political, economic and legal development of these countries.

Implementation of an Internal Control System in Accordance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act enacted by the U.S. Congress in July 2002 and to which Telekom Austria is also subject because of its listing on the New York Stock Exchange, requires the implementation and auditing of an internal control system for financial reporting (SOA-ICS) by the end of 2006. This audit is carried out by the company itself and the auditors and its purpose is to ascertain whether the correctness of the internally generated data and thus the financial reporting is guaranteed. Following a pilot project this control mechanism was introduced throughout the entire Telekom Austria Group in 2005. At the end of each year, the reliability of the internal control system is evaluated by the Management Board and audited by an external auditor. As of spring 2007 the company's evaluation report and the auditor's opinion of the internal control system must be published in the Form 20-F which has to be submitted each year to the U.S. Securities and Exchange Commission.

A Disclosure Committee comprised of senior members of the accounting, legal and investor relations departments of Telekom Austria AG and the Chief Financial Officer of mobilkom austria AG supports the Management Board of the Telekom Austria Group in ensuring reliable and complete financial reporting.

Major Subsequent Events

On January 12, 2006 Telekom Austria announced that the Chairman of the Management Board and Chief Executive Officer Heinz Sundt would resign at the Annual General Meeting on May 23, 2006. Boris Nemsic, Chief Operating Officer Wireless was appointed to succeed him. Rudolf Fischer, Chief Operating Officer Wireline will become the Vice Chairman of the Management Board.

On January 31, 2006, ÖIAG reduced its holding from 30.17% to approximately 29.99% of voting common shares through delivery of shares to investors holding exchangeable notes.

The earnings-per-share target value for the second tranche of the stock option program started in 2004 was reached. Holders may exercise the options after the results for 2005 have been published. A provision amounting to EUR 13.0 million was included in the financial statements for the year 2005 for this purpose. On January 12, 2006 3,897,968 options from the third tranche of the stock option program were assigned to the eligible employees. These options may be settled either by cash payment or shares at the discretion of the company, whereby an option includes the right to buy one share. The exercise price is EUR 18.91. 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 14 months. The options therefore have a life of slightly more than four years.

Forecast for 2006 & Multi-Year Outlook

All key financial figures are expected to improve still further in 2006, primarily driven by the first full-year consolidation of Mobiltel. The change in Group reporting from U.S. GAAP to IFRS is not expected to have a significant impact on the key financial figures.

For the financial year 2006 the Telekom Austria Group expects operating revenues to rise by approximately 5% and adjusted EBITDA by roughly 10%. Although depreciation and amortization charges are expected to be marginally higher due to the consolidation of Mobiltel, Telekom Austria anticipates that operating income and net income will rise by approximately 20%. Thus with a steady distribution quota of 65% a further increase in the dividend can be expected. Capital expenditures in the wireless segment will rise due to the full-year consolidation of Mobiltel and higher investments in UMTS and HSDPA technologies in order to preserve the technological lead in a highly competitive market. Lower investments in the wireline segment will be unable to compensate for this increase. Despite the continuation of the share buyback program and a probable increase in tax payments, the strong cash flow will permit a reduction of net debt, before any possible acquisitions are taken into account.

In the wireline segment the migration of voice minutes to mobile communications networks will continue in 2006, leading to falling revenues and adjusted EBITDA. The broadband business in Austria will continue to grow, but will not yet be able to fully compensate for the decline in traditional voice telephony. Supported by a further reduction in depreciation and amortization charges, operating income in the wireline segment is expected to show strong growth in 2006.

In the wireless segment the contribution made by Mobiltel in particular is expected to lead to a further increase in operating revenues, adjusted EBITDA and operating income. Despite a possible market consolidation, price competition on all markets is expected to remain fierce, whereby much of the expected growth will be generated by Telekom Austria's international subsidiaries. In this environment all the companies in the wireless segment will focus on clearly positioning themselves in their markets and pushing ahead with the expansion of mobile data services.

For the period 2005 to 2009 and disregarding any possible acquisitions, Telekom Austria expects operating revenues to grow by a compound annual growth rate (CAGR) of some 2%. Adjusted EBITDA in this period should grow by an average of approximately 2.5% per annum. Due to a continued decline in depreciation and amortization charges and lower interest expenses as a result of the continued reduction of net debt, Telekom Austria expects net income to rise by an average of roughly 13% per year.

Vienna, March 2006

The Management Board

Heinz Sundt
Boris Nemsic
Rudolf Fischer
Stefano Colombo

Appendix to the Group Management Report

U.S. stock market law requires Telekom Austria to present a reconciliation of adjusted EBITDA to net income in accordance with U.S. GAAP.

Reconciliation from adjusted EBITDA* to net income (in EUR million)	2005	2004
Adjusted EBITDA	**1,757.2**	**1,568.8**
Impairment charges	-17.4	-1.3
Consolidated adjusted EBITDA (including impairment charges)	**1,739.8**	**1,567.5**
Depreciation and amortization	-1,119.8	-1,114.8
Interest income	89.1	70.0
Interest expenses	-198.2	-188.8
Equity in earnings of affiliates	0.6	0.6
Other, net**	12.0	15.6
Income before income taxes, minority interests and cumulative effect of change in accounting principle	**523.5**	**350.1**
Income tax expense	-106.4	-122.2
Minority interests	0.0	-0.6
Net income	**417.1**	**227.3**

* See glossary for definition.
** The totals in the above tables may differ from the sum of their components as a result of rounding, due to the deployment of automatic calculation methods.

Bringing Power to the Ground is an Art.

High performance and speed are crucial factors for success – particularly for modern communications infrastructures.

Which is why Telekom Austria is accelerating the nationwide expansion of high-speed broadband technology. With a technical ADSL-availability of 90% and an increase in ADSL access lines of 50% in 2005 we continue to set the pace in the country.

Wireline

Successful customer retention programs, new broadband products and multi-media applications offset market-induced revenue decline.

Quick Info

Revenues declined by 2.3% to EUR 2,135.2 million

Operating income rose by 18.1% to EUR 65.9 million

Voice telephony market share **expanded** by 1.0 percentage point

190,700 **ADSL net additions**

Capital expenditures rose by 12% due to implementation of the Surveillance Ordinance and increased **investments** in the fast-growing **broadband market**

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

The Austrian fixed line market is characterized by intense competition due to the existence of numerous rival companies and by the migration of voice minutes to mobile networks. The trend toward broadband communication and the business areas that build upon it is increasing steadily. Telekom Austria is seizing the opportunities for growth offered by broadband technology with innovative services such as aonDigital TV in the multi-media area and additional services to enhance the attractiveness of fixed access lines.

Key Data Wireline

(financial figures in EUR million)	2005	2004	Change in %
Revenues	2,135.2	2,184.7	-2.3
Operating income	65.9	55.8	18.1
Adjusted EBITDA*	786.7	814.3	-3.4
Adjusted EBITDA margin (in %)*	36.8	37.3	
Capital expenditures	314.1	280.4	12.0
Employees**	9,557	9,682	-1.3

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

Slight Decline in Revenues

Operating revenues in the wireline segment declined by 2.3% to EUR 2,135.2 million in the financial year 2005. Adjusted for the positive one-off gain in the previous year resulting from the charge to alternative operators for the provision of universal services between 1999 and 2004, the decline amounted to 1.6%.

Due to a strict investment policy which permitted a further reduction in depreciation and amortization charges, it was possible to improve operating income by 18.1% to EUR 65.9 million. Personnel costs and other operating expenses were also reduced further. Nevertheless, adjusted EBITDA declined by 3.4% to EUR 786.7 million compared to the previous year, reducing the EBITDA margin from 37.3% to 36.8%.

Operating revenues from switched voice traffic declined by 1.3% to EUR 398.1 million in 2005. The 2.7% increase in average tariffs for voice telephony was unable to completely offset the effects of increased migration to mobile networks. The decline of 3.7% in switched voice monthly rentals and other voice telephony revenues to EUR 548.8 million can be explained by a 3.6% drop in the number of fixed access lines. Higher revenues from value-added services were unable to compensate for the reduced use of public payphones, so that revenues reported under this item fell by a total of 8.6% to EUR 48.1 million. Sustained pressure on prices and the trend away from classic data solutions to IP-based services weakened revenues from data and IT solutions (including wholesale) by 4.8% to EUR 419.7 million. In contrast the broadband business reported massive expansion, with the ADSL subscriber base growing by 49.7% compared to the previous year. Supported by the migration of former dial-up customers to higher value ADSL products, operating revenues from Internet access and media rose by 16.7% to EUR 241.9 million, notwithstanding lower average revenues per ADSL customer.

Revenues from wholesale voice telephony and Internet fell by 5.3% to EUR 349.3 million; however, adjusted for the impact of two one-off gains in the previous year, revenues in fact grew by 7.5%. In 2004 higher international traffic volumes – mainly in the second and third quarter – resulted in revenues of EUR 29.1 million. Moreover, a sum of EUR 14.9 million was also booked which had been charged for universal services rendered between 1999 and 2004, pursuant to an agreement with alternative providers. Lower operating revenues from directory enquiry services and the sale of equipment led to a decline in other operating revenues of 8.6% to EUR 129.3 million.

Supported by a strict cost management program the wireline segment was able to cut total operating expenses by 2.8% to EUR 2,069.3 million. Material expenses were reduced by 5.4% to EUR 65.3 million mainly by streamlining the range of merchandise. Personnel expenses declined by 2.7% compared to the previous year. Increases in employee costs, largely attributable to the pay increases under the collective bargaining agreement, were offset by reductions in the headcount and lower expenses for personnel downsizing measures.

Interconnection expenses rose by 2.2% to EUR 340.4 million due to the general increase in calls within mobile communications networks. Network optimizations, which were carried out successfully despite rising volumes of data traffic and lower expenses for building and IT maintenance enabled spending on maintenance and repairs to be reduced by 2.5% to EUR 113.6 million. Expenses for services received rose by 6.9% to EUR 44.8 million due to the increased use of data lines for corporate customers expanding abroad. Spending on other support services rose by 1.7% due to additional expenses in the area of customer care and costs for IT services for the development of a new billing software. Lower net loss from retirement of fixed assets compensated for higher bad debt provisions and commission payments for direct sales, resulting in an overall reduction of other operating expenses by 5.9% to EUR 214.4 million.

Revenues (in EUR million)	**2005**	**2004**	**Change in %**
Switched voice traffic revenues	398.1	403.4	-1.3
Switched voice monthly rentals and other voice telephony revenues	548.8	570.1	-3.7
Payphone and value-added services	48.1	52.6	-8.6
Data and IT solutions including wholesale	419.7	441.0	-4.8
Internet access and media	241.9	207.2	16.7
Wholesale voice telephony and Internet	349.3	369.0	-5.3
Other	129.3	141.4	-8.6
Total wireline revenues	**2,135.2**	**2,184.7**	**-2.3**

Operating Expenses (in EUR million)	**2005**	**2004**	**Change in %**
Material expenses	65.3	69.0	-5.4
Employee costs*	481.3	494.9	-2.7
Depreciation, amortization and impairment charges	720.8	758.5	-5.0
Interconnection	340.4	333.1	2.2
Maintenance and repairs	113.6	116.5	-2.5
Services received	44.8	41.9	6.9
Other support services	88.7	87.2	1.7
Other operating expenses	214.4	227.8	-5.9
Total wireline operating expenses	**2,069.3**	**2,128.9**	**-2.8**

* including benefits and taxes.

Temporary Increase in Capital Expenditures

In comparison to the previous year, capital expenditures for tangible and intangible assets rose by 12.0% in 2005 to EUR 314.1 million. Stronger investments in the fast-growing broadband segment and a one-off investment of EUR 16.6 million for the implementation of the Austrian Surveillance Ordinance were the main factors behind this development. In the broadband business Telekom Austria used the current market boom to increase investment in customer equipment, upgrade switching centers to ADSL technology and redesign the product portfolio. Substantial financial resources were also used for investments in the infrastructure for aonDigital TV and in customer equipment for the e-card project. In the voice telephony segment, work continued on the installation of public multi-media stations and network consolidation. The core network was expanded and optimized to meet higher capacity requirements. Compared to the previous year investments in site refurbishment and optimization were slightly higher.

"Broadband technology is making fixed access lines more attractive again"

In a highly competitive market we are doing everything we can to increase the attractiveness of fixed access lines in order to safeguard direct access to the customer. In pursuit of this objective Telekom Austria is consistently expanding its portfolio of broadband products and developing innovative services.

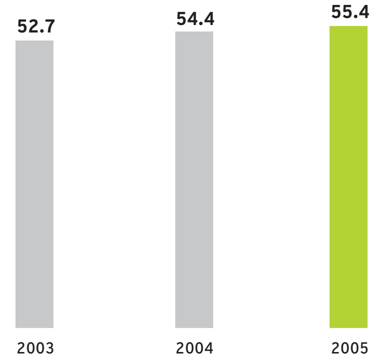
aonDigital TV is an impressive example of how we are successfully developing new business areas. Following the commercial launch in Vienna in March 2006 the service will be extended to other regions in Austria in order to offer as many customers as possible this revolutionary, interactive television experience.

Innovations of this kind require a well-developed and utterly reliable infrastructure. Telekom Austria has created this prerequisite with targeted investments in an IP-technology-based ALLmediaNET. However, such investments in the national ICT infrastructure also require an appropriate regulatory framework which offers at least a minimum degree of protection for investments so that the profitability of such projects is not threatened.

"aonDigital TV opens up new business areas"

Rudolf Fischer
Chief Operating Officer (COO) Wireline

Development of Voice Telephony Market Share based on minutes in %



Strong Competitive Position

Telekom Austria was able to expand its share of the voice telephony market by 1.0 percentage point to 55.4% in 2005. Including Internet dial-up traffic, market share grew by 0.5 percentage points to 55.7%. In combination with attractively priced bonus packages, the tried-and-tested TikTak tariffs created favorable conditions for strengthening customer loyalty within the framework of up-selling and cross-selling initiatives. As a result of these efforts it was possible to raise the average minute tariff by 2.7% to 7.7 cents. However, these measures were only partially able to offset revenue losses caused by the general market trend of declining minute volumes. In 2005 the wireline segment reported a decline in voice minutes of 6.3% to 5.1 billion as a result of migration to mobile networks. The number of fixed access lines decreased by 3.6% to 2.8 million. The unbundling activities of alternative providers led to a 75.5% increase in the number of unbundled lines to 127,900.

Broadband business developed extremely successfully for the wireline segment. In 2005 the number of broadband customers increased by 49.7% to 574,300. This figure also includes the business products developed especially for the SOHO/SME segment, which following a successful product relaunch in 2005 saw the total number of customers rise by 86.7%. Compared to the previous year, ADSL net additions rose by 55.6% to 190,700. The wholesale segment had 105,800 customers at year-end 2005. The latest survey by the Austrian Internet Monitor (AIM) attributes 38% of residential Internet access lines in Austria to the wireline segment of Telekom Austria (excluding mobilkom austria).

The recent takeover of the Internet provider Inode by UPC Telekabel is expected to aggravate competition on the broadband market and in the business customer segment. The takeover of the third strongest player on the market by the second strongest will create a more powerful rival for Telekom Austria in this business segment.

Telekom Austria Fixed Line Traffic

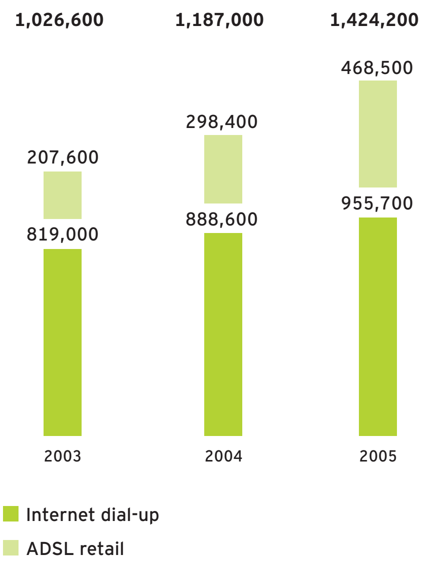
(in million minutes)	**2005**	**2004**	**2003**
Local traffic	3,866	4,174	4,485
Fixed-to-mobile traffic	839	854	855
International traffic	442	467	484
Total voice telephony	**5,147**	**5,495**	**5,824**
Internet dial-up traffic	2,287	3,376	3,953
Total fixed line traffic*	**7,433**	**8,871**	**9,777**

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

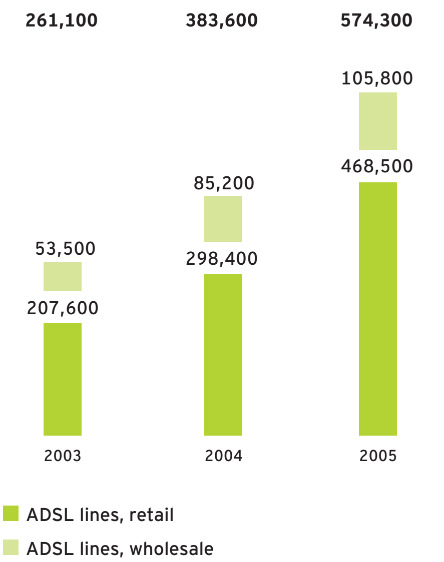
Fixed Lines – Access Channels

(in '000s)	**2005**	**2004**	**2003**
PSTN access lines	2,374.5	2,455.5	2,555.8
Basic ISDN access lines	420.1	443.6	447.2
Multiple ISDN access lines	7.3	7.6	7.8
Total access lines	**2,801.9**	**2,906.7**	**3,010.8**
Total access channels	**3,433.7**	**3,570.7**	**3,684.2**

Internet Customers



Development of ADSL Access Lines



Regulation

The most important regulatory decisions in the reporting year for the wireline segment were the completion of the market analyses to determine the competitive situation in the individual markets and the procedure to determine the unbundling fees for the subscriber line between Telekom Austria and Tele2/UTA. The regulatory authority demanded a reduction of unbundling fees by 1.8% to EUR 10.7 as well as amendments to the regulations regarding collocation space rental fees.

On the basis of the detailed instructions in the regulations Telekom Austria's existing standard offers for interconnection, unbundling, resale and ADSL wholesale were adjusted and an additional offer was drawn up for leased lines at the wholesale level. Based on the results of the analysis of the Austrian broadband market, a "naked ADSL" wholesale product was made compulsory. In March 2005 the terms and general conditions for the provision of Telekom Austria subscriber data at the wholesale level were established for the first time.

Under the terms of new legal provisions applicable retroactively from January 2005 the Austrian government is obliged to provide the regulatory authority with at least 25% of its financing. As a result, the financial contribution to be made by Telekom Austria in 2005 decreased by approximately EUR 1.0 million.

Focus on Broadband and Multi-Media

Efforts to promote the broadband and multimedia business formed the main operational focus in 2005. In addition to continuous product improvements, the differentiation between Telekom Austria's Internet access products and those of its competitors was further increased. Telekom Austria rounded off its product portfolio with new broadband offers for residential and business customers, and launched its aonPur product which provides ADSL access without voice telephony. The expansion of broadband technology was intensified in 2005. By the end of the year Telekom Austria had upgraded more than 1,100 switching centers, making ADSL available to approximately 90% of Austrian households. Across the country there were a total of 574,300 ADSL access lines by year-end.

Redesign of the aon.at portal was completed in December of the reporting year. Following relaunch, the marketing of advertising space was discontinued, and customer convenience was increased. The portal offers new and existing aon customers extensive information and user-friendly services from the aon product family as well as exclusive price deals such as cheaper music downloads. The menu item "My aon" offers innovative online services such as weblife, the weblog product for photographs, videos and podcasting. With more than 1.6 million unique customers each month and one of the largest web communities in the country, aon.at is one of the leading portals in Austria.

