

Financial Statements as of December 31, 2005 of Telekom Austria AG

**(according to Austrian
Commercial Code – HGB)**

TABLE OF CONTENTS

	Annex
Balance Sheet as of December 31, 2005 with prior year's comparative figures in thousands of euro (TEUR)	I
Statement of Operations for the Year 2005 with prior year's comparative figures in thousands of euro (TEUR)	II
Notes to the Financial Statements for the Year 2005 (including Annex 1 – table of fixed assets Annex 2 – accounts receivable table Annex 3 – table of liabilities) as of December 31, 2005	III
Management Report 2005	IV
Table of affiliated companies and equity investments	V
Auditor's Report (translation)	VI
Telekom Austria AG Supervisory Board Report to the Shareholders' Meeting	VII

Telekom Austria Aktiengesellschaft, Vienna, Austria

Annex I/1

Balance Sheet as of December 31, 2005

Liabilities and Shareholders' equity

	Dec 31, 2005 EUR	Dec 31, 2004 TEUR
A. Shareholders' equity		
I. Common stock	1.090.500.000,00	1.090.500
II. Additional paid-in capital		
Appropriated	928.000.856,33	928.001
III. Taxed reserves		
1. Reserve for treasury stock	256.396.851,96	71.931
2. Other reserves (unrestricted reserves)	365.534.553,20	500.000
	621.931.405,16	571.931
IV. Net profit	279.794.032,56	145.882
thereof profit carryforward: EUR 28,016,341.90; prior year: TEUR 5,131		
	2.920.226.294,05	2.736.314
B. Untaxed reserves		
1. Reserves from special depreciation	2.321.584,91	2.324
2. Other untaxed reserves	321.706,68	8.317
	2.643.291,59	10.641
C. Accruals		
1. Accrued severance payments	16.876.031,00	15.722
2. Accrued taxes	5.273.870,39	22.304
3. Other accruals	191.413.370,71	204.635
	213.563.272,10	242.661
D. Liabilities		
1. Bonds	0,00	149.602
2. Bank loans and overdrafts	605.628.466,94	1.062.100
3. Payments received in advance	1.688.681,42	716
4. Accounts payable - trade	204.740.706,98	202.629
5. Accounts payable - affiliated companies	1.424.449.149,60	825.229
6. Accounts payable - associated companies	3.545.950,02	3.285
7. Other liabilities	344.550.550,81	333.466
thereof due to taxes: EUR 29,580,116.49; prior year: TEUR 32,704		
thereof due to social security: EUR 3,382,544.54; prior year: TEUR 3,276		
	2.584.603.505,77	2.577.027
E. Deferred income	98.378.751,84	108.294
	5.819.415.115,35	5.674.937
Contingent liabilities	3.132.856.000,00	1.894.386

Profit and Loss Accounts for the Business Year 2005

	2005		2004	
	EUR	EUR	TEUR	TEUR
1. Net sales		2.093.817.933,18		2.125.205
2. Change in services not yet chargeable		14.130,83		373
3. Own work capitalized		28.537.424,99		25.338
4. Other operating income				
a) Income from disposal of fixed assets excluding financial assets	2.892.905,27		7.559	
b) Income from reversal of accruals	16.822.256,78		21.227	
c) Sundry	42.303.899,14	62.019.061,19	58.501	87.287
5. Cost of materials and other production services				
a) Cost of materials	66.847.904,89		73.369	
b) Cost of services	492.188.993,87	-559.036.898,76	481.030	-554.399
6. Personnel expenses				
a) Salaries	131.464.812,20		119.496	
b) Severance expense and contributions to respective funds	4.823.165,99		3.063	
c) Pension expense	5.637.032,91		5.337	
d) Expenses for statutory social security and payroll related taxes and contributions	31.598.639,34		30.047	
e) Other social benefits	4.131.266,21	-177.654.916,