In early March 2006 Telekom Austria launched an exciting new television service in Vienna, aonDigital TV. This product innovatively combines the possibilities of broadband infrastructure with high-quality multimedia applications, increasing the attractiveness of Telekom Austria fixed access lines. aonDigital TV enables Telekom Austria customers to choose from more than 50 television channels, some of which are only becoming available in Austria for the first time. A wide range of films and video content can be retrieved from a video library (video on demand). Regularly updated news reports complete the television offerings, while an electronic program guide (EPG) makes it easier to select a program.

Initiatives in the Voice Telephony Segment

Target-group marketing will in future focus upon customer retention measures and stronger up-selling and cross-selling. Personal contact and ongoing customer care is becoming increasingly important, and the use of traditional instruments of mass communication is declining. With the new TikTak bonus packages in particular Telekom Austria is enabling its customers to choose an optimally priced tariff tailored to their individual requirements. The product portfolio has, for example, been expanded to include bonus packages for calls made from fixed lines to mobile networks.

Telekom Austria plans to make its fixed access lines even more attractive with a range of new services. With its extensive expertise and resources, Telekom Austria is, for example, able to develop new services for house management. Additional services in the form of an alarm management package including everything from the installation of an alarm system to provisional repair following a burglary will be offered in future.

New Focus for Business Solutions

Telekom Austria has set itself the goal of generating approximately 5% of its revenues from new business areas by the year 2007. The Business Solutions unit should make an important contribution to this and its reorientation in 2005 marked a major step in this direction. The service range encompasses three core business areas in addition to a classic network infrastructure with maximum operational reliability and centralized security management. Stability Solutions from Telekom Austria Business Solutions offer IT infrastructure services and desktop services. Productivity Solutions promote efficiency and increase the effectiveness of communications both within an enterprise and with its partners. They include, for example, IP telephony, e-conferencing and unified messaging. Marketing Solutions facilitate communication and customer service through several different channels. Tailor-made solutions for telephone and electronic marketing support the use of customer retention instruments. A strong advertising presence that communicates the message "Free Space for Success!" underscores the solutions competence of Telekom Austria Business Solutions.

Wholesale

Due to increased customer acquisition activities, the Wholesale segment reported additional customer growth in 2005, especially in central and eastern Europe. The company now serves approximately 300 international customers. Some 110 Internet service providers and alternative network operators in Austria also purchase wholesale solutions from Telekom Austria. During the roll-out of the UMTS and HSDPA networks, Telekom Austria impressed the Austrian UMTS operators as a reliable outsourcing partner, thus utilizing the opportunities offered by this market. Telekom Austria is also pushing ahead with the expansion of voice and data traffic in eastern Europe by extending the international optical fiber ring JetStream. In addition to the existing connections to Germany, the Czech Republic, Hungary, Italy and Slovakia, Slovenia was connected in 2005 and plans are underway to connect Croatia.

Telekom Austria was once more able to prevail over its competitors in the area of satellite-based services with the earth station in Aflenz. The high quality of the connections, the favorable geographic location and the product portfolio are the crucial factors behind Telekom Austria's success.

Czech On Line

The wireline segment of Telekom Austria also includes the results of the Czech alternative Internet provider Czech On Line. Despite a difficult business environment, Czech On Line was able to increase operating revenues by 12.8% to EUR 23.0 million. Due to falling demand for dial-up products and an unfavorable regulatory framework, operating income registered a loss of EUR 1.9 million; adjusted EBITDA decreased from EUR 3.4 million to EUR 0.5 million. Due to strong increases in the number of ADSL and voice customers, Czech On Line was able to further expand its position as the leading alternative provider, especially among residential customers and small and medium-sized enterprises. However, this could not fully compensate for the massive decline in dial-up products, even though this had already slowed somewhat by the end of the year. The new conditions that prevailed on the market following a process of consolidation made it necessary for Czech On Line to revise its strategic positioning. Customer retention measures and a cost optimization program were introduced, ADSL pushed, unbundling tested at selected locations and extensive cost-cutting programs were evaluated.

Outlook Wireline

In 2006, it will be essential to press forward with the successful customer retention policy and strict cost management in the wireline segment. Nevertheless, due to a sustained downward trend in access lines and the migration of voice minutes to mobile networks, a decline in revenues and adjusted EBITDA is anticipated. The flourishing broadband business and the multimedia applications that are based upon it will not yet be able to fully compensate for this market trend in 2006. As in 2005 the business environment will remain highly competitive, and further market consolidation is conceivable. Another reduction in depreciation and amortization charges will once again give a powerful boost to operating income in 2006. Capital expenditures are expected to fall again in 2006 due to the elimination of the one-off costs incurred in 2005 for the implementation of the Surveillance Ordinance. The realization of the ALLmediaNET will be pushed ahead in 2006, but will have only a limited impact on the development of capital expenditures.

The operational focus of the wireline segment in 2006 will be upon safeguarding subscriber lines and implementing measures to increase average revenues per customer (ARPU). The expansion of the Business Solutions product portfolio should ensure that revenues remain stable in this business area. Moreover, innovative products such as aonDigital TV will help Telekom Austria make use of the opportunities arising from direct access to the customer to improve the attractiveness of fixed access lines.

Pushing Development Ahead is an Art.

You have to be fast if you want to get things moving.

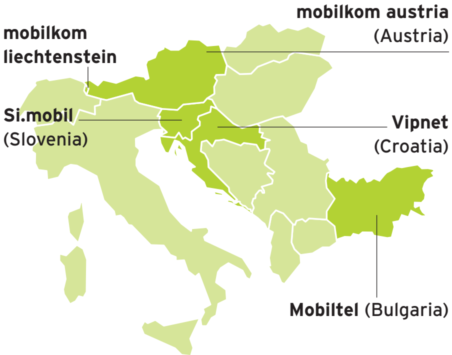
The speed with which the wireless segment rolled out 3G services shows how innovation and technological leadership can quickly lead to success on the market: e.g. with the first nationwide mobile high-speed multimedia offering in Austria or the rapid introduction of UMTS on the Croatian and Bulgarian markets.

Wireless

The acquisition of Mobiltel will provide additional impetus for growth. The wireless segment will exploit synergies more effectively and further expansion is planned.

Mobile Communications Activities

Wireless Segment



The wireless segment encompasses all mobile communications activities of the Telekom Austria Group, i.e. mobilkom austria in Austria, Mobiltel in Bulgaria, Vipnet in Croatia, Si.mobil in Slovenia, mobilkom liechtenstein and their subsidiaries.

The highlight of the financial year 2005 was the successful takeover of the 100% stake in the leading Bulgarian mobile communications operator Mobiltel. Since July 12, 2005 Mobiltel's contribution has been included in the financial results of the wireless segment. Unless stated otherwise, the following figures include the contribution of Mobiltel.

Key Data Wireless (financial figures in EUR million)	2005*	2004	Change in %
Revenues	2,489.2	2,125.5	17.1
Operating income	552.2	407.4	35.5
Adjusted EBITDA**	969.0	765.4	26.6
Adjusted EBITDA margin (in %)**	38.9	36.0	
Capital expenditures	313.5	267.8	17.1
Number of customers (in '000s)	8,963.1	4,949.0	81.1
Employees***	6,038	3,625	66.6

Key Data Wireless on a Comparable Basis, excluding Mobiltel (financial figures in EUR million)	2005	2004	Change in %
Revenues	2,227.3	2,125.5	4.8
Operating income	458.2	407.4	12.5
Adjusted EBITDA**	814.4	765.4	6.4
Adjusted EBITDA margin, on a comparable basis (in %) **	36.6	36.0	
Capital expenditures	260.5	267.8	-2.7
Number of customers (in '000s)	5,368.9	4,949.0	8.5
Employees ***	3,591	3,625	-0.9

* The consolidated financial figures for 2005 include the financial figures for Mobiltel for the period July 12 to December 31, 2005. The results for 2004 do not include any financial figures from Mobiltel.
** See glossary for definition.
*** Full-time employees at year-end.

Revenues and Earnings Develop Positively in all Countries

The number of wireless customers in 2005 increased by 81.1% to approximately 9 million, mainly due to the contribution made by Mobiltel. Without Mobiltel the subscriber base would have grown by 8.5% to 5.4 million.

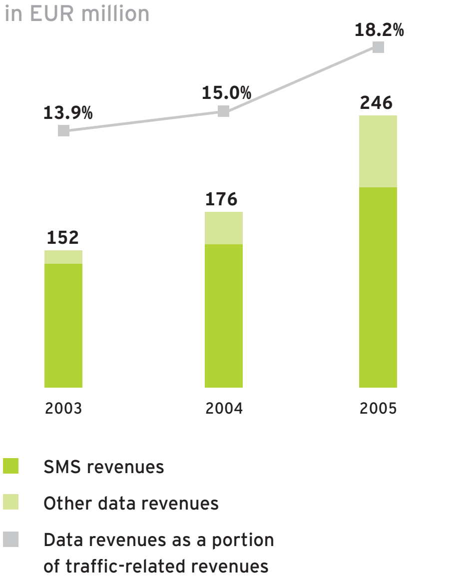
Due to the positive development across all countries in which the wireless segment operates, revenues rose by 17.1% to EUR 2,489.2 million in 2005; excluding Mobiltel revenues grew by 4.8% to EUR 2,227.3 million. Operating income in 2005 increased by 35.5% to EUR 552.2 million, excluding Mobiltel by 12.5% to EUR 458.2 million. Adjusted EBITDA rose by 26.6% to EUR 969.0 million – adjusted for the impact of Mobiltel by 6.4% to EUR 814.4 million. This was accompanied by an increase in the EBITDA margin of 2.9 percentage points to 38.9%; without consolidation of Mobiltel the EBITDA margin was 36.6%.

The international subsidiaries (including Mobiltel) accounted for roughly 32% of operating revenues in 2005, up from approximately 22% in the previous year.

In addition to the contribution from Mobiltel, growth in operating revenues was mainly attributable to higher traffic revenues and an increase in monthly

Data Revenues

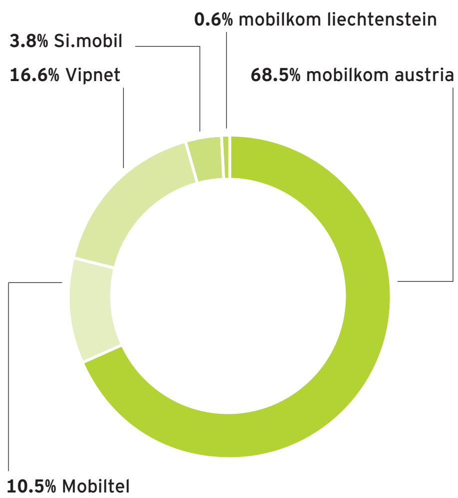
in EUR million



Operating Revenues

by mobile communications company,

in % (excluding internal revenues)



Revenues (in EUR million)	2005	2004	Change in %
Traffic revenues	1,264.7	1,141.5	10.8
Monthly rentals	396.9	303.9	30.6
Equipment	225.6	180.1	25.3
Roaming	204.8	175.6	16.6
Interconnection	392.9	328.0	19.8
Other	18.1	15.9	13.8
Discounts	-13.8	-19.5	29.2
Total wireless revenues	**2,489.2**	**2,125.5**	**17.1**
Total wireless revenues on a comparable basis, excluding Mobiltel	**2,227.3**	**2,125.5**	**4.8**

Operating Expenses (in EUR million)	2005	2004	Change in %
Material expenses	302.0	276.3	9.3
Employee costs*	198.2	179.8	10.2
Depreciation and amortization	416.8	358.1	16.4
Interconnection	271.3	236.0	15.0
Maintenance and repairs	66.2	63.7	3.9
Services received	290.4	267.9	8.4
Other support services	22.4	24.0	-6.7
Other operating expenses	369.7	312.3	18.4
Total wireless operating expenses	**1,937.0**	**1,718.1**	**12.7**
Total wireless operating expenses on a comparable basis, excluding Mobiltel	**1,769.2**	**1,718.1**	**3.0**

* Including benefits and taxes.

rentals as a result of growth in the number of contract customers and data services charged on a monthly basis. The increase in roaming revenues is mainly explained by the contribution from Mobiltel and by revenues from national roaming with competitors in Austria and Croatia.

In 2005 operating expenses in the wireless segment increased by a total of 12.7% to EUR 1,937.0 million; excluding Mobiltel by 3.0% to EUR 1,769.2 million. The 9.3% increase in material expenses was due to growth in subscriber numbers and more sophisticated terminal equipment.

Employee costs rose by 10.2%, whereby slightly more than half of this increase can be explained by the employees of Mobiltel who were included for the first time. Subscriber growth and greater call volumes in third-party networks led to an increase in interconnection expenses of 15.0% to EUR 271.3 million. Depreciation and amortization charges rose by 16.4% due to the higher levels of investment in previous years for technical up-grades and the implementation of the GPRS, UMTS and EDGE technologies.

Capital Expenditures

Capital expenditures in the wireless segment rose by 17.1% to EUR 313.5 million, although excluding Mobiltel they fell by 2.7% to EUR 260.5 million. Capital expenditures for tangible assets increased by 34.7% to EUR 303.9 million. Following the costs incurred by Vipnet in 2004 for the acquisition of a UMTS license, capital expenditures for intangible assets fell by 77.3% to EUR 9.6 million in the reporting year. mobilkom austria strengthened its investments above all in the expansion of its EDGE and UMTS networks, enabling it to achieve a nationwide 3G coverage rate of 97%. In Croatia Vipnet kept expenditures on tangible assets stable compared to the previous year, focusing most of its investment activities on the expansion of the UMTS network. Si.mobil reduced the volume of its investments by 12.8% due to lower investments in EDGE technology.

"We connect what connects you"

The acquisition of Mobiltel in 2005 has taken us a big step closer toward our medium-term goal of becoming a regional player from Vaduz to the Black Sea. In 2006 we will continue to press ahead with the integration of Mobiltel. In the process we will fully exploit the potential of the Bulgarian market and strengthen Mobiltel with innovative products from our Vodafone partnership.

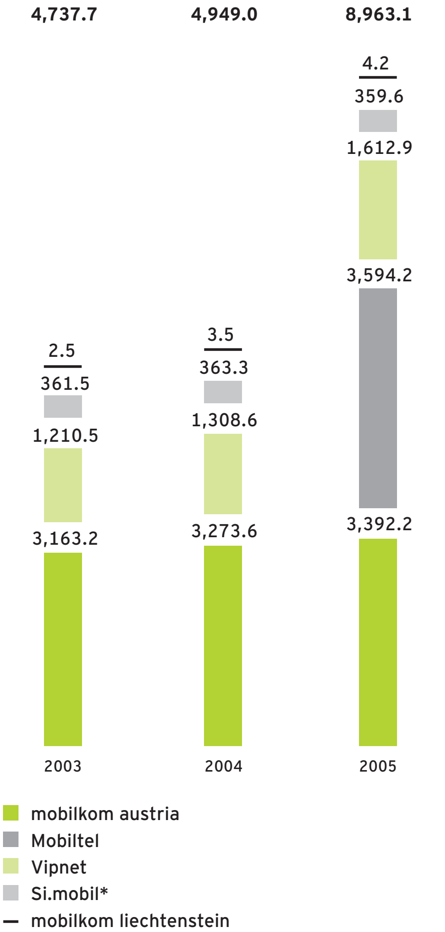
In 2006 we will also focus on expanding our quality leadership on the Austrian mobile communications market. We plan to set the pace on the market with new product ideas and strengthen relations with our customers in keeping with our motto "we connect what connects you".

After the success of previous expansion steps in recent years our international subsidiaries make a significant contribution to the financial results of the Telekom Austria Group. The wireless segment plays a key role in the Group's strategic orientation. We are therefore well positioned for further expansion in southeast Europe.

"We want to become a regional player from Vaduz to the Black Sea!"

Boris Nemsic Vice Chairman of the Management Board, Chief Operating Officer (COO) Wireless

Customer Development
by Mobile Communications Company,
in '000s



* The number of Si.mobil subscribers has declined in comparison to the previous year as the Slovenian regulatory authority has established a new method of counting customers.

mobilkom austria

At year-end 2005 the mobile penetration rate in Austria had reached 106.0%. A penetration figure in excess of 100% indicates a clear trend toward second SIM cards, either for additional products such as mobile broadband or additional cell phones. In addition to mobilkom austria, there are four other mobile communications companies, two mobile virtual network operators and two service providers operating on the market. With a market share of 39.1% mobilkom austria successfully defended its position as the uncontested leader on the Austrian mobile communications market in 2005, increasing subscriber numbers by 3.6% to 3.4 million. Due to stronger growth in the low-price segment, in which smaller competitors participated to a disproportionate degree, mobilkom austria's market share decreased slightly in comparison to the previous year. The introduction of number portability once more had only a marginal impact in 2005 as only 1.3% of Austrian customers who changed their provider took advantage of this service. The number of contract customers increased by 2.6 percentage points to 56.9%.

In this competitive environment mobilkom austria was able to improve operating revenues by 2.4% to EUR 1,719.1 million in 2005 mainly by increasing data revenues and revenues from monthly rentals and equipment. Adjusted EBITDA rose by 3.3% to EUR 612.8 million, improving the EDITDA margin to 35.6%. Despite higher depreciation and amortization charges due to increased investment in the expansion of the UMTS and EDGE networks, operating income grew by EUR 17.7 million or 5.2% to EUR 358.8 million.

With a new A1 brand identity under the motto "We connect what connects you" mobilkom austria deliberately chose to adopt an emotional approach in the year under review. The relaunch of the brand was accompanied by the introduction of new tariff models designed to counter pricing competition. With A1 TOP UNLIMITED a tariff was developed which permits customers to make calls and send SMS throughout Austria for a fixed sum. The new tariffs have resulted in an 8.2% increase in the average number of minutes of use per customer. Despite fiercer price competition in the financial year 2005 average monthly revenues per customer remained virtually stable at EUR 36.5 due to higher data revenues.

mobilkom austria Key Data (financial figures in EUR million)	**2005**	**2004**	**Change in %**
Revenues	1,719.1	1,678.7	2.4
Operating income	358.8	341.1	5.2
Adjusted EBITDA*	612.8	593.4	3.3
Mobile penetration in Austria (in %)	106.0	98.0	
Market share (in %)	39.1	41.0	
Competitors	8	6	
Customers (in '000s)	3,392.2	3,273.6	3.6
Share of contract customers (in %)	56.9	54.3	
Revenues per customer (ARPU) in EUR	36.5	37.1	-1.6
Share of revenues from data services (in %)**	17.4	12.6	

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

Market Share mobilkom austria

39.1%

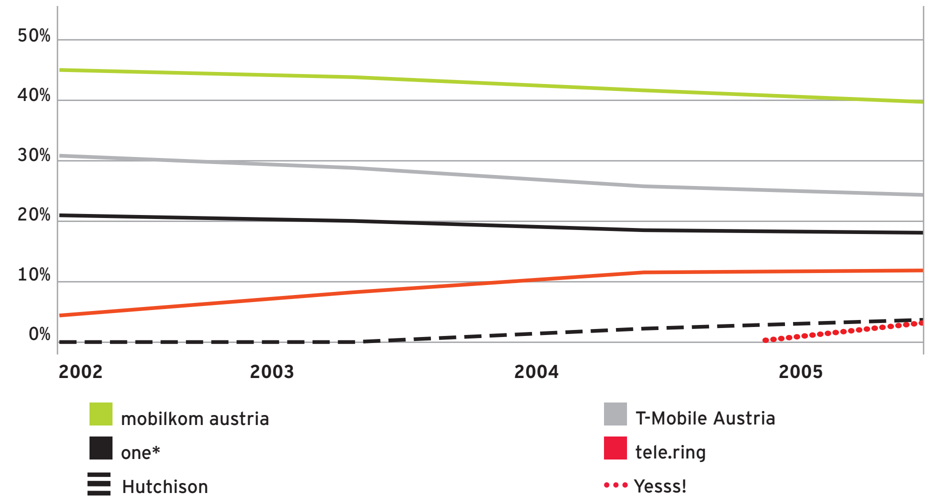
Supported by an innovative product portfolio mobilkom austria holds two thirds of the Austrian business customer market. Mobile broadband and BlackBerry in particular achieved their big breakthrough in the business world in 2005. Due to enhanced customer relation management the company was also able to increase its market share among small and medium-sized enterprises.

In the residential customer segment, mobile entertainment and information programs were expanded in 2005. Mobile live! TV enables UMTS customers to receive the Austrian channels ORF and ATV live. Following the expansion of the music content offering on the mobile platform Vodafone live! it is now possible to listen to international web radio, download MP3 files, music videos and buy songs by mobile phone.

In 2005 mobilkom austria successfully expanded its position as the European leader in the area of m-commerce with higher demand for products such as m-parking, an SMS solution for paying parking fees, and the mobile purchase of public transport tickets.

Due to the successful expansion of UMTS + EDGE technology 3G services had achieved a coverage rate of 97% by the end of 2005, making mobilkom austria the only operator able to offer a nationwide full-coverage mobile broadband network.

Development of Market Shares on the Austrian Mobile Communications Market



* The figures for one include e-tel, Schwarzfunk and Tele2.

Market Share Mobiltel

57.6%

Mobiltel

On July 12, 2005 the Telekom Austria Group acquired a 100% stake in the Bulgarian mobile communications provider Mobiltel for a total enterprise value of approximately EUR 1.6 billion. The first phase of the integration of Mobiltel has already been successfully completed. The original management has been complemented by experts from other companies in the wireless segment, and measures to standardize financial reporting, expand marketing activities and optimize the technical networks and platforms have already been implemented.

The mobile penetration rate in Bulgaria rose by 19.8 percentage points in 2005 to 79.5% in 2005. In Q4 a fourth operator entered the Bulgarian mobile communications market. Mobiltel was able to successfully defend its position as the market leader in this more competitive environment, notwithstanding a decline in market share to 57.6% at year-end 2005. At the same time, Mobiltel's customer base grew by approximately 18.4% to EUR 3.59 million.

For the period July 12 to December 31, 2005 Mobiltel reported revenues amounting to EUR 262.6 million, adjusted EBITDA of EUR 154.6 million and operating income of EUR 94.0 million. The adjusted EBITDA margin in this period reached the very impressive rate of 58.9%. Due to the lower level of income in Bulgaria, the average monthly revenues per customer were EUR 12.3.

In the second half of 2005 Mobiltel stepped up its efforts to position itself as the quality leader, improving its range of services for business customers, especially small and medium-sized enterprises. Customer retention programs enabled the company to strengthen relations with both business and residential customers. Mobiltel also enlarged its distribution network to 150 shops in 2005, at the same time entering into exclusive distribution agreements with two partners who have a nationwide network of 60 outlets.

Mobiltel expanded its range of low-price prepaid products in the second half of 2005, and provided new impetus in this area with the Prima Free Party and Prima Star tariffs. With Prima Free Party, prepaid customers can telephone free of charge between 21:00 and 5:00, while Prima Star offers the lowest tariff in the country for calls within the company's own network. Another innovative service, SMS top-up was also introduced which allows prepaid customers to recharge their phone cards by SMS. Furthermore, Mobiltel offers

Mobiltel Key Data (financial figures in EUR million)	**2005** consolidated contribution*	**2005** full-year
Revenues	262.6	527.9
Operating income	94.0	189.7
Adjusted EBITDA**	154.6	324.7

Mobiltel Key Data	**2005**	**2004**	**Change in %**
Mobile penetration rate in Bulgaria (in %)	79.5	59.7	
Market share (in %)	57.6	64.4	
Competitors	3	2	
Customers (in '000s)	3,594.2	3,034.9	18.4
Share of contract customers (in %)	34.3	35.2	
Revenues per customer (ARPU) in EUR	12.3	13.2	-6.8
Share of revenues from data services (in %)***	10.8	10.7	

* The consolidated contribution is the contribution made by Mobiltel since July 12, 2005 which is included in the consolidated financial figures of the Telekom Austria Group.
** See glossary for definition.
*** Data revenues as a portion of traffic-related revenues.

its business customers the lowest tariff in Bulgaria for calls within the company's own network with M-Tel Business+.
In addition to improving customer service, the main focus of activity in 2005 was upon the introduction of new products such as the ringbacktone Musicall.

Following the introduction of EDGE technology in 1Q 2005 when Mobiltel became the only operator of a 3G network in Bulgaria, the company purchased a UMTS license for EUR 39.9 million in April 2005. The technical launch of the network took place in September 2005, and commercial UMTS services were launched in March 2006.

Vipnet

Market Share Vipnet

44.1%

In 2005 the mobile penetration rate in Croatia increased from 64.5% to 82.9%. The market entry of a third provider resulted in a decline in the market share of the two existing providers at year-end 2005; as of December 31, 2005 Vipnet held 44.1% of the market.

Vipnet was able to expand its subscriber base by 23.3% to 1.6 million in 2005. The largest increase in new customers compared to the competitors was recorded in Q4 2005, traditionally the most competitive quarter of the year. In response to the entry onto the Croatian market of a competitor with an aggressive pricing policy Vipnet also introduced attractive tariffs.

Vipnet was able to increase operating revenues by 12.4% to EUR 422.0 million in 2005. This growth was mainly due to higher revenues from the sale of equipment and call minutes. Operating revenues rose disproportionally to expenses, boosting adjusted EBITDA by 9.3% to EUR 166.9 million. As a result of this development and of lower depreciation and amortization charges operating income rose by 27.1% to EUR 86.4 million.

Following the acquisition of a UMTS license in October 2004, Vipnet started commercial UMTS operations in January 2005, becoming one of the first European providers to offer a nationwide EDGE and UMTS network – by the end of 2005 a coverage rate of approximately 90% had been achieved. An independent study carried out in Q3 2005 confirmed that Vipnet had the best network quality in the country. In order to strengthen growth, especially in the business customer segment, Vipnet purchased a fixed line license in July 2005.

Vipnet Key Data (financial figures in EUR million)	**2005**	**2004**	**Change in %**
Revenues	422.0	375.4	12.4
Operating income	86.4	68.0	27.1
Adjusted EBITDA*	166.9	152.7	9.3
Mobile penetration in Croatia (in %)	82.9	64.5	
Market share (in %)	44.1	46.0	
Competitors	2	1	
Customers (in '000s)	1,612.9	1,308.6	23.3
Share of contract customers (in %)	15.6	14.8	
Revenues per customer (ARPU) in EUR	19.9	20.2	-1.5
Share of revenues from data services (in %)**	26.9	26.1	

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

Market Share Si.mobil

22.7%

Si.mobil

In 2005 Slovenia reported a slight increase in the mobile penetration rate from 79.1% to 80.1%. With a market share of 22.7% Si.mobil is the second largest operator in the country. On July 1, 2005 the Slovenian regulatory authority laid down new rules for counting customers, which mainly concerned prepaid customers. As a result of this changed method of calculation, the number of Si.mobil customers fell from 363,300 in the previous year to 359,600 at year-end 2005. At the same time, Si.mobil was able to increase the number of contract customers by 13.5%.

Operating revenues at Si.mobil rose by 14.8% to EUR 100.8 million in the financial year 2005. This was due to a higher average number of call minutes per customer, an increase in the share of contract customers and a rise in revenues from the use of Vodafone live!. Operating income rose from EUR 0.1 million in the previous year to EUR 3.5 million in 2005. Adjusted EBITDA grew by 20.1% to EUR 24.5 million.

As a result of the positive response to Smart, the tariff structure for residential customers introduced in 2004 featuring attractive tariffs for calls both within Si.mobil's own network and those of other operators, this tariff model was extended to include business customers in March 2005. The Vodafone Mobile Connect Card on the basis of EDGE technology as well as BlackBerry were also launched successfully in 2005.

In 2005 the Slovenian regulatory authority initiated a number of measures designed to increase competition. In January 2005 asymmetrical interconnection fees came into effect between Si.mobil and the former monopolist.

In December 2005 mobilkom austria signed an agreement to acquire the remaining minority interest (25% less 1 share) in Si.mobil for a price of EUR 39.6 million, originally by no later than July 2007. In a first step, mobilkom austria purchased a 17.2% stake in Si.mobil from four shareholders, the remaining 7.8% will be acquired in May 2006.

Si.mobil Key Data (financial figures in EUR million)	**2005**	**2004**	**Change in %**
Revenues	100.8	87.8	14.8
Operating income	3.5	0.1	-
Adjusted EBITDA*	24.5	20.4	20.1
Mobile penetration in Slovenia (in %)	80.1	79.1	
Market share (in %)	22.7	23.3	
Competitors	4	3	
Customers (in '000s)	359.6	363.3	-1.0
Share of contract customers (in %)	49.1	42.9	
Revenues per customer (ARPU) in EUR	16.9	15.0	12.7
Share of revenues from data services (in %)**	16.7	15.5	

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

Market Share mobilkom liechtenstein

15.1%

mobilkom liechtenstein

With a penetration rate of 80.1% mobilkom liechtenstein was able to increase the number of its customers from approximately 3,500 to roughly 4,200, improving its market share from 13.1% to 15.1% and becoming the largest Liechtenstein-based mobile communications provider.

Revenues at mobilkom liechtenstein rose by 42.7% to EUR 15.7 million in 2005. Operating income in the reporting year rose by 58.3% to EUR 1.9 million, while adjusted EBITDA increased from EUR 1.8 million in 2004 to EUR 2.6 million. The already-high average monthly revenues per customer rose from EUR 80.3 in 2004 to EUR 83.0.

mobilkom liechtenstein Key Data (financial figures in EUR million)	2005	2004	Change in %
Revenues	15.7	11.0	42.7
Operating income	1.9	1.2	58.3
Adjusted EBITDA *	2.6	1.8	44.4
Mobile penetration in Liechtenstein (in %)	80.1	78.9	
Market share (in %)	15.1	13.1	
Competitors	3	3	
Customers (in '000s)	4.2	3.5	20.0
Share of contract customers (in %)	100	100	
Revenues per customer (ARPU) in EUR	83.0	80.3	3.4
Share of revenues from data services (in %)**	7.9	7.9	

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

Vodafone Partnership and Utilization of Synergies

The establishment of a cross-border service unit in 2004 has created a platform for the efficient use of joint services and improved coordination between the individual subsidiaries in the wireless segment. The joint procurement of purchasing volumes and coordinated product development ensures the realization of synergies and fosters cooperation within the wireless segment. The platform furthermore serves as the interface in the partnership concluded in 2003 with Vodafone, the world's leading mobile communications company, and generates advantages by bundling the roaming business. It also supports the integration of Mobiltel.

The optimization and expansion of the mobile portal Vodafone live! and the further development of data services formed key areas of activity in the cooperation with Vodafone in 2005. Together with the extension of services available over the mobile portal, the introduction of Ringbacktones, A1 RADIO ZONE and Vodafone live! TV of A1 opened up new sources of revenues. In a step designed to increase efficiency, the operation of the Vodafone live! portal for mobilkom austria, Vipnet and Si.mobil was concentrated in Zagreb in order to reduce investment and operating costs through joint use and also to shorten the time required for the launch of new products.

Synergies were also exploited in the area of mobile navigation. In Slovenia the recently introduced Si.Navigator was based on the Austrian A1 NAVI system, saving development costs and creating opportunities to make multiple use of map material. The experience and standardized processes of mobilkom austria were also utilized during the implementation of the BlackBerry product in Croatia and Slovenia.

Outlook Wireless

Revenues, operating income and adjusted EBITDA are expected to show a further increase in 2006, with the consolidation of Mobiltel's full-year result having a particularly positive impact. Even if this consolidation leads to higher depreciation and amortization charges, operating income is still expected to grow. Capital expenditures for tangible assets will rise due to increased investments in UMTS, HSDPA and information technology.

Efforts on the product side in 2006 will focus on the optimization and expansion of mobile e-mail, mobile entertainment and mobile broadband as well as the integration of multimedia systems.

The development of the Austrian market will also depend upon the outcome of the pending case regarding the possible merger of the second and fourth largest mobile communications providers. Strong growth in the data business should be able to counteract severe pressure on prices in the voice segment, so that total revenues will show stable development. In order to support the data business, mobilkom austria became one of the first operators in Europe to introduce the new high-speed network technology HSDPA, which permits download speeds of up to 1.8 Mbit/s and which was launched in January 2006.

The integration of Mobiltel will be pushed ahead in 2006. To meet the challenge of intensified competition posed by the market entry of a third competitor in Bulgaria synergies will be exploited to a greater degree and new products introduced. Mobiltel also joined the Vodafone cooperation in February 2006 and the first joint products are scheduled for launch in the first half of 2006.

Vipnet in Croatia will increase its range of integrated telecommunications solutions for business customers and also prepare for the expected award of a fourth GSM license. Since February 2006 Vipnet has offered business customers the first integrated telecommunications solutions comprising mobile communications, fixed line telephony and Internet solutions.

Si.mobil will focus upon improving profitability and positioning itself as the price-performance leader with an innovative product portfolio, particularly in the contract customer segment.

Internationalization efforts will be continued in 2006 with further selective and value-enhancing expansion steps in southeast Europe, whereby the focus of expansion will be upon Serbia and Bosnia.

Reaching a Big Audience is an Art.

The Telekom Austria Group not only sets the tone on its traditional, domestic markets.

Its value-oriented growth strategy has led the company to the southeast European regions with high potential. And orchestrated a pleasing increase in the number of its customers to approximately twelve million.

Consolidated Financial Statements 2005

according to U.S. GAAP

TELEKOM AUSTRIA AG
Consolidated Balance Sheets

(in EUR '000s)

	Notes No	December 31, 2005	December 31, 2004
ASSETS			
Current assets			
Cash and cash equivalents		116,756	288,195
Short-term investments		7,301	10,540
Accounts receivable – trade, net of allowances of EUR 104,234 and EUR 73,463 as of December 31, 2005 and December 31, 2004	(5)	452,878	408,820
Accounts receivable sold, net of allowances of EUR 39,820 and EUR 21,150 as of December 31, 2005 and December 31, 2004		228,279	173,350
Receivables due from related parties	(6)	66	85
Inventories	(7)	90,913	83,110
Deferred tax assets	(21)	27,803	59,939
Prepaid expenses		121,701	100,169
Taxes receivable		11,134	3,702
Assets held for sale	(11)	880	2,660
Other current assets		146,868	143,338
Total Current assets		**1,204,579**	**1,273,908**
Property, plant and equipment, net	(10)	3,774,554	3,888,691
Goodwill	(8)	1,149,175	596,565
Other intangible assets, net	(9)	1,432,516	667,337
Investments in affiliates	(3)	3,642	3,570
Other investments		156,900	133,239
Deferred tax assets	(21)	5,385	19,436
Other assets		685,102	659,761
TOTAL ASSETS		**8,411,853**	**7,242,507**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	(12)	785,773	751,139
Accounts payable – trade		529,197	534,498
Accrued liabilities	(13)	171,004	194,319
Payables to related parties		20,244	22,924
Deferred income	(14)	199,510	168,984
Income taxes payable		6,260	18,005
Other current liabilities		207,233	182,217
Total Current liabilities		**1,919,221**	**1,872,086**
Long-term debt, net of current portion	(16)	2,557,703	1,647,171
Lease obligations, net of current portion	(17)	817,866	761,132
Employee benefit obligations	(18)	107,261	109,984
Other liabilities and deferred income	(19)	140,344	110,504
Stockholders' equity			
Share capital, no par value shares, 560,000,000 authorized (2004: 560,000,000), 500,000,000 issued (2004: 500,000,000), 482,502,894 outstanding (2004: 493,744,306)		1,090,500	1,090,500
Treasury stock		(247,818)	(63,353)
Additional paid in capital		453,614	458,137
Retained earnings		1,565,830	1,266,551
Accumulated other comprehensive gain / (loss)		7,332	(10,205)
Total Stockholders' equity	(23)	**2,869,458**	**2,741,630**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**8,411,853**	**7,242,507**

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Operations

(in EUR '000s, except share information)

Twelve months ended December 31,	Notes No	2005	2004	2003
Operating revenues (a)	(24)	4,377,291	4,056,268	3,969,750
Operating expenses (b)				
Materials		(346,504)	(324,518)	(297,084)
Employee costs, including benefits and taxes		(678,974)	(673,688)	(699,348)
Depreciation and amortization		(1,119,801)	(1,114,830)	(1,133,148)
Impairment charges		(17,388)	(1,334)	(6,825)
Other operating expenses	(25)	(1,594,632)	(1,489,224)	(1,463,521)
Operating Income		**619,992**	**452,674**	**369,824**
Other income (expense)				
Interest income (c)		89,084	70,016	75,167
Interest expense (d)		(198,151)	(188,818)	(230,979)
Equity in earnings of affiliates		570	552	19,112
Other, net	(26)	12,025	15,656	(567)
Income before income taxes and of change in accounting principle minority interests		**523,520**	**350,080**	**232,557**
Income tax expense	(21)	(106,372)	(122,186)	(83,036)
Minority interests		(2)	(631)	(3,422)
Income before cumulative effect of change in accounting principle		**417,146**	**227,263**	**146,099**
Cumulative effect of change in accounting principle, net of tax of EUR 6,071 in 2003	(15)	-	-	(11,858)
Net income		**417,146**	**227,263**	**134,241**
Basic and fully diluted earnings per share	(23)	0.85	0.46	0.27
Basic and fully diluted earnings per share excluding cumulative effect of change in accounting principle		0.85	0.46	0.29
a) includes revenues from related parties of		57,497	62,102	89,506
b) includes operating expenses from related parties of		117,893	124,699	128,694
c) includes interest income from related parties of		1	1	1
d) includes interest expense from related parties of		18	59	30

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Cash Flows

(in EUR '000s)

Twelve months ended December 31,	Notes No	2005	2004	2003
Cash generated from operations				
Net income		417,146	227,263	134,241
Adjustments to reconcile net income to cash generated from operations				
Depreciation, amortization and impairment charges		1,137,189	1,116,164	1,139,973
Write-offs from investments		284	716	2,840
Employee benefit obligation – non cash		4,246	908	307
Allowance for doubtful accounts		43,393	23,597	30,629
Change in deferred taxes		67,532	62,938	59,241
Equity in earnings of affiliates in excess of dividends received		(73)	(15)	1,027
Stock compensation	(20)	13,322	4,766	-
Asset retirement obligation – accretion expense		3,087	5,829	1,336
Settlement of asset retirement obligation		-	(2,248)	-
Cumulative effect of change in accounting principle, net of tax	(15)	-	-	11,858
Gain on sale of investments		(4,013)	(5,163)	(17,903)
(Gain) / loss on disposal / retirement of equipment		(1,510)	28,788	41,571
Other		(5,770)	(252)	(660)
		1,674,833	**1,463,291**	**1,404,460**
Changes in assets and liabilities, net of effect of business acquired				
Accounts receivable – trade		(76,585)	(45,898)	(140,331)
Due from related parties		595	1,464	5,813
Inventories		(2,583)	425	5,765
Prepaid expenses and other assets		362	(19,526)	71,506
Accounts payable – trade		(19,270)	(58,814)	(58,944)
Employee benefit obligation		(7,276)	(46,883)	(76,649)
Accrued liabilities		(46,993)	(27,104)	(23,487)
Due to related parties		(6,767)	(731)	(13,358)
Other liabilities and deferred income		(2,603)	38,433	45,100
		(161,120)	(158,634)	(184,585)
Cash generated from operations		**1,513,713**	**1,304,657**	**1,219,875**

Twelve months ended December 31,	Notes No	2005	2004	2003
Cash from (used in) investing activities				
Capital expenditures, including interest capitalized		(627,639)	(548,169)	(599,684)
Acquisitions and investments, net of cash acquired		(1,185,652)	(2,180)	(85,989)
Final consolidation of subsidiary		-	-	205
Proceeds from sale of equipment		24,143	36,213	17,300
Purchase of investments - short-term		(48,918)	(51,609)	(79,750)
Purchase of investments - long-term		(1,660)	(1,997)	(601)
Proceeds from sale of American call options		-	-	957
Proceeds from sale of investments - short-term		57,220	51,909	80,108
Proceeds from sale of investments - long-term		1,605	6,502	23,599
Cash used in investing activities		**(1,780,901)**	**(509,331)**	**(643,855)**
Cash from (used in) financing activities				
Principal payments on bonds		(348,616)	(2,180)	(22,765)
Proceeds from issuance of long-term debt and bonds		1,168,950	-	775,948
Principal payments on long-term debt		(760,543)	(568,110)	(385,330)
Changes in short-term bank borrowings		338,717	(6,707)	(774,644)
Purchase of treasury stock		(184,465)	(64,161)	-
Proceeds from sale of treasury stock		-	808	-
Dividends paid		(117,866)	(64,579)	-
Cash provided by (used in) financing activities		**96,177**	**(704,929)**	**(406,791)**
Effect of exchange rate changes		**(428)**	**(4,128)**	**5,360**
Net increase (decrease) in cash and cash equivalents		**(171,439)**	**86,269**	**174,589**
Cash and cash equivalents at beginning of period		288,195	201,926	27,337
Cash and cash equivalents at end of period		116,756	288,195	201,926

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)	COMMON STOCK		TREASURY STOCK					
	Number of shares	Par value	Number of shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance January 1, 2003	**500,000,000**	**1,090,500**	**-**	**-**	**452,498**	**969,626**	**(3,084)**	**2,509,540**
Comprehensive income								
Net income						134,241		134,241
Net unrealized gains on securities, net of EUR (1,141) deferred income tax							2,214	2,214
Foreign currency translation adjustment							(10,690)	(10,690)
Unrealized net gain of hedging activities, net of EUR (1,646) deferred income tax							3,195	3,195
Total comprehensive income								**128,960**
Sale of call options, net of EUR (451) income tax					873			873
Balance December 31, 2003	**500,000,000**	**1,090,500**	**-**	**-**	**453,371**	**1,103,867**	**(8,365)**	**2,639,373**
Comprehensive income								
Net income						227,263		227,263
Net unrealized gains on securities, net of EUR (565) deferred income tax							1,096	1,096
Net realized loss on securities, net of EUR 1,368 deferred income tax							(2,655)	(2,655)
Foreign currency translation adjustment							(4,581)	(4,581)
Unrealized net gain on hedging activities, net of EUR (2,077) deferred income tax							4,032	4,032
Realized net gain on hedging activities, net of EUR (138) deferred income tax							268	268
Total comprehensive income								**225,423**
Distribution of dividend						(64,579)		(64,579)
Stock options granted					4,766			4,766
Purchase of treasury shares			(6,345,442)	(64,161)				(64,161)
Issue of treasury shares to employees			89,748	808				808
Balance December 31, 2004	**500,000,000**	**1,090,500**	**(6,255,694)**	**(63,353)**	**458,137**	**1,266,551**	**(10,205)**	**2,741,630**
Comprehensive income								
Net income						417,146		417,146
Net unrealized gains on securities, net of EUR (201) deferred income tax							602	602
Net realized loss on securities, net of EUR 3 deferred income tax							(8)	(8)
Foreign currency translation adjustment, net of EUR (308) deferred income tax							14,097	14,097
Realized net gain on hedging activities, net of EUR (1,485) deferred income tax							2,846	2,846
Total comprehensive income								**434,683**
Distribution as dividend						(117,867)		(117,867)
Modification of Stock Option Plan					(4,523)			(4,523)
Purchase of treasury shares			(11,241,412)	(184,465)				(184,465)
Balance December 31, 2005	**500,000,000**	**1,090,500**	**(17,497,106)**	**(247,818)**	**453,614**	**1,565,830**	**7,332**	**2,869,458**

see accompanying notes to consolidated financial statements

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 and its subsidiaries (the "Company" or "Telekom Austria") is engaged as a full service telecommunications provider 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 and operated primarily in Austria as well as in other countries of central and south-east Europe.

The Company's activities in mobile communications are performed through mobilkom austria AG & Co KG and mobilkom austria AG ("mobilkom austria") as well as through Mobiltel EAD ("Mobiltel"). mobilkom austria, together with its subsidiaries, operates mobile telecommunications networks and provides ancillary services in Austria, Croatia, Slovenia and Liechtenstein. Mobiltel operates a mobile telecommunications network and provides ancillary services in Bulgaria. The operations include wireless internet access.

The Company's activities in fixed line services are performed mainly through Telekom Austria AG and are carried out in Austria.

Telecom Italia owned 29.78% of Telekom Austria until its sale of 75,000,000 shares on November 4, 2002 in a private placement, thereby reducing its level of ownership to 14.78% as of December 31 2003. On January 21, 2004 Telecom Italia sold all of its residual shareholding of 73.9 million shares or 14.78%.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), is a significant shareholder of the Company. In December 2004, ÖIAG sold 85 million shares of the Company in a private placement to institutional shareholders and reduced its holding from 47.17% to approximately 30.17% of voting common shares. In addition to the related party transactions described in note (6), 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.

Basis of presentation

The consolidated financial statements of Telekom Austria have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company has reclassified certain amounts in prior year financial statements to conform with the current year's presentation.

In September 2003, the Austrian Supreme Court ruled that no contractual relationship exists between value-added service providers (VASP) and the Company, with the contractual relationship being established directly between the VASP and the customers. The Company is no longer considered the primary obligor and ceased reporting revenues on a gross basis as of October 1, 2003. Had the ruling been in effect for all of 2003, revenues and expenses in the accompanying consolidated statements of operations would have been lower by EUR 45,886. Had the enacted regulation and the VASP ruling been in effect for all of 2003, revenues and expenses would have been adjusted as follows:

Year ended December 31,	**2003**	**2003**
	pro-forma	**as reported**
Revenues	3,923,864	3,969,750
Operating expenses	(3,554,040)	(3,599,926)
Operating income	**369,824**	**369,824**

Principles of consolidation

The consolidated financial statements include the accounts of Telekom Austria AG and all of its' subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Investments in companies in which the Company has a 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 the consolidated cash flows.

Cash and cash equivalents

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

Marketable securities

Marketable debt and equity securities, other than investments accounted for by the equity method, are classified as either available-for-sale or held-to-maturity. Securities classified as available-for-sale are reported at fair value at the balance sheet date and held-to-maturity securities are reported at amortized cost. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of applicable deferred tax.

Inventories

Inventories consist of merchandise sold in retail shops and material and spare parts used for the construction of networks, mainly for the Company's own use. Inventories are valued at the lower of cost or market, cost being determined on the basis of weighted average cost.

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 asset retirement obligations. Value added tax ("VAT"), which is charged by suppliers and refunded by the tax authorities, is not included in cost. Plant and equipment under capital leases are stated at the lower of the 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 capital leases 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 - 20
Cables and wires	10 - 20
Communications equipment	4 - 10
Software	3 - 8
Furniture, fixtures and other	3 - 10
Buildings and leasehold improvements	10 - 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.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are tested for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible 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 in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

The goodwill impairment test is a two-step evaluation. The first step requires the Company to compare the fair value and carrying value of any reporting unit to which goodwill has been allocated. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists and the second step of the impairment test must be performed. In the second step, the implied fair value of goodwill, determined by allocating the aggregate fair value of the reporting unit to all identifiable tangible and intangible assets, is compared to its carrying amount. Any shortfall in fair value of goodwill compared to carrying value is recognized as an impairment loss.

In each reporting period, the Company is required to reevaluate its decision that a nonamortizable intangible asset has an indefinite useful life. If a nonamortizable intangible asset is subsequently determined to have a finite useful life, the intangible asset is written down to the lower of its fair value or carrying amount and amortized prospectively based on its remaining useful life. The impairment test is a comparison of the fair value of the intangible asset with its carrying value. Any excess of carrying value over fair value is recognized as an impairment loss.

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	10 - 15
Patents and proprietary rights	4 - 20
Subscriber base	6 - 7
Other	10 - 30

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If the carrying value of such assets exceeds the undiscounted cash flows, an impairment will be recognized. The amount of the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Long-lived assets or disposal groups to be sold are classified as held for sale if all the criteria for reclassification in accordance with SFAS 144 are met and are reported at the lower of the carrying amount or estimated proceeds less cost to sell.

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.

Advertising and promotional costs

Advertising and promotional costs are expensed as incurred and totaled EUR 229,580, EUR 198,138 and EUR 198,362 for the years ended December 31, 2005, 2004 and 2003, respectively.

Research and development costs

Research and development costs are expensed as incurred and totaled EUR 43,031, EUR 42,387 and EUR 42,759 for the years ended December 31, 2005, 2004 and 2003, respectively, and are classified in the consolidated statement of operations according to the nature of the expense.

(all amounts in EUR '000s) Telekom Austria 2005 77

Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amount of an existing asset or liability and its respective tax basis, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized as income or expense in the period of the enactment date.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted.

Deferred income taxes on investments in pass-through enterprises are provided on the excess of the financial statement carrying amount of the investment, including the goodwill within the pass-through enterprise, over the tax basis of the investment.

The Company recognizes deferred tax liabilities or assets for differences between the assigned values and the tax basis of assets and liabilities recognized in a business combination. If a valuation allowance is recorded on a deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, the tax benefits recognized in subsequent years due to a reassessment of that valuation allowance are applied (i) first to reduce to zero any goodwill related to the acquisition, (ii) second to reduce to zero other non-current intangible assets related to the acquisition, and (iii) third to reduce income tax expense.

Earnings per share

Basic earnings per share are computed by dividing consolidated net income by the weighted average number of common shares outstanding for the year.

Diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding for the year, adjusted by the effect of the options granted under the stock option plans.

In order to have access to shares for employee compensation purposes for the Stock option plan 2000, the Company purchased an American call option. As the American call option was written on already issued and outstanding shares, the number of potential shares outstanding was not affected by the American call option and all of these shares were already included in basic EPS. Accordingly, the call option and employee options did not have a dilutive effect.

Employee stock options under the Stock option plan 2004 were treated as potential common shares in computing diluted earnings per share under the treasury stock method in accordance with SFAS No. 128, Earnings per Share, as of December 31, 2004. In the year ended December 31, 2005, the Company modified the exercise terms of the Stock option plan and decided to settle the options in cash only. Accordingly, the Company adjusted the accounting for the employee stock options and recognized a liability. Therefore, the Company reported no dilutive effect of the Stock option plan as of December 31, 2005.

Treasury stock

The Company accounts for the treasury stock in accordance with the cost method with acquisitions being recorded at cost and the total cost being shown in the balance sheet as a reduction of stockholders' equity.

Asset retirement obligation

The Company accounts for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations. The Company records the fair value of an asset retirement obligation as a liability in the period in which the legal obligation associated with the retirement of a tangible long-lived asset is incurred. An amount equal to the initial obligation is recorded as an increase to the carrying amount of the related long-lived asset and depreciated over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement.

Employee benefit obligations

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

In the case of defined contribution plans the Company pays contributions to publicly or privately administered pension 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 incurred.

All other retirement benefit plans are unfunded defined benefit plans for which the Company records accruals. The pension provisions are calculated using the projected unit credit method in accordance with SFAS No. 87, Employers' Accounting for Pensions. The future benefit obligations are valued using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase and rate of increase of pensions.

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 as well as 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 the financial condition of its' large customers to support its receivables. As of the balance sheet dates, the Company does not have any significant concentrations of business transacted with a particular supplier or lender that could, if suddenly eliminated, severely impact operations. The Company also does not have a 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 several high-quality credit institutions.

As a result of its expansion into the CEE-region Telekom Austria is operating in markets that have been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating within 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 Group. The future business environment may differ from management's assessment.

Foreign currency translation

The reporting currency of the Company is the Euro.

Foreign currency receivables and liabilities are recognized at the exchange rate applicable on the transaction date and retranslated periodically at the then applicable ruling balance sheet rate. Unrealized foreign exchange losses and gains due to exchange rate fluctuations are recognized in the statement of operations.

The functional currency for the Company's foreign operations is the applicable local currency. Assets and liabilities are translated using the current exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the weighted average exchange rate during the period. Resulting translation adjustments are recorded as other comprehensive income or loss.

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

	Balance sheet rates at December 31		Average exchange rates for the period ended December 31		
	2005	**2004**	**2005**	**2004**	**2003**
Bulgarian Lev (BGN)	1.9563	1.9559	1.9558	1.9530	1.9490
Croatian Kuna (HRK)	7.3715	7.6712	7.4038	7.4943	7.5621
Czech Crown (CZK)	29.0000	30.4640	29.7803	31.9062	31.8409
Hungarian Forint (HUF)	252.8700	245.9700	247.9480	251.6906	253.0343
Japanese Yen (JPY)	138.9000	139.6500	136.8544	134.3904	130.8971
Slovak Crown (SKK)	37.8800	38.7450	38.5928	40.0270	41.4919
Slovenian Tolar (SIT)	239.5000	239.7600	239.5698	239.0826	233.8404
Swiss Franc (CHF)	1.5551	1.5429	1.5484	1.5442	1.5204
US Dollar (USD)	1.1797	1.3621	1.2446	1.2432	1.1299

(all amounts in EUR '000s)

Revenue recognition

Wireline

The Company generates revenues from fixed line services to individuals, to commercial and non-commercial organizations and to 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.

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 in which 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 telecommunications operators outside of Austria whereby the Company grants some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of the counter party. In accordance with APB No. 29, "Accounting for Nonmonetary Transactions", EITF 01-2, "Interpretation of APB Opinion No. 29", and EITF 99-17, "Accounting for Advertising Barter Transactions", no revenues and obligations (expenses) were recognized because the exchange does not result in the culmination of an earnings process due to the similarity of the assets exchanged. In addition, no gain or loss was recognized, as fair value was not considered to be determinable within reasonable limits. The Company, however, does recognize trade revenues arising from subscriber transactions under normal tariff plans. The benefits and costs of such swap agreements are 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 wireless segment are billed in advance and result in deferred revenues. These fees are amortized over the period in which the service is provided. Discounts and incentives are accounted for as a reduction in revenues when granted.

Revenue and related expenses associated with the sale of wireless handsets to distributors are recognized when the products are delivered and accepted, as such sales transactions are separate and distinct from the sale of wireless services to customers.

The Company also enters into multiple element arrangements which include the sale of handsets, activation fees and service contracts to customers through Company owned retail stores. These transactions include the sale of a mobile handset at a price significantly below acquisition cost (subject to a binding contract being signed), the up-front charge of non-refundable activation fees to connect the customer to the service, and the subsequent monthly fees and airtime fees charged during the contract period. The Company recognizes revenue from the sale of handsets upon delivery to the customer. The corresponding cost of sales is charged to expense when sales are recognized which results in a net loss on the sale of the handset. Activation fees charged to the customer are recognized as revenue and the related cost is expensed upon delivery and sale of the phone. Current monthly service fees are recorded as revenue from the point where the service is performed.

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

Customer acquisition costs consist primarily of commissions paid to dealers that sell wireless services to customers. Such costs are expensed ratably over the contract period as marketing expense.

Allowance for doubtful accounts

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 non-collectibility.

The estimated allowance for doubtful accounts relating to receivables sold and cash drawn under the securitizations described in note (5) are recorded as accrued liabilities. Trade accounts receivable and uncollectible loans are charged off as soon as the uncollectibility is assured.

Stock compensation

Until the year ended December 31, 2003, the Company accounted for stock-based employee compensation in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Specifically, the Company accounted for its combination stock option and stock appreciation rights plan under the Stock option plan 2000 (see note (20)) in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, which requires that the plan be accounted for as a stock appreciation right. The Company recognized a liability and a pro rata compensation expense in the first period in which it was probable that the target stock price criteria outlined in the plan would be met. Based on historical trends of the stock and relevant market conditions, no compensation expense has been recognized under the plan in 2003.

Effective January 1, 2004, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation. Because the combination stock option and stock appreciation rights plan at January 1, 2004 permitted employees to call for settlement in cash, the accounting for this plan under SFAS No. 123 was the same as in prior years under APB 25. Therefore, there was no effect of a change in accounting principle in 2004.

In 2004, the Company launched the Stock Option Plan 2004 (see note (20)), which was classified as equity awards in accordance with SFAS 123 as the Company's management had the intention to settle the options in shares. The compensation cost was measured based on the fair value of the stock options at the grant date and recognized over the service period for the year ended December 31, 2004.

In 2005, the Company adopted the revised SFAS 123 (SFAS 123R) using the modified prospective application. As the Stock Option Plan 2004 was measured based on the fair value, there was no effect of change in accounting principle.

In March 2005, the Company modified the exercise term of the first tranche of the Stock Option Plan 2004 and elected to settle the options in cash only. As a result, amounts originally recorded in additional paid in capital were reclassified to liabilities. The liability is remeasured at fair value at each reporting date until the date of settlement. Compensation cost is based on the change in the fair value of the liability award, or a portion of the change, depending on the percentage of the requisite service that has been rendered at the reporting date.

Derivative financial instruments

All derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized periodically either in income or stockholders' equity (as a component of accumulated other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows.
For derivatives designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognized in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instruments are recognized in accumulated other comprehensive income in the statements of changes in stockholders' equity until the hedged item is recognized in earnings. The ineffective portion of the value changes are recognized in earnings immediately. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives.

The Company has entered into various 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 receivable sold, accounts payable, receivables due from and payables due to related parties and accrued liabilities approximate their fair value. The fair values of securities held-to-maturity and securities available-for-sale are 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.

For some investments, mainly in unconsolidated subsidiaries and equity investments, for which there are no quoted market prices ("Cost method investments"), the Company estimates the fair value to be the carrying value based on the audited financial statements, if available. Those investments are tested for impairment if losses are generated over an extended period or if the business environment changes materially.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

New accounting pronouncements

In March 2005, the FASB issued FIN No. 47, Accounting for Conditional Asset Retirement Obligations-an interpretation of FASB Statement No. 143. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB No. 143, Accounting for Asset Retirement Obligations, refers to legal obligations to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. This interpretation also clarified when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of FIN 47 shall be effective no later than at the end of the fiscal years ending after December 15, 2005. The Company does not expect that the adoption of FIN No. 47 will have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB No. 20, Accounting Changes and FASB No.3, Reporting Accounting Changes in Interim Financial Statements. Statement No. 154 requires retrospective application of changes in accounting principle to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of SFAS No. 154 shall be effective for the accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of SFAS No. 154 will have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards

In July 2002, the European Parliament adopted a regulation requiring all European Union (EU) companies to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS) if their securities are traded on a regulated market within the EU. The regulation shall be applied as of the first period that begins on or after January 1, 2005. However, Member States may defer mandatory application until the first period that begins on or after January 1, 2007 for companies that already use other internationally accepted standards and that are publicly traded outside of the EU. This transitional clause applies to the Company as it is listed on the New York Stock Exchange and prepares its financial statements in accordance with US GAAP. Accordingly, the Company is not required to prepare financial statements in accordance with IFRS until the fiscal year beginning on January 1, 2007. However, the Company plans to prepare financial statements in accordance with IFRS on a voluntary basis starting for the fiscal year ending December 31, 2005.

(2) BUSINESS COMBINATIONS

All acquisitions have been accounted for under the 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 the acquisition.

As of June 1, 2005, the Company exercised the option and acquired 100% of Mobiltel on July 12, 2005. 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, including the direct costs of acquisition of EUR 7,155, option price of EUR 80,000 and a deferred consideration of EUR 181,871 that was paid in December 2005. As a result of the acquisition the Company gained a strong strategic and operating position in the Bulgarian telecommunication market.

In November 2005, Mobiltel merged with its parent company, TAG-Tel EAD. As a result of this transaction, the majority of the accounting basis of the net assets acquired also became the new basis for tax purposes. Goodwill of EUR 565,963 is expected to be fully tax deductible. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Current assets	110,974
Tangible assets	274,031
Intangible assets	870,740
Deferred tax asset from acquisition	7,003
Goodwill	565,963
Current liabilities	(376,609)
Long-term liabilities	(237,834)
Net assets acquired	1,214,268

Mobiltel is reported in the wireless segment.

The estimated fair values, by class of the intangible assets, were as follows:

Wireless operating licenses	98,989
Subscriber base	508,682
Brand name	262,991
Other	78
Total intangible assets acquired	870,740

The brand name is classified as an intangible asset with an indefinite useful life and therefore is not subject to amortization, but is tested for impairment annually. Intangible assets recognized relating to wireless operating licenses and the subscriber base are amortized over their weighted average useful life of 10.7 and 7 years, respectively. The remaining intangible assets are subject to amortization.

(all amounts in EUR '000s) Telekom Austria 2005 83

The pro forma consolidated revenues, net income and earnings per share for the years ended December 31, 2005 and 2004, calculated as if Mobiltel had been acquired at the beginning of 2005 and 2004, respectively, are estimated to be:

	2005	2004
Revenues	4,639,271	4,530,543
Net income	479,696	318,756
Weighted average number of dilutive shares outstanding	489,050,517	496,524,827
Basic and fully diluted earnings per share	Euro 0.98	Euro 0.64

The pro forma results include amortization of intangible assets presented above, depreciation on fair value adjustments on property plant and equipment, the 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.

On December 31, 2004, mobilkom austria acquired the remaining 1% of VIPnet d.o.o., Zagreb, (Vipnet) for a total purchase price of EUR 1,658, thus bringing its interest to 100%.

(3) INVESTMENTS IN AFFILIATES

As of December 31, 2005 and 2004, the investments in affiliates included a 26.00% interest in Omnimedia Werbegesellschaft GmbH ("Omnimedia") and a 25.10% interest in Output Service GmbH ("OSG").

In July 2003 the Company sold its 26.00% interest in Herold Business Data AG, the leading telephone directory provider in Austria, to PASR Vierte Beteiligungsverwaltung GmbH for EUR 22,000 and realized a gain of EUR 18,367 which was recorded in equity in earnings of affiliates.

The following table shows the roll forward of investments in affiliates:

	2005	2004
Carrying amount, January 1	3,570	3,555
Changes in equity	72	15
Carrying amount, December 31	3,642	3,570

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

Year ended December 31,	**2005**	**2004**	**2003**
Revenues	6,308	6,506	35,515
Operating income	3,482	3,466	4,653
Net income	2,186	2,117	2,908

At December 31,	**2005**	**2004**
Total current assets	39,018	31,068
Total assets	39,501	31,566
Current liabilities	36,167	28,590
Long-term debt	1,480	1,401
Total liabilities	37,647	29,991
Total stockholders' equity	1,854	1,575

(all amounts in EUR '000s)

(4) MARKETABLE SECURITIES

Marketable securities are included in short-term investment and other investments in the balance sheet.

Debt securities originating from cross border lease transactions entered into in 1998 and 1999 (see note (17)) are classified as held-to-maturity as the Company is contractually obligated to hold these securities until maturity. The securities are bonds of triple A rated issuers and are held by a custodian. Through a further asset based swap the cash inflows from the securities are transformed into the cash flow stream required to match a specified portion of the lease payments. The securities are pledged to a counterparty in the swap agreement. No sales of securities held-to-maturity occurred in 2005, 2004 and 2003. The interest rates on the securities are fixed and range from 5.65% to 9.01%. Accrued interest is recorded as interest income. The securities will mature between 2006 and 2011.

At December 31, 2005	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Non-current assets				
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	145,796	8,412	-	154,208
At December 31, 2004				
Non-current assets				
Available-for-sale				
debt securities	4,955	176	4	5,127
equity securities	1,658	-	-	1,658
mutual funds	13,342	1	472	12,871
Held-to-maturity	120,946	12,919	-	133,865

The contractual maturities of debt securities classified as held-to-maturity at December 31, 2005 were as follows:

	Amortized cost	Fair value
Held-to-maturity		
Due within one year	6,091	6,091
Due after one year through five years	110,714	115,949
Due after five years through ten years	28,991	32,168
	145,796	**154,208**

Proceeds from sales of available-for-sale securities amounted to EUR 6,262, EUR 8,740 and EUR 545 in 2005, 2004 and 2003, respectively. Gross realized gains from sales of available-for-sale securities were EUR 3,123, EUR 2,124 and 323 in 2005, 2004, and 2003 respectively, while gross realized losses from sales of available-for-sale securities were EUR 0, EUR 3 and EUR 0 in 2005, 2004 and 2003, respectively. The specific identification method was used to determine the cost in computing realized gains and losses.

(all amounts in EUR '000s)

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 an impairment. Presented below is the fair value information for marketable securities held by the Company:

	Less than 12 months		12 months or longer		Total	
At December 31, 2005	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Non-current assets						
Available-for-sale						
debt corporate securities	1,838	27	-	-	1,838	27
equity securities	117	2	-	-	117	2
mutual funds	-	-	4,948	23	4,948	23
Total temporarily impaired securities	**1,955**	**29**	**4,948**	**23**	**6,903**	**52**

(5) ACCOUNTS RECEIVABLE - TRADE

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

	2005	2004
Allowance beginning of the year	94,613	92,238
Foreign currency adjustment	24	31
Addition from acquisition of Mobiltel	27,763	-
Charged to expenses	43,393	24,707
Amounts written-off	(21,739)	(22,363)
Allowance at the end of the year	**144,054**	**94,613**
of which allowance for accounts receivable-trade	104,234	73,463
of which for accounts receivable sold	39,820	21,150

December 31,	2005	2004
Accounts receivable-trade, gross	557,112	482,283
Allowance for accounts receivable-trade	(104,234)	(73,463)
Accounts receivable-trade, net	**452,878**	**408,820**
Accounts receivable sold, gross	268,099	194,500
Allowance for accounts receivable sold	(39,820)	(21,150)
Accounts receivable sold, net	**228,279**	**173,350**
Accounts receivable, net	**681,157**	**582,170**

Of accounts receivable trade, EUR 253,933 are held for sale under the securitization program described in the following paragraphs.

In January 2002, the Company entered into a revolving securitization program and sold trade receivables to a Qualifying Special Purpose Entity (QSPE) unrelated to the Company. The Company retains servicing responsibilities relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the QSPE, the Company retains interests in the sold receivables (retained interests). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies.

(all amounts in EUR '000s)

The Company determined that the transaction met the three sales criteria, that (a) the transferred assets have been isolated from the transferor, beyond the reach of the transferor and its creditors, even in the event of bankruptcy or receivership, (b) the transferee obtains the right, free of any conditions that constrain, to pledge or exchange the assets and (c) the transferor does not maintain effective control in accordance with SFAS No. 140,"Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". Additionally, the QSPE, a limited liability corporation whose shares are owned by a charitable trust fulfilled all conditions required to be a qualifying special purpose entity under SFAS No. 140.

In December 2003 the asset-backed securitization program was extended, the discounts required were reduced and the maximum program limit was increased from EUR 290,000 to EUR 350,000.

At December 31, 2005 and 2004, the Company recorded a receivable due from the QSPE of EUR 228,279 and EUR 173,350, respectively. This amount represents accounts receivable sold, net of allowance for doubtful accounts, for which the Company had not required cash settlement from QSPE.

The Company routinely evaluates its portfolio of trade receivables for risk of non-collection and records an allowance for doubtful accounts to reflect the carrying value of its trade receivables at the estimated net realizable value. Pursuant to the provisions of the revolving-period securitizations, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. Accordingly, in the normal course of servicing the assets sold, the Company evaluates potential collection losses and delinquencies and updates the estimated fair value of the Company's retained interest.

The allowance recorded for sold receivables, for which the company received cash settlement as of December 31, 2005, is classified as accrued liabilities. As of December 31, 2005 and 2004, respectively, the accruals totaled EUR 4,570 and EUR 19,097.

In accordance with SFAS No. 140, the Company has not recorded a servicing asset or liability as management has determined that it is not practicable to determine a fair value for the servicing.

In the years ended December 31, 2005 and 2004, respectively, the following cash flows were received from and paid to the QSPE:

December 31,	**2005**	**2004**
Gross trade receivables sold to QSPE	3,044,009	2,861,686
Collections made on behalf of and paid to the QSPE	(3,105,085)	(2,806,644)
Deferred purchase price withheld	1,644	(9,771)
Unearned discount (withheld) reduced	(111)	(1,489)
Liquidity and program fees	(2,335)	(3,110)
Retained interests	9,142	(9,142)
Increase in receivable from the QSPE	(73,599)	(49,140)
Net cash received from (paid to) QSPE during the period	**(126,335)**	**(17,610)**

Cash settlement with the QSPE takes place on a monthly basis. Gross trade receivables sold represent the fair value of billed and unbilled receivables to the QSPE during the years ended December 31, 2005 and 2004, respectively. The Company services these receivables, collecting cash from receivables previously sold on behalf of the QSPE. The Company recorded discounts, liquidity and program fees related to the securitization of trade receivables of EUR 2,270 and EUR 3,107 for the years ended December 31, 2005 and 2004, respectively. These discounts and fees are included in interest expense in the statement of operations.

(all amounts in EUR '000s)

(6) RELATED PARTY TRANSACTIONS

Disclosures of the related party transactions relate to the Company's majority shareholder ÖIAG and its subsidiary Österreichische Post AG as "ÖIAG". Transactions with other government agencies and government-owned entities, for practical reasons, are not disclosed. None of the individual accounts associated with government agencies or government-owned entities is considered significant to the Company.

Österreichische Post AG and its subsidiaries ("Post"), a subsidiary of ÖIAG which provides postal services, charged the Company for different services such as postal charges, rent, repair and administration. The Company charged Post for IT support, voice telephony, technical services, rent, repair and other services. On September 17, 2003, Postbus AG, a 100% subsidiary of Österreichische Post AG, was sold to Österreichische Bundesbahnen and is therefore no longer reported as a related party.

The terms for services provided by Telekom Austria to governmental 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 41,298, EUR 40,303 and EUR 41,396 in 2005, 2004 and 2003, respectively.

In 2001, a partner in a law firm which provides legal services to the Company was elected to the Supervisory Board. In 2005, 2004 and 2003, respectively, the Company was charged EUR 464, EUR 640 and EUR 560 for legal services by that law firm.

Telecom Italia and the Company charged standard rates for interconnection services provided to each other.

The Company has entered into agreements with Telecom Italia whereby the Company grants some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of Telecom Italia. The Company does not recognize revenue or an obligation 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.

(7) INVENTORIES

Inventories consist of:

At December 31,	**2005**	**2004**
Spare parts, cables and supplies	44,297	41,167
Merchandise	46,616	41,943
Total	**90,913**	**83,110**

(all amounts in EUR '000s)

(8) GOODWILL

The following tables illustrate the changes in the net book value of goodwill by segment for the years ended December 31, 2005 and 2004, respectively:

	Wireline	Wireless	Total
Goodwill January 1, 2005	32,317	564,248	596,565
Acquisitions	-	565,971	565,971
Impairment	(16,317)	-	(16,317)
Translation adjustment	347	2,609	2,956
Goodwill December 31, 2005	**16,347**	**1,132,828**	**1,149,175**

	Wireline	Wireless	Total
Goodwill January 1, 2004	31,419	566,158	597,577
Acquisitions	202	-	202
Impairment	(211)	-	(211)
Translation adjustment	907	(1,910)	(1,003)
Goodwill December 31, 2004	**32,317**	**564,248**	**596,565**

In 2005, the major addition to goodwill relates to the acquisition of Mobiltel (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 the full liberalization of the Czech market, which however remained unsatisfactory despite the privatization of the former government owned telecommunication company. Moreover, a highly competitive environment developed within the alternative telecommunication market in the Czech Republic. Due to these facts the business of COL has not developed as expected. The value of the reporting unit in 2005 was estimated using forecasted cash flows discounted using a weighted average cost of capital of 10.8%.

Further, 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 expects a material decrease of the profitability of the World-Direct's market as a result of decreasing demand by customers. The value of the reporting unit in 2005 was estimated using forecasted cash flows discounted using a weighted average cost of capital of 9.2%.

(9) OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

At December 31,	**2005**	**2004**
Wireless and wireline licenses	684,405	563,080
Patents and proprietary rights	73,972	78,482
Brand names	437,894	173,948
Subscriber base	731,401	138,504
Other	31,238	35,679
Total intangibles	**1,958,910**	**989,693**
Less accumulated amortization	(526,394)	(322,356)
Net intangibles	**1,432,516**	**667,337**

Interest of EUR 1,251 was capitalized on the intangible assets, with the amount predominantly relating to the UMTS licenses.

Amortization expense was EUR 114,403, EUR 74,863, and EUR 68,340 for the years 2005, 2004 and 2003, respectively.

(all amounts in EUR '000s) Telekom Austria 2005 89

In 2005, the major additions to intangible assets relate to the acquisition of Mobiltel (see note (2)). The following table provides granted periods, total cost incurred and possible renewal periods and renewal fees for all GSM and UMTS licenses :

	GSM licenses	UMTS licenses
Granted until	2013 - 2015	2020 - 2024
License cost	429,233	246,584
Renewal of the Croatian license until year	2019	2044
Onetime license fee for extension of the Croatian license	14,244	17,907

The Company holds licenses to operate as telecommunications service provider from the Austrian, Croatian, Slovenian, and Bulgarian commissions.

With the granting of the UMTS license for Austria, the Company has incurred the obligation to provide at least 50% degree of UMTS coverage to the population. As of December 31, 2005, the Company has fulfilled this obligation.

The gross carrying amounts and accumulated amortization of intangible assets subject to amortization, by major class, are as follows:

At December 31, 2005	Acquisition cost	Accumulated amortization	Carrying value
Wireless and wireline licenses	684,405	(268,966)	415,439
Subscriber base	731,401	(198,247)	533,154
Patents, proprietary rights and others	105,211	(59,182)	46,029
Total	**1,521,017**	**(526,395)**	**994,622**

At December 31, 2004	Acquisition cost	Accumulated amortization	Carrying value
Wireless and wireline licenses	563,080	(210,172)	352,908
Subscriber base	138,504	(55,149)	83,355
Patents, proprietary rights and others	114,161	(57,035)	57,126
Total	**815,745**	**(322,356)**	**493,389**

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

2006	152,644
2007	151,821
2008	140,000
2009	125,657
2010	122,832
2011	109,451
Thereafter	192,217

The actual amortization may differ from expected amortization.

The total carrying amount of intangible assets, other than goodwill, not subject to amortization is EUR 437,894 and EUR 173,948 as of December 31, 2005 and 2004, respectively, which relates entirely to brand names. The amount as of December 31, 2005 includes a brand name of EUR 262,991 which was acquired in the course of the acquisition of Mobiltel (see note (2)).

90 Telekom Austria 2005 (all amounts in EUR '000s)

(10) PROPERTY, PLANT AND EQUIPMENT

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

At December 31,	2005	2004
Land	60,031	59,172
Buildings and leasehold improvements	738,439	689,639
Communications network and other equipment	9,952,016	9,506,621
Capital leases	8,753	8,961
Software	519,308	441,223
Construction in progress, network	207,804	158,007
	11,486,351	**10,863,623**
Less accumulated depreciation (other than capital leases)	(7,704,184)	(6,968,516)
Less accumulated depreciation, capital leases	(7,613)	(6,416)
Property, plant and equipment, net	**3,774,554**	**3,888,691**

Major additions in 2005 and 2004 related to the communications network in the wireline segment and GSM and UMTS network infrastructure in the wireless segment.

Total interest capitalized along with amortization and depreciation expenses and impairment charges for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Interest capitalized	1,123	1,557	1,605
Depreciation and amortization expense	1,005,398	1,039,967	1,064,808
Impairment charges	1,071	1,123	6,825
of which			
Amortization of software	77,695	81,903	79,059
Amortization of leased assets	1,408	1,466	3,663

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

(11) ASSETS HELD FOR SALE

The Company classified several buildings with carrying amount of EUR 880 as held for sale as of December 31, 2005. The assets have been accounted for at the lower of the carrying amount or each asset's estimated fair value less costs to sell.

In 2005, the Company sold the Austrian UMTS license frequency band and several buildings which were classified as held for sale and recognized a profit of EUR 7,900.

The Company recognized a gain on sale of assets of EUR 7,615 and EUR 4,762 for the years ended December 31, 2005 and 2004, respectively.

(all amounts in EUR '000s) Telekom Austria 2005 91

(12) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2005	2004
Current portion of long-term debt	296,840	653,022
Short-term debt	357,736	-
Lines of credit	8,484	2,775
Cross Border Lease	122,227	94,154
Current portion of lease obligations	486	1,188
Total	**785,773**	**751,139**

The weighted-average interest rate on lines of credit was 2.30% and 2.21% in 2005 and 2004, respectively. As of December 31, 2005 the Company had unused committed credit lines of EUR 450,000 and recorded commitment and servicing fees for these unused lines of EUR 938. The credit line commitments will expire between November 2006 and December 2007.

(13) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

At December 31,	2005	2004
Taxes, other than income	5,623	7,643
Employee benefits	53,256	61,830
Customer discounts	48,226	42,279
Customer retention programs	35,486	34,712
Bad debt reserve for sold receivables	4,570	19,097
Other	23,843	28,758
Total	**171,004**	**194,319**

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

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 lowest amount is considered in establishing the accrual.

(14) DEFERRED INCOME

At December 31,	2005	2004
Unearned income	192,398	162,002
Unamortized gain on sale of tax benefits	37,349	44,331
	229,747	**206,333**
Less non-current portion	(30,237)	(37,349)
Deferred income net of non-current portion	**199,510**	**168,984**

The deferred income mainly relates 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 over the period the service is provided.

Additional information concerning the sale of tax benefits is contained in note (17).

92 Telekom Austria 2005 (all amounts in EUR '000s)

(15) ASSET RETIREMENT OBLIGATION

The Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, as of January 1, 2003 and recorded the following additions to long-lived assets, asset retirement obligations and a cumulative change in accounting principles:

At January 1,	**2003**
Addition to long-lived assets	6,288
Addition to accumulated depreciation	(2,263)
Cumulative effect of change in accounting principle	17,929
Asset retirement obligations	**21,954**

The roll-forward of asset retirement obligations is as follows:

	2005	**2004**
Asset retirement obligations as of January 1	38,261	23,262
Foreign exchange differences	167	(33)
Addition from acquisition of Mobiltel	2,502	-
Change in estimate	2,558	-
Liability incurred in the current period	2,808	11,451
Accretion expense	3,087	6,173
Settlements	(1,274)	(2,248)
Releases	-	(344)
Asset retirement obligations as of December 31	**48,109**	**38,261**

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 for the foreseeable future. The Company 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 set up for the foreseeable future. The Company has 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.

mobilkom austria and Mobiltel situate 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, the Company 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, mobilkom austria 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.

(all amounts in EUR ‘000s)

(16) LONG-TERM DEBT

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

At December 31,	Maturity	2005	2004
Face value of bonds under EMTN Programme	2010-2017	1,750,000	750,000
Interest rate SWAP on EMTN bonds	2010-2013	(5,311)	11,200
Discount and issue cost of EMTN bonds	2010-2017	(16,654)	(7,731)
Other bonds guaranteed by the Federal Republic of Austria	2005	-	149,602
Bank debt	2006-2009	790,312	675,296
Bank debt guaranteed by the Federal Republic of Austria	2006-2011	297,232	707,566
Other	2006-2007	38,964	14,260
		2,854,543	**2,300,193**
Less current portion of long-term debt		(296,840)	(653,022)
Long-term debt, net of current portion		**2,557,703**	**1,647,171**

The interest rates on the guaranteed and unguaranteed bank debt vary between 2.3% and 7.0%. The weighted average interest rate for the years ended December 31, 2005 and 2004, respectively, was 4.32% and 5.0% for bonds and 4.5% and 4.9% for bank debt.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2005 and 2004 are as follows:

	2005	2004
Bonds	4.32%	4.56%
Bank debt	4.07%	4.62%

Following is a table that shows the aggregate amounts of long-term debt maturing during the next five years and thereafter:

2006	296,840
2007	99,689
2008	235,997
2009	479,415
2010	495,455
Thereafter	1,247,147

As of December 31, 2005, the Company was in compliance with all covenants required by its loan agreements.

Bonds under 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") Program, 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, coupon of 5.00% and 10-year maturity in July 2003 and (ii) two Eurobonds with face value of EUR 500,000 each, with 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 4,533 and EUR 9,567, respectively, which are being amortized over the related maturities. 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.

Other bonds

Other bonds issued by the Company before the privatization are guaranteed by the Federal Republic of Austria and consisted of two bonds, both of which matured and were repaid in 2005.

94 Telekom Austria 2005 (all amounts in EUR '000s)

Bank debt

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

In December 2005, the Company entered into a loan agreement of EUR 180,000 with the European Investment Bank. As of December 31, 2005, the loan is outstanding in full. Under the terms of this agreement, the company must observe covenants requiring the Company 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, 2005, EUR 58,000 of the loan is outstanding in accordance with the repayment terms. Under the terms of this agreement, the Company must observe covenants requiring the Company to meet certain financial ratios.

Further, in October 2000 the Company entered into a loan agreement for EUR 232,553 to fund the acquisition of COL. As of December 31, 2005 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, 2005, 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. The loan is repayable through March 2007.

Bank debt guaranteed by the Federal Republic of Austria

Bank debt of EUR 297,232 which was entered into before the Company's privatization is guaranteed by the Federal Republic of Austria.

A bank loan denominated in Swiss Francs, which amounted to EUR 176,635 as of December 31, 2004, was repaid in 2005. As of December 31, 2005, all bank debt incurred by the Company is denominated in Euro.

(17) LEASING

The Company leases equipment used in its operations. The leases are classified as either operating or capital leases, and expire on various dates through 2015.

Future minimum lease payments for noncancelable operating leases, capital leases and cross border leases as of December 31, 2005 are:

	Cross border leases	Other Capital leases	Operating leases
2006	122,227	578	42,579
2007	144,933	47	39,772
2008	127,632	9	35,348
2009	185,371	-	33,785
2010	147,713	-	33,794
after 2010	472,112	-	34,584
Total minimum lease payments	**1,199,988**	**634**	**219,862**
Less amount representing interest	(260,041)	(2)	
Present value of lease payments	**939,947**	**632**	
Less current portion	(122,227)	(486)	
Non-current lease obligations	**817,720**	**146**	

Total rent expense was EUR 83,534, EUR 79,204 and EUR 74,358 in 2005, 2004 and 2003, respectively.

(all amounts in EUR '000s) Telekom Austria 2005 95

Cross border leases

In 1999 and 1998, the Company entered into various cross border lease transactions whereby certain equipment items, mainly switches, were sold to a U.S.-based trust and leased back over certain terms. Concurrent with the inception, the Company entered into Payment Undertaking Agreements ("PUA") with several counterparties whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for a deposit. The counterparties in the PUAs 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 counterparties in the PUA; the balance is to cover the remaining portion of the present value of the lease obligation not yet covered by the cash deposit made by the Company. The Company then also entered into a swap agreement with that same counterparty swapping the entire cash flows from the securities for cash flows from the portion of the lease payments that the counterparty is obligated to pay under the PUA. As a result of the swap agreement, interest income on the securities matches interest expense on the lease.

In 1999, mobilkom austria entered into similar cross border lease transactions whereby certain equipment items (mainly transceiver stations, base station controllers and location registers) were sold to four U.S.-based trusts and leased back over certain terms.

In 2001, the Company entered into a cross border lease transaction whereby certain equipment items, mainly switches were leased to a U.S.-based trust and leased back over certain terms. Concurrent with the inception, the Company entered into PUAs with several counterparties whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for the upfront lease payments received under the head lease. The counter-parties in the PUAs 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 interest on the debt portion.

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 was a 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. 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 recorded separately on the balance sheets as the Company has not been released from their obligation under the lease and a legal right to offset does not exist. Accordingly, interest income and expenses in an equal amount totaling EUR 62,909, EUR 58,243and EUR 65,669 have been recognized in 2005, 2004 and 2003, respectively.

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

At December 31,	**2005**	**2004**
Securities held-to-maturity, non-current	139,705	115,883
Other assets	800,242	738,948
Total assets in connection with cross border leases	**939,947**	**854,831**
Of which current	121,145	94,297
Lease obligations	939,947	854,831
Of which current	122,227	94,154

In 2001, two banks issued letters of credit to the trust for the liabilities of the Company. As of December 31, 2005, these letters of credit totaled EUR 70,744.

(all amounts in EUR '000s)

(18) EMPLOYEE BENEFIT OBLIGATIONS

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

At December 31,	2005	2004
Voluntary termination benefits	10,457	19,394
Service awards	49,385	44,418
Severance	37,424	37,096
Pensions	8,583	9,076
Other	1,412	-
Total	**107,261**	**109,984**

Voluntary termination benefits

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs ("VRIPs") to civil servants who cannot be terminated involuntarily. Under the terms of these programs employees that accept voluntary retirement are eligible to receive these payments until the day of retirement. An obligation for VRIPs was recognized when the eligible civil servant accepted the offer. The present value of the obligation is determined based on current compensation levels and the law. An annual increase of 2.5% for future years and a discount rate of 4.5% are used. VRIPs are not funded.

On January 1, 2002 a law was enacted that covers civil servants over the age of 55 by a governmental retirement plan with the effect of reducing the Company's obligation under the VRIPs. As of December 31, 2005, the accrual for the VRIPs relates to 110 employees. In connection with VRIPs the Company made payments of EUR 3,436, EUR 5,365and EUR 69,634 during 2005, 2004 and 2003, respectively.

Expenses as well as the reversals of accruals are reflected as a reduction of employee costs in the accompanying consolidated statement of operations.

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,	2005	2004	2003
Actuarial assumptions:			
Discount rate	4.0%	5.0%	5.0%
Rate of compensation increase - civil servants	5.0%	5.0%	4.0%
Rate of compensation increase - other employees	4.0%	4.0%	2.5%
Rate of increase of pensions	0.8%	1.8%	1.8%

Service awards

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these unfunded 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.

(all amounts in EUR '000s)

The following table provides the components and a reconciliation of the changes in service awards for the years ended December 31, 2005 and 2004, respectively:

	2005	2004
Accrual at the beginning of the year	**44,418**	**46,870**
Addition from acquisition of Mobiltel	48	-
Service cost	1,973	2,149
Interest cost	2,278	2,288
Recognized actuarial loss (gain)	2,861	(4,191)
Benefits paid	(2,193)	(2,698)
Accrual at the end of the year	**49,385**	**44,418**

The benefits expected to be paid are shown in the following table:

2006	2,521
2007	2,483
2008	2,496
2009	2,967
2010	3,409
2011-2015	27,455

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 in Austria after January 1, 2003 are covered by a defined contribution plan and the Company paid EUR 484 and EUR 330 to this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2005 and 2004, respectively.

Upon retirement or severance, 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 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, 2005, 2004 and 2003, respectively:

	2005	2004	2003
Service cost	4,914	2,853	4,218
Interest cost	2,140	1,467	1,784
Amortization of unrecognized net loss	471	96	310
Curtailment loss / settlement	-	-	1,090
Net periodic benefit cost	**7,525**	**4,416**	**7,402**

98 Telekom Austria 2005 (all amounts in EUR '000s)

	2005	2004
Projected benefit obligation at the beginning of the year	40,810	29,629
Addition from acquisition of Mobiltel	306	-
Service cost	4,914	2,853
Interest cost	2,140	1,467
Actuarial losses	13,694	8,638
Benefits paid	(2,934)	(1,777)
Projected benefit obligation at the end of the year	**58,930**	**40,810**
Unrecognized net actuarial losses	(26,408)	(13,183)
Accrued liability at the end of the year	**32,522**	**27,627**
Voluntary severance obligation	4,902	9,469
Total accrued severance liabilities at the end of the year	**37,424**	**37,096**

The benefits expected to be paid are shown in the following table:

2006	7,195
2007	3,011
2008	2,363
2009	3,045
2010	3,367
2011-2015	15,515

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 Austrian government offered to civil servants of a certain age an 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. The Company incurred a legal obligation to civil servants making use of this opportunity and recorded expenses of EUR 19,315 in the year ended December 31, 2004. In the year ended December 31, 2005, the Company released EUR 3,699 of the accrual. Telekom Austria does not expect any future liabilities in addition to these accruals. Due to this offer the Company's workforce was reduced by 470 civil servants in 2004 and 650 civil servants in 2003.

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 was legally obligated to make annual contributions to the Austrian government for active civil servants. These contributions gradually increased from 27.5% in 2000 to 30.1% in 2004. Beginning in October 2005 the contribution was reduced to 28.3%. Contributions to the government, net of the share contributed by civil servants, were EUR 41,237, EUR 46,854 and EUR 51,520 in 2005, 2004 and 2003, respectively.

Further, the Company provides a defined contribution plan covering employees of Austria based group companies. 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 9,339, EUR 9,154 and EUR 9,082 in 2005, 2004 and 2003, respectively.

Defined benefit pension plan

The Company provides defined benefits for certain former employees. All of such employees are retired and were employed prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of salary and on 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.

(all amounts in EUR '000s) Telekom Austria 2005 99

The pension benefits for 2005, 2004 and 2003 are shown in the following table:

	2005	2004	2003
Interest cost	334	363	396
Amortization of actuarial gain	(136)	(90)	(64)
Amortization of unrecognized transition obligation	-	-	343
Net periodic pension benefit cost	**198**	**273**	**675**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2005 and 2004, respectively:

	2005	2004
Projected benefit obligation at the beginning of the year	6,650	7,618
Interest cost	334	363
Actuarial (gains) losses	104	(582)
Benefits paid	(691)	(749)
Projected benefit obligation at the end of the year	**6,397**	**6,650**
Unrecognized net gain	2,186	2,426
Accrued pension liability	**8,583**	**9,076**

The benefits expected to be paid are shown in the following table:

2006	671
2007	674
2008	677
2009	680
2010	681
2011-2015	3,408

(19) OTHER LIABILITIES AND DEFERRED INCOME

The Company's other long-term liabilities and deferred income consist of:

At December 31,	2005	2004
Asset retirement obligation	48,109	38,042
Unamortized balance on sale of tax benefit	30,237	37,349
Deferred tax liabilities	42,236	19,721
Financial Instruments	5,311	-
Other	14,451	15,392
Total	**140,344**	**110,504**

(all amounts in EUR '000s)

(20) 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 under modified conditions. The new stock option plan (Stock Option Plan 2004) consists of three tranches, of which the first tranche has been granted in the year ended December 31, 2004 and the second tranche was granted in the year ended December 31, 2005. The Company reported an overall expense of EUR 20,864 and EUR 13,257 from both plans in the year ended December 31, 2005 and 2004, respectively.

Stock Option Plan 2000 (2000 plan)

On October 4, 2000, the shareholders of Telekom Austria approved stock option plans 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 the stock price in the years ended 2003 and 2002 did not exceed the hurdle, no compensation expense was recorded for these years.

However, 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 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
Granted	-
Forfeited	(38,132)
Exercised	(3,230,718)
Outstanding as of December 31	-
of which exercisable as of December 31	-

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 must 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 receive 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 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 choice, 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 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. The vesting period is adjusted until the next tranche becomes exercisable.

As of December 31, 2004, the Company's management had the intention to settle the options in shares and recorded the awards as equity awards. In March 2005, the Company modified the exercise term of the first tranche and decided to settle the options in cash only. As a result, amounts originally recorded in additional paid in capital were reclassified to liabilities. The compensation expense is measured based on the fair value of the options at grant date and every subsequent reporting date and recognized over the service period on a straight-line basis.

(all amounts in EUR '000s) Telekom Austria 2005 101

The fair value estimation is based on the binomial option pricing model applying the following parameters:

Stock option plan	2005	2004
Expected average dividend per share	Euro 0.60 - 0.66	Euro 0.25
Expected volatility	22.5%	25%
Risk-free interest rate range	2.390% - 3.450%	2.053% - 4.280%
Fair value per option first tranche	Euro 7.27	Euro 2.73
Fair value per option second tranche	Euro 5.65	-

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

First exercise date first tranche	April 20, 2005
Expected expiry date first tranche	May 30, 2008
First exercise date second tranche	March 16, 2006
Expected expiry date second tranche	May 29, 2009

On April 19, 2004 the first tranche 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 has a vesting period of 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 6,340 and the Company recognized compensation expense from the first tranche amounting to EUR 7,837 and EUR 4,521, excluding related payroll taxes and social contributions, for the year ended December 31, 2005 and 2004, respectively. The fair value calculation was based on an expected forfeiture rate of 2.95% per year. The hurdle set for the first tranche was met as of December 31, 2004 and the options became exercisable from April 20, 2005.

On January 19, 2005 the second tranche 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 (director) 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 has a vesting period of 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 8,455 and the Company recognized compensation expense from the second tranche amounting to EUR 13,027 for the year ended December 31, 2005. The performance condition set for the second tranche was met as of December 31, 2005.

The following table shows stock option activity under the 2004 plan for the years ended December 31, 2005 and 2004, respectively:

	2005	2004
Outstanding as of January 1	2,363,925	-
Granted	2,874,100	2,392,925
Forfeited	(92,195)	(29,000)
Exercised	(1,663,350)	-
Outstanding as of December 31	**3,482,480**	**2,363,925**
of which exercisable as of December 31	662,680	-

102 Telekom Austria 2005 (all amounts in EUR '000s)

(21) INCOME TAXES

Income before income taxes, minority interests and cumulative effect of a change in accounting principle is attributable to the following geographic locations:

	2005	2004	2003
Domestic	348,067	281,477	186,197
Foreign	175,453	68,603	46,360
Total	**523,520**	**350,080**	**232,557**

Income tax expense attributable to income before income taxes, minority interests and cumulative effect of a change in accounting principle for the years ended December 31, consisted of the following:

	2005	2004	2003
Current			
Domestic	18,523	22,266	8,899
Foreign	20,747	14,800	14,511
	39,270	**37,066**	**23,410**
Deferred			
Domestic	56,912	84,491	52,506
Foreign	10,190	629	7,120
	67,102	**85,120**	**59,626**
Total	**106,372**	**122,186**	**83,036**

Benefits of operating loss carryforwards of EUR 131, EUR 594 and EUR 1,818 were included in the deferred tax expense for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	2005	2004	2003
Continuing operations	106,372	122,186	83,036
Reduction of intangible assets	-	(13,303)	-
Other comprehensive income	1,991	1,412	2,787
Additional paid in capital	-	-	451
	108,363	110,295	86,274
Tax for cumulative effect of change in accounting principle	-	-	(6,071)
	108,363	**110,295**	**80,203**

(all amounts in EUR '000s)

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 reduces the corporate tax rate from 34% to 25%, which leads to an overall tax expense of EUR 21,799 from revaluation of the deferred tax assets and liabilities as of December 31, 2004. In 2004, the Company reassessed a valuation allowance that was established at the time of the 3G Mobile business combination and based on that assessment, reduced the valuation allowance by EUR 16,143. Of this amount, EUR 13,303 was used to reduce intangible assets acquired from this acquisition. The balance of EUR 2,840 net of the effect of change in tax rate of EUR 5,811 was credited to the income tax expense.

The following table shows the principle 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, minority interests and cumulative effect of a change in accounting principle:

	2005	**2004**	**2003**
Income tax expense at statutory rate	130,880	119,027	79,069
Foreign tax rate differential	(18,790)	(9,874)	(7,053)
Non-deductible expenses	3,524	2,879	3,792
Tax incentives	(1,923)	(3,450)	(3,673)
Tax free income from investments	(134)	(185)	(563)
Non-deductible impairment charges	4,079	-	-
Change in valuation allowance	(14,125)	(5,566)	7,724
Effect of change in tax rate	47	21,799	-
Tax expense and corrections previous years	3,048	(579)	305
Other	(234)	(1,865)	3,435
Income tax expense	**106,372**	**122,186**	**83,036**
Effective income tax rate	20.3%	34.9%	35.7%
Effective income tax rate excluding effect of change in tax rate	20.3%	28.7%	

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. 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.

In 2005, the valuation allowance decreased by EUR 14,125. Changes in the amount of EUR 17,190 were primarily due to a release of valuation allowance of loss carryforwards due to changes in the tax law in Slovenia resulting in an increase of the expiration period of tax loss carryforwards and due to a change in circumstances that caused change in judgement about the realizability of the utilization of the current loss of 3G Mobile. However, this effect was partially offset by establishing a valuation allowance on current losses in the amount of EUR 3,715. In 2004 the valuation allowance decreased by EUR 28,075. That primarily resulted from the reduction of intangible assets of EUR 13,303, related tax benefit thereon of EUR 4,523 and the effect of a change in the tax rate of EUR 11,642. In 2003, the valuation allowance increased by EUR 65,425 of which EUR 57,868 resulted from business combinations and had no impact on the income statement.

 (all amounts in EUR '000s)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are shown below.

	2005	2004
Deferred tax assets		
Goodwill	1,398	13,510
Deferred deduction for write downs of investments in subsidiaries	26,142	34,565
Operating loss carryforwards	56,366	99,223
Accounts receivable	7,088	1,687
Assets held for sale	-	14,734
Long-term debt	1,027	655
Other liabilities and deferred credits	10,503	11,342
Accrued liabilities	2,784	3,173
Employee benefit obligations	4,022	2,690
Other	8,795	10,971
Total deferred tax assets	**118,125**	**192,550**
Valuation allowance	(39,560)	(53,564)
Deferred tax assets, net of valuation allowance	**78,565**	**138,986**
Deferred tax liabilities		
Property, plant and equipment	(27,971)	(17,449)
Long-term investments	(83)	(84)
Goodwill Mobiltel	(2,076)	-
Other intangible assets	(55,442)	(54,693)
Other	(2,417)	(7,220)
Total deferred tax liabilities	**(87,989)**	**(79,446)**
Net deferred tax asset (liability)	**(9,424)**	**59,540**

The net deferred tax assets decreased by EUR 68,964 and resulted in a net deferred tax liability. Of this, EUR 231 related to the acquisition of Mobiltel (see note (2)), EUR 47 related to foreign exchange differences that had no impact on the income statement. The company recorded a deferred tax expense of EUR 67,102. At December 31, 2005, the Company had approximately EUR 221,593 of operating loss carryforwards. Of these, EUR 101,881 relate to foreign subsidiaries and are not available for use in Austria. Of these loss carryforwards relating to foreign subsidiaries, EUR 92,085 have expiration dates as follows:

Years	Amount
2006	395
2007	20,236
2008	37,976
2009	24,122
2010	9,347
2012	9
Total	**92,085**

The remaining amount of operating loss carryforwards relate to Austria and do not expire. In Austria the annual usage is limited to 75% of the taxable income for that year.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not 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.

(all amounts in EUR '000s) Telekom Austria 2005 105

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 more likely than not that the Company will realize the benefits of these deductible differences and operating loss carryforwards net of valuation allowances. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

(22) 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, at December 31, 2005 and 2004, in 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 in the section concerning the concentration of credit risk in significant accounting policies.

In order to reduce the risk of nonperformance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

Market risk

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.

Information with respect to cash flow hedges

Changes in the fair value of interest rate swaps designated as hedging instruments of variability of cash flows associated with variable rate long-term debt are reported in accumulated other comprehensive income. 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. In 2005 and 2004, respectively, no hedge ineffectiveness occurred.

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, 2005, 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 and 2003. The floating rate is based on EURIBOR and enables the company to benefit from current low short-term interest rates.

The following table indicates the types of swaps in use at December 31, 2005 and 2004, 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:

	2005	2004
Variable to fixed swaps in EUR		
Notional amount in EUR	-	145,346
Average receive rate	-	2.26%
Average pay rate	-	6.66%
Average maturity in years	-	0.4
Fixed to variable swaps in EUR		
Notional amount in EUR	800,000	300,000
Average receive rate	3.98%	5.00%
Average pay rate	2.62%	3.02%
Average maturity in years	5.38	8.5

Foreign exchange agreements

The Company entered into foreign currency denominated loans because of low interest rates connected to loans denominated in Swiss Francs ("CHF"). These loans were repaid in 2005. The use of cross currency swaps allowed the Company to reduce the exposure to the risk of adverse changes in exchange rates. Fixed interest rates as of December 31, 2004, ranged from 7.6% to 7.7%.

The following table indicates the types of foreign exchange agreements in use at December 31, 2005 and 2004, and if applicable their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

	2005	2004
Cross Currency Swaps EUR - CHF		
Notional amount in EUR	-	176,635
Notional amount in CHF	-	300,000
Average receive rate - CHF	-	5.47%
Average pay rate - EUR	-	7.65%
Average maturity in years	-	0.4
Forward exchange contracts - US $		
Notional amount in EUR	2,794	4,399
Notional amount in US $	3,300	5,700
Forward exchange rate (weighted)	1.18	1.30
Exchange rate as of the balance sheet date	1.18	1.36
Longest term of the contracts	February 2006	April 2005

The notional amounts of the derivative instruments above do not represent amounts exchanged by the parties and, therefore, are not a measure of our 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:

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments				
Cash	116,756	116,756	288,195	288,195
Accounts receivable - trade	452,878	452,878	408,820	408,820
Accounts receivable - sold	228,878	228,878	173,350	173,350
Balances due from related parties	66	66	85	85
Accounts payable - trade	(529,197)	(529,197)	(534,498)	(534,498)
Payables to related parties	(20,244)	(20,244)	(22,924)	(22,924)
Securities held-to-maturity	145,796	154,208	120,946	133,865
Securities available-for-sale	16,448	16,448	19,656	19,656
Long-term debt	(2,557,703)	(2,786,345)	(1,647,171)	(1,772,904)
Derivative financial instruments				
Interest rate swap agreements	(5,311)	(5,311)	(17,294)	(17,294)
Cross currency swap agreements	-	-	15,849	15,849
Foreign currency forward contract	(1)	(1)	(216)	(216)

(23) 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 and ends 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.

Dividend Payment

On May 25, 2005 the shareholders approved at the Annual General Meeting a dividend distribution of Euro 0.24 per zero par value share. The overall dividend payment amounted to EUR 117,866 and was distributed on June 6, 2005.

On June 3, 2004 the shareholders approved at the Annual General Meeting of the company a dividend distribution of Euro 0.13 per share. The overall dividend payment totaled EUR 64,578 and was distributed on June 15, 2004.

The net income of Telekom Austria AG amounts to EUR 301,778 and EUR 412,683 in the year 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 50,000 and EUR 271,931 out of Telekom Austria AG 2005 and 2004 net income of EUR 301,778 and EUR 412,683 to retained earnings, resulting in unappropriated profits of EUR 279,794 and EUR 145,882 in the years 2005 and 2004, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute from unappropriated earnings a dividend of Euro 0.55 per share.

108 Telekom Austria 2005 (all amounts in EUR '000s)

Treasury stock

At the Annual General Meeting on May 25, 2005, the Management Board was authorized to acquire treasury stock to the maximum extent legally permitted at a minimum price of Euro 9 and a maximum price of Euro 21 per share during a period of 18 months, ending November, 2006. The Management Board was empowered (i) to use this treasury stock to satisfy obligations under the stock option programs described in note (19), (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 it up to a maximum share capital decrease of 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 stock which were acquired during the Initial Public Offering in November 2000 to limit the Company's exposure under the stock option plan that expired on February 27, 2004. The strike price of each call option was Euro 9. 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 employee stock option plan. During the year ended December 31, 2004, 89,748 options were exercised in shares 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 11,241,412 and 3,018,561 shares of treasury stock at an average purchase price of Euro 16.41 and Euro 11.34 in the years ended December 31, 2005 and 2004, respectively.

As of December 31, 2005, the Company holds 17,497,106 shares in treasury at an average purchase price of Euro 14.16 per share reported as a reduction to shareholders' equity in the amount of EUR 247,818 as a result of these transactions.

Earnings per share

Basic earnings per share and diluted earnings per share for the years ended December 31, 2005 and 2004 is calculated as follows:

	2005	2004
Net Income of the year ended December 31	417,146	227,263
Weighted average number of common shares outstanding	489,050,517	496,495,378
Dilutive effect of Stock Option Plan 2004	-	29,449
Weighted average number of dilutive shares outstanding	489,050,517	496,524,827
Basic earnings per share	Euro 0.85	Euro 0.46
Diluted earnings per share	Euro 0.85	Euro 0.46

On April 19, 2004, the first tranche of 2,392,925 options was granted to eligible employees within the scope of the Stock Option Plan 2004 as described in note (20). The Company determined the dilutive effect of this transaction for periods ended June 30, September 30, and December 31, 2004. In March 2005, the Company announced its intention to settle the first tranche of the Stock Option Plan 2004 in cash. Consequently, the Company determined that the Stock Option Plan 2004 does not provide any potential common shares as of December 31, 2005.

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, 2005	Purchased	Sold	December 31, 2005
Heinz Sundt	13,011	-	-	13,011
Boris Nemsic	10,110	3,000	-	13,110
Stefano Colombo	12,212	800	-	13,012
Rudolf Fischer	13,007	-	-	13,007

(all amounts in EUR '000s) Telekom Austria 2005 109

Accounting for derivative and hedging activities

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.

Changes in the time value of the derivatives are not excluded from the assessment of hedge effectiveness and are recorded in earnings. Hedge ineffectiveness, determined in accordance with SFAS No. 133, had no impact on the Company's earnings for the years ended December 31, 2005 and 2004, respectively. All cash flow hedges were realized during the years ended December 31, 2005. In the year ended December 2005 and 2004, respectively, the Company realized a gain of EUR 2,847 and EUR 268 net of income tax.

The cumulative unrealized gains and losses from hedging activities recorded in other comprehensive income are as follows:

December 31,	**2005**	**2004**
Unrealized Losses		
Gross	-	(4,313)
Less income tax	-	1,466
Unrealized net loss, net of income tax	**-**	**(2,847)**

Other comprehensive income

Other comprehensive income consists of the following items:

	Unrealized gain (loss) on securities	Unrealized gain (loss) on hedging activities	Foreign currency translation	Accumulated other comprehensive income
Balance January 1, 2003	**(848)**	**(10,342)**	**8,106**	**(3,084)**
Changes, net of income tax	2,214	3,195	(10,690)	(5,281)
Balance December 31, 2003	**(2,655)**	**268**	**(414)**	**(3,069)**
Changes, net of income tax	1,096	4,032	(4,167)	1,229
Balance December 31, 2004	**(193)**	**(2,847)**	**(7,165)**	**(10,205)**
Realized gain (loss), net of income tax	(8)	2,847	1,157	3,996
Changes, net of income tax	602	-	12,939	13,541
Balance December 31, 2005	**401**	**-**	**6,931**	**7,332**

Sale of American call option

The Company had classified the shares issued under this option as permanent equity, since the optional shares were registered, issued and outstanding, and the Company was under no obligation to repurchase any shares unless it desired to do so.

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 shares of the American call option were the shares of Telekom Austria AG. The strike and execution price of the call option was Euro 9 and settlement was either physical delivery of the shares or cash, at the request of Telekom Austria. Since the call requires no cash settlement whatsoever by the Company, nor is the Company required to issue any additional shares as a result of exercise, the call was classified as permanent equity in accordance with EITF 00-19.

In 2003, the Company sold 610,000 American call options for an aggregate price of EUR 957. In 2002, the Company sold 717,701 American call options for an aggregate price of EUR 1,245. As the original acquisition of the options was accounted for as permanent equity under the provisions of EITF 00-19, proceeds from the sale of the options have been credited net of tax directly to additional paid in capital in the accompanying statement of changes in shareholders' equity.

On February 27, 2004, the Company exercised its 3,326,881 American call options (see Treasury stock).

110 Telekom Austria 2005 (all amounts in EUR '000s)

Restricted earnings

Under the "Austrian Stock Corporation Act", retained earnings available for distribution to shareholders are based upon the unconsolidated retained earnings of Telekom Austria AG as reported in its balance sheet determined in accordance with the Austrian Commercial Code.

The net income of Telekom Austria AG under Austrian GAAP including released untaxed reserves of EUR 7,997 and EUR 48,506 amounts to EUR 301,778 and EUR 412,683 in the years ended December 31, 2005 and 2004, respectively.

(24) REVENUES

Year ended December 31,	**2005**	**2004**	**2003**
Revenues from services	4,093,238	3,810,891	3,726,955
Revenues from sales of merchandise	284,053	245,377	242,795
Total	**4,377,291**	**4,056,268**	**3,969,750**

(25) OTHER OPERATING EXPENSES

Year ended December 31,	**2005**	**2004**	**2003**
Interconnection	489,586	452,171	421,787
Services received	253,125	221,952	211,445
Repairs	176,144	177,277	178,256
Charges from related parties	13,022	13,241	15,013
Advertising and marketing	229,580	198,138	198,362
Rental expenses	83,534	79,204	74,358
Legal and other consulting	38,862	40,354	44,451
Commission expenses	56,409	41,301	41,078
Bad debt expenses	43,393	24,707	30,629
Other support services	110,076	109,721	96,684
Travel expenses	22,777	22,302	23,696
Energy	23,599	21,824	21,979
Other non income taxes	6,185	8,023	7,201
Training expenses	12,928	11,657	13,129
Other	35,412	67,352	85,453
Total	**1,594,632**	**1,489,224**	**1,463,521**

In accordance with SFAS No. 144, as amended, the Company recorded a net gain from retirement of long-lived assets in 2005 of EUR 1,510 in 2005 and a net loss from retirement of long-lived assets in 2004 and 2003 respectively, of EUR 28,788 and EUR 41,571, which are presented in other operating expenses, other.

(all amounts in EUR '000s)

(26) OTHER, net

Year ended December 31,	2005	2004	2003
Foreign exchange losses	(149,996)	(103,572)	(246,883)
Foreign exchange gains	151,139	107,081	242,013
Dividend income	41	7	48
Other	10,841	12,140	4,255
Total	**12,025**	**15,656**	**(567)**

In other income net impairment charges recorded on investments totaling EUR 284, EUR 716 and EUR 2,840 were recorded for the years ended December 31, 2005, 2004 and 2003, respectively.

(27) COMMITMENTS AND CONTINGENCIES

The Company had further purchase obligations amounting to EUR 3,020,184 and EUR 1,754,300, of which EUR 866,130 and EUR 538,500 is short-term as of December 31, 2005 and 2004, respectively. These obligations include purchase commitments for property, plant and equipment as well as for intangible assets and other non-redeemable contractual commitments such as service agreements and interconnection obligations.

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, 2005. 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.

(28) CASH FLOW STATEMENT

Following is a summary of supplemental cash flow information:

Years ended December 31,	2005	2004	2003
Cash paid for			
Interest	145,709	161,057	182,836
Income taxes	57,349	23,330	16,246
Cash received for			
Interest	14,148	8,080	3,128
Tax refunds	-	-	-
Non cash investing and financing			
Dividends	-	-	-

(all amounts in EUR '000s)

(29) SEGMENT REPORTING

The Company organizes its operations into three segments: wireline, wireless and other activities.

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.

The segment other activities contains the financing activities of the Company.

Adjusted EBITDA is defined by the Company as 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see note (1)).

For the year ended December 31, 2005 and 2004, respectively, the segment totals reconcile to the consolidated financial statements as a result of eliminating transactions and balances between consolidated segments.

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
Year ended December 31, 2005						
External revenues	1,973,212	2,404,032	47	4,377,291	-	4,377,291
Intersegmental revenues	161,956	85,156	-	247,112	(247,112)	-
Total revenues	**2,135,168**	**2,489,188**	**47**	**4,624,403**	**(247,112)**	**4,377,291**
adj. EBITDA (excl. Impairment charges)	786,730	969,029	(101)	1,755,658	1,523	1,757,181
Impairment charges	16,317	1,071	-	17,388	-	17,388
adj. EBITDA (incl. Impairment charges)	770,413	967,958	(101)	1,738,270	1,523	1,739,793
Depreciation and amortization	704,495	415,727	-	1,120,222	(421)	1,119,801
Operating Income	65,918	552,231	(101)	618,048	1,944	619,992
Total assets	5,421,194	4,965,138	2,713,776	13,100,108	(4,688,255)	8,411,853
Expenditures for additions to long-lived assets	314,145	313,494	-	627,639	-	627,639

(all amounts in EUR '000s)

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
Year ended December 31, 2004						
External revenues	2,013,563	2,042,678	27	4,056,268	-	4,056,268
Intersegmental revenues	171,179	82,805	-	253,984	(253,984)	-
Total revenues	**2,184,742**	**2,125,483**	**27**	**4,310,252**	**(253,984)**	**4,056,268**
adj. EBITDA (excl. Impairment charges)	814,328	765,443	(39)	1,579,732	(10,894)	1,568,838
Impairment charges	1,334	-	-	1,334	-	1,334
adj. EBITDA (incl. Impairment charges)	812,994	765,443	(39)	1,578,398	(10,894)	1,567,504
Depreciation and amortization	757,174	358,077	-	1,115,251	(421)	1,114,830
Operating Income	55,820	407,366	(39)	463,147	(10,473)	452,674
Total assets	5,260,231	3,181,735	1,250,869	9,692,835	(2,450,328)	7,242,507
Expenditures for additions to long-lived assets	280,390	267,779	-	548,169	-	548,169

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
Year ended December 31, 2003						
External revenues	2,029,893	1,939,857	-	3,969,750	-	3,969,750
Intersegmental revenues	167,758	90,344	-	258,102	(258,102)	-
Total revenues	**2,197,651**	**2,030,201**	**-**	**4,227,852**	**(258,102)**	**3,969,750**
adj. EBITDA (excl. Impairment charges)	780,508	727,057	(45)	1,507,520	2,277	1,509,797
Impairment charges	6,825	-	-	6,825	-	6,825
adj. EBITDA (incl. Impairment charges)	773,683	727,057	(45)	1,500,695	2,277	1,502,972
Depreciation and amortization	807,935	325,620	-	1,133,555	(407)	1,133,148
Operating Income	(34,252)	401,437	(45)	367,140	2,684	369,824
Total assets	6,116,105	3,131,630	1,125,178	10,372,913	(2,476,648)	7,896,265
Expenditures for additions to long-lived assets	299,918	300,129	-	600,047	(363)	599,684

114 Telekom Austria 2005 (all amounts in EUR '000s)

Adjusted EBITDA differs from consolidated net income as a result of the following differences:

Year ended December 31,	**2005**	**2004**	**2003**
adj. EBITDA (excl. Impairment charges) - segment totals	1,755,658	1,579,732	1,507,520
Impairment charges	(17,388)	(1,334)	(6,825)
adj. EBITDA (incl. Impairment charges) - segment totals	**1,738,270**	**1,578,398**	**1,500,695**
Depreciation and amortization	(1,119,801)	(1,114,830)	(1,133,148)
Interest income	89,084	70,016	75,167
Interest expense	(198,151)	(188,818)	(230,979)
Equity in earnings of affiliates	570	552	19,112
Other	13,548	4,762	1,710
Income before taxes, minority interests and cumulative effect of change in accounting principle	**523,520**	**350,080**	**232,557**
Income tax expense	(106,372)	(122,186)	(83,036)
Minority interests	(2)	(631)	(3,422)
Cumulative effect of change in accounting principle, net of tax	-	-	(11,858)
Net income	**417,146**	**227,263**	**134,241**

In 2005, 2004 and 2003, more than 82%, 88% and 89%, respectively, of the revenues generated by the reportable segments relate to operations in Austria. As of December 31, 2005 and 2004, respectively, 68% and 90% of the long-lived assets were located in Austria.

(30) SUBSEQUENT EVENTS

Based on the relevant approval by the Supervisory Board, the third tranche of 3,897,968 options was granted to the eligible employees under the stock option plan 2004 (see note (20))on January 12, 2006. The exercise price of Euro 18.91 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. The options can be settled either in cash or in shares at the Company's choice. 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 about 14 months from the grant day and an exercise period of three years after becoming exercisable.

On January 31, 2006, ÖIAG reduced its holding from 30.17% to approximately 29.99% of voting common shares through delivery of shares to investors holding exchangeable notes.

In January 2006, the Company announced resignation of CEO Mr. Heinz Sundt as of May 23, 2006. At the same time, Mr. Boris Nemsic was appointed as successor and will become Chief Executive Officer of the Company on May 24, 2006 in addition to his position as CEO of mobilkom austria. Mr. Rudolf Fischer was appointed as successor deputee CEO.

On March 1, 2006, the Company sold 16.667% of paybox austria GmbH and reduced its interest to 83.333%. The sales price amounted to EUR 200. As a consequence of participation rights given to the buyer, the Company will no longer consolidate paybox austria GmbH but will account for the investment using the equity method.

(all amounts in EUR '000s)

Report of Independent Registered Public Accounting Firm

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of mobilkom austria AG & Co KG and mobilkom austria AG and subsidiaries (collectively "mobilkom") for the year ended December 31, 2003, wholly-owned consolidated subsidiaries, which statements reflect revenues constituting 48.9 percent of total consolidated revenues for the year ended December 31, 2003. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for mobilkom for the year ended December 31, 2003, is based solely on the report of the other auditor.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (R) "Accounting for Stock-Based Compensation" effective January 1, 2005, Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" effective January 1, 2004, and Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" effective January 1, 2003.

KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH

Vienna, Austria

March 1, 2006

Report of Independent Registered Public Accounting Firm

The Supervisory Board and Stockholders
mobilkom austria AG & Co KG and
mobilkom austria AG:

We have audited the consolidated balance sheets of mobilkom austria AG & Co KG and mobilkom austria AG and subsidiaries (collectively "mobilkom austria"), wholly-owned consolidated subsidiaries of Telekom Austria Aktiengesellschaft and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of mobilkom austria as of December 31, 2003 and the results of its operations and its cash flows in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, mobilkom austria adopted the provisions of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" effective January 1, 2003.

Grant Thornton
Wirtschaftsprüfungs- und Steuerberatungs-GmbH

Vienna, Austria

February 12, 2004

Additional Disclosures to the Consolidated Financial Statements required by Austrian Accounting Rules

Financial reporting pursuant to US Generally Accepted Accounting Principles (U.S. GAAP)

The consolidated financial statements as of December 31, 2005 were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). According to the provisions of section 245a of the Austrian Commercial Code ("Handelsgesetzbuch" or "HGB"), a company is exempted from preparing consolidated financial statements under Austrian law if it prepares consolidated financial statements in accordance with international principles and thereby also meets the requirements set forth in subsection 1, paragraphs 1 to 3. The disclosures necessary to meet these requirements are provided in the following.

Major differences between Austrian Accounting Rules and U.S. GAAP (section 245a subsection 1 para. 1 HGB)

Partially, the accounting rules set forth in HGB and U.S. GAAP are based on different underlying principles. Accounting under HGB places greater emphasis on the principles of prudence and creditor protection, while U.S. GAAP focus more strongly on providing investors with relevant information for decision-making.

In these financial statements, the differences between HGB and U.S. GAAP regulations affect the following accounting areas:

1. Internally developed software

Under certain conditions, U.S. GAAP requires the capitalization of development costs for internally developed software. HGB does not permit the capitalization of such self developed assets.

2. Interest capitalized

U.S. GAAP requires the capitalization of interest for qualifying assets. HGB gives an option to capitalize interest incurred during construction of fixed assets.

3. Deferred taxes

U.S. GAAP requires the capitalization of deferred taxes arising from temporary differences between the carrying amount of an asset or liability in the balance sheet prepared using U.S. GAAP and in that prepared according to the tax code, as well as from the capitalization of expected benefits from tax loss carryforwards. Austrian accounting rules require the capitalization of deferred tax liabilities; the capitalization of deferred tax assets is optional for individual financial statements, but mandatory for consolidated financial statements. According to the prevailing view, the recognition of deferred tax assets on tax loss carryforwards is prohibited by HGB.

4. Other accruals

Under U.S. GAAP, accruals must be made for obligations to third parties if these obligations are considered likely to arise and can be reliably valued. According to HGB, the principle of conservatism governs the creation of accruals. In practice, this frequently leads to the creation of accruals as soon as a potential obligation is identified.

5. Accruals for contractual termination benefits

In the consolidated financial statements prepared in accordance with U.S. GAAP, a contractual termination benefit obligation must be recognized when an employee has accepted the company's offer and the amount of the obligation can be reasonably estimated. The accrual is recorded at the present value of the expected future payment. According to HGB, this obligation must be recognized as soon as occurrence is probable and the amount can be reasonably estimated, independent of the acceptance by the employee. According to the prevailing view, HGB does not allow the valuation of such obligations at their present value.

6. Accruals for severance payments, service awards and pensions

In the consolidated financial statements prepared according to U.S. GAAP, the accruals for severance payments, service awards and pensions are calculated according to the projected unit credit method with the corridor method used for severance payments and pension accruals. According to the prevailing view, the projected unit credit method does not contradict the provisions of HGB, but the corridor method does not meet HGB requirements. Note 18 illustrates the effect of the corridor method on severance and pension accruals.

7. Asset Retirement Obligations

In compliance with US GAAP, the company adopted SFAS No. 143 as of January 1, 2003 and records the fair value of an asset retirement obligation as a liability in the period in which the legal obligation associated with the retirement of a tangible long-lived asset is incurred. An amount equal to the initial obligation is recorded as an increase to the carrying amount of the related long-lived asset and depreciated over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows (see Note 15).

8. Valuation of marketable securities

With the exception of securities held-to-maturity, securities are stated at fair value in accordance with U.S. GAAP. Unrealized gains and losses are recorded in a separate component of stockholders' equity with no effect being recognized in earnings. According to HGB, marketable securities must be reported at cost less any extraordinary writedowns made to reflect expected permanent impairment. Under HGB, marketable securities are reported at the lower of purchase price or fair value as of the balance sheet date.

9. Asset backed securitization program

In accordance with U.S. GAAP, trade receivables that are sold to a qualifying special purpose entity must be recorded as an asset disposal if certain conditions are met. Individual valuation adjustments for uncollectible receivables are shown under accruals.

Under Austrian accounting rules, the accounting treatment of sold receivables must be based on economic principles if the risk of collection remains with the seller (artificial factoring transaction). Where economic ownership remains with the selling company, these sold receivables must continue to be shown on the balance sheet of the seller.

10. Foreign currency translation

In accordance with U.S. GAAP, monetary balance sheet items denominated in foreign currencies are translated at the average exchange rate on the balance sheet date. Both unrealized gains and unrealized losses are recognized. HGB does not allow the recognition of unrealized foreign currency translation gains. For these cases, HGB prescribes the lower of cost or market principle for the translation of monetary items.

11. Derivative financial instruments

According to U.S. GAAP, derivative financial instruments are to be carried at fair value. Changes in fair value are recognized immediately in earnings. For derivatives that qualify for hedge accounting in accordance with SFAS 133, changes in fair value are recorded in stockholders' equity (as a component of other comprehensive income) for cash flow hedges or recognized in earnings for fair value hedges. Moreover, the ineffective portion of any value changes to a cash flow hedge is immediately recognized in earnings. When a cash flow hedge is realized, all relevant amounts recorded under equity are transferred to earnings.

According to Austrian accounting principles, an accrual must be created for unrealized losses arising from changes in fair value. Unrealized gains are not recognized. In cases where the derivative financial instrument and the related contract form a single valuation unit, changes in the value of the derivative and hedged item are not recognized.

Additional notes in accordance with HGB (section 245a subsection 1 para. 3 HGB)

Consolidated Schedule of Changes in Fixed Assets

Acquisition/ manufacturing costs	Jan. 1, 2005	Additions	Additions from initial con- solidation	Disposal	Disposal from final con- solidation	Reclassifi- cation	Currency adjustments	Dec. 31, 2005
Goodwill	632,421	8	565,963	(16,317)	-	-	3,184	1,185,259
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	1,395,237	66,734	1,027,994	(73,406)	-	25,541	4,881	2,446,981
Other intangible assets	35,679	1,271	32	(4,646)	-	(1,296)	198	31,238
Intangible assets	**2,063,337**	**68,013**	**1,593,989**	**(94,369)**	**-**	**24,245**	**8,263**	**3,663,478**
Land, buildings and leasehold improvements [1]	748,811	21,479	14,767	(4,057)	-	16,754	716	798,470
Communication networks and other equipment	9,506,621	398,176	357,049	(434,118)	-	108,381	15,907	9,952,016
Capital leases	8,961	0	-	(305)	-	-	97	8,753
Construction in progress	158,007	154,039	43,201	134	-	(149,380)	1,803	207,804
Property, plant and equipment	**10,422,400**	**573,694**	**415,017**	**(438,346)**	**-**	**(24,245)**	**18,523**	**10,967,043**
Investments in affiliates [2]	3,570	570	-	(498)	-	-	-	3,642
Other financial assets	136,795	26,146	-	(2,201)	-	-	-	160,740
Financial assets	**140,365**	**26,716**	**-**	**(2,699)**	**-**	**-**	**-**	**164,382**
Total	**12,626,102**	**668,423**	**2,009,006**	**(535,414)**	**-**	**-**	**26,786**	**14,794,903**

1) value of land thereof 59,172 (Jan. 1, 2005) 60,031 (Dec. 31, 2005)
2) Equity valuation of investment within consolidated accounting

(all amounts in EUR '000s)

Accumulated amortization and depreciation	**Jan. 1, 2005**	**Additions**	**Additions from initial consolidation**	**Disposal**	**Disposal from final consolidation**	**Reclassification**	**Currency adjustments**	**Dec. 31, 2005**
Goodwill	35,856	16,317	-	(16,317)	-	-	228	36,084
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	600,148	190,009	124,309	(72,431)	-	8	1,678	843,721
Other intangible assets	18,133	2,089	17	(3,731)	-	(16)	128	16,620
Intangible assets	**654,137**	**208,415**	**124,326**	**(92,479)**	**-**	**(8)**	**2,034**	**896,425**
Land, buildings and leasehold improvements	311,385	43,365	2,246	(2,149)	-	17	207	355,071
Communication networks and other equipment	6,361,134	884,001	171,698	(411,787)	-	61	10,056	7,015,163
Capital leases	6,416	1,408	-	(295)	-	-	84	7,613
Construction in progress	72	-	-	-	-	(70)	(2)	-
Property, plant and equipment	**6,679,007**	**928,774**	**173,944**	**(414,231)**	**-**	**8**	**10,345**	**7,377,847**
Investments in affiliates	-	-	-	-	-	-	-	-
Other financial assets	3,556	284	-	-	-	-	-	3,840
Financial assets	**3,556**	**284**	**-**	**-**	**-**	**-**	**-**	**3,840**
Total	**7,336,700**	**1,137,437**	**298,270**	**(506,710)**	**-**	**-**	**12,379**	**8,278,112**

(all amounts in EUR '000s)

Carrying amount	Jan. 1, 2005	Additions	Additions from initial consolidation	Disposal	Disposal from final consolidation	Reclassification	Amortization & Depreciation	Currency adjustments	Dec. 31, 2005
Goodwill	596,565	8	565,963	0	-	-	(16,317)	2,956	1,149,175
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	795,089	66,734	903,685	(975)	-	25,533	(190,009)	3,203	1,603,260
Other intangible assets	17,546	1,271	15	(915)	-	(1,280)	(2,089)	70	14,618
Intangible assets	**1,409,200**	**68,013**	**1,469,663**	**(1,890)**	**-**	**24,253**	**(208,415)**	**6,229**	**2,767,053**
Land, buildings and leasehold improvements	437,426	21,479	12,521	(1,908)	-	16,737	(43,365)	509	443,399
Communication networks and other equipment	3,145,487	398,176	185,351	(22,331)	-	108,320	(884,001)	5,851	2,936,853
Capital leases	2,545	0	-	(12)	-	-	(1,408)	15	1,140
Construction in progress	157,935	154,039	43,201	134	-	(149,310)	-	1,805	207,804
Property, plant and equipment	**3,743,393**	**573,694**	**241,073**	**(24,117)**	**-**	**(24,253)**	**(928,774)**	**8,180**	**3,589,196**
Investments in affiliates	3,570	570	-	(498)	-	-	-	-	3,642
Other financial assets	133,239	26,146	-	(2,201)	-	-	(284)	-	156,900
Financial assets	**136,809**	**26,716**	**-**	**(2,699)**	**-**	**-**	**(284)**	**-**	**160,542**
Total	**5,289,402**	**668,423**	**1,710,736**	**(28,706)**	**-**	**-**	**(1,137,473)**	**14,409**	**6,516,791**

The totals in the above tables may differ from the sum of their components as a result of rounding.

(all amounts in EUR '000s)

Affiliated Companies

Name and Corporate Seat	Share in capital as of Dec. 31, 2005 %
Fully consolidated subsidiaries	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Austria Internationale-Beteiligungsverwaltung GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
mobilkom austria AG & Co KG, Vienna	100.00
mobilkom austria AG, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom [liechtenstein] AG, Vaduz	100.00
Jet2Web Stream Magyarorszag Kft, Budapest	100.00
Jet2Web Stream Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
Czech On Line a.s., Prague	100.00
A1 Bank AG, Vienna	100.00
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft m.b.H., Vienna	100.00
paybox austria GmbH, Vienna	100.00
paybox central eastern europe AG, Munich	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
World-Direct eBusiness Solutions GmbH, Vienna	100.00
VIPnet d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	92.19[1)]
VIPnet services d.o.o., Zagreb	100.00
Alabin 48 EOOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria AD, Sofia	80.00
MobilTelecom, EAD, Sofia	100.00
MobilTel Finance BV, Amsterdam	100.00
Affiliated companies consolidated using the equity method:	
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10

1) and one share

Employees

The average number of employees during the business year 2005 was 14,403 (2004: 13,639).

Expenses for Pensions and Severance Payments

Expenses for Pensions and Severance Payments:	**2005**	**2004**
Board Members and Senior Management	3,723	2,330
Other employees	19,373	31,233
Total	**23,096**	**33,563**

Remuneration paid to the Managing Board and Supervisory Board

In 2005, remuneration expenses for the members of the Management Board amounted to EUR 1,537, and in addition attributable bonuses of EUR 1,314 and benefits derived from Stock option program 2004+ amounted to EUR 867. The actual amount of bonuses from 2005 will depend on the extent of achievement of specified performance goals and will be determined in 2006. In 2004, the amount of remuneration expense was EUR 1,374 and in addition, attributable bonuses of EUR 750 were paid in 2004. Fees paid to the members of the Supervisory Board totaled EUR 114 in 2005 and EUR 101 in 2004.

Vienna, March 1, 2006

The Managing Board

Heinz Sundt (CEO), Boris Nemsic (Deputy CEO and COO Wireless),
Rudolf Fischer (COO Wireline), Stefano Colombo (CFO)

124 Telekom Austria 2005 (all amounts in EUR '000s)

Auditor’s Report

We have audited the **consolidated financial statements** of

Telekom Austria Aktiengesellschaft,
Vienna,

for the fiscal year from 1 January to 31 December 2005. The Company’s management is responsible for the preparation and the content of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US-GAAP) and for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the group is in accordance with the consolidated financial statements.

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

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the group as of 31 December 2005 and the results of its operations and its cash flows for the fiscal year from 1 January to 31 December 2005 in accordance with accounting principles generally accepted in the United States of America (US-GAAP). The management report for the group is in accordance with the consolidated financial statements.

Vienna, March 1, 2006

KPMG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Michael Schlenk Mag. Helmut Kerschbaumer
Wirtschaftsprüfer und Steuerberater
(Austrian Chartered Accountants)

Glossary

Access Radius: access radius to the network.

ADSL (Asymmetric Digital Subscriber Line): digital transmission technology that allows data transmission rates of up to 8 Mbit/s to the customer (download) and up to 700 Kbit/s from the customer (upload) via standard telephone 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.

Converging Media: refers to the convergence of various media such as voice, data (Internet) and television to form innovative multimedia content, respectively the integration of such content on a single platform.

Digital Terrestrial Television: transmission of TV signals via digital technologies based on a terrestrial connection.

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.

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 or mobile working at speeds up to four times higher than conventional connections.

Incumbent: former monopoly provider.

Interconnection: physical and logical connection between different telecommunications networks that enables direct or indirect communication between the users of these different networks.

Internet dial-up: gateway to the Internet via 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.

IPv6: Internet Protocol Version 6 – is the Next Generation Internet Protocol and in the next few years will successively replace the current Ipv4 protocol. IPv6 will remedy the shortage of IP addresses and improve routing and auto-configuration within the network.

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.

Live stream: real-time video transmission. The bit rate of the live stream may not exceed the downstream capacity of the user's broadband Internet connection.

m-commerce: collective term for all types of transactions based on mobile electronic media and wireless networks.

Multimedia Messaging Services (MMS): multimedia SMS service that allows the transmission of texts with over 4,000 characters as well as sound (recordings, tones) and images in a single message.

Mobile Connect Card: the Vodafone Mobile Connect Card is a 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, UMTS, EDGE or GPRS.

Mobile Penetration: there are various ways of measuring the penetration rate, e.g. by household or per capita.

Mobile Virtual Network Operator (MVNO): telecommunications operator that can offer the same services as a traditional mobile communications operator, but without having its own radio network; this is provided by existing mobile operators on the basis of national roaming agreements.

Naked ADSL: the term used to describe an ADSL profile without a compulsory voice telephony access line, such as aonPur.

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).

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 placed on a server.

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).

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 for both upstream and downstream traffic. In contrast, ADSL allows only limited upstream transmission bandwidth.

Teleworking: remote entry to a corporate network which allows a teleworker authenticated and authorized access to specific applications at their workspace (web, mail, server drives etc.).

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).

Triple Play: package of services comprising voice, data and video. Voice refers to telephone services (e.g. Voice over IP), data to rapid Internet access and video to television (e.g. digital, interactive TV, IPTV, video on demand).

UMTS (Universal Mobile Telecommunications System): new mobile communications standard that enables high-performance services on the basis of high data transmission rates of up to 384 Kbit/s which is 40 times higher than the rate provided by GSM technology. In selected areas peaks of 2 Mbit/s can be reached with HSDPA.

UMTS Coverage: the number of households covered by the UMTS network as a percentage of the total population.

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. In Austria this is regulated by the Telecommunications Act 2003, § IV, para. 26-33.

User-generated content approach: digital content (e.g. podcasting, blogging and video blogging) generated by the user of the media and marketed 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.

VoIP: Voice over IP (Internet Protocol) – refers to the use of the Internet as a means of voice transmission (IP telephony).

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 (IEEE 802.16) 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. 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 VoIP.

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: collective term for all types of broadband network access lines based on traditional copper lines at a short distance to the switching center (4 km). The most important xDSL technologies are ADSL (asymmetric), SDSL (symmetric), HDSL (high data rate) and VDSL (very high) digital subscriber line.

Stock Exchange & Finance

A3 Positive, BBB+ Stable 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.

At-equity: see equity method.

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.

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.

CObIT (Control Objectives for Information and Related Technology): Model of generally applicable and internationally accepted control objectives (i.e. the essential elements for an IT-based control system) which can be implemented within a company in order to guarantee the reliable use of information technology.

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.

Cross-Selling: the sale of additional complementary products or services to existing customers.

DAX: German stock index.

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 (see Stock Option Program).

Equity Method: method used to value stakes in companies when a significant influence can be exercised on business policies (associated companies). The proportional share of annual profit/loss is added to or subtracted from the book value of the investment. Distributions reduce the book value by a proportional amount.

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.

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".

MSCI World Index: stock index published by Morgan Stanley Capital International (MSCI), which is based on more than 1,400 stock prices from 20 countries. In addition to the world index, MSCI also publishes regional indexes (MSCI Europe Index).

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 by the average invested capital.

ROE (Return on Equity): net income divided by average equity, an indicator that measures the yield on equity.

Sarbanes-Oxley Act (SOX): comprehensive US law to reform corporate governance rules and corporate reporting.

SEC (US Securities and Exchange Commission): U.S. regulatory authority for capital markets.

SFAS (Statement of Financial Accounting Standards): binding set of accounting standards for companies which prepare their balance sheets according to U.S. GAAP.

SOA-ICS (Internal Control System): internal controlling system required by the provisions of the Sarbanes-Oxley Act. A SOA-ICS comprises controls over elements which have a major impact on financial reporting and the SOA-ICS control environment.

Stock Option Program: a company grants options to key managers for the purchase of shares, which may be exercised at an agreed price after agreed performance criteria are met.

Total Shareholder Return (TSR): total return comprising share price appreciation, share buybacks and dividends.

Value Management System: value-oriented approach to management to increase shareholder value.

Use the search function to look for a particular term in the annual report under: **http://ar2005.telekom.at**

Online Annual Report
The Annual Report 2005 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://ar2005.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

Imprint
Published by:
Telekom Austria AG

Project Team:
Peter Zydek, Gerald Wechselauer
(Investor Relations)
Max Rabl, Lara Luchesa
(Corporate Communications)

Consulting and Coordination:
BCA Mensalia
Design: Büro X Wien
Translation: Christine Young

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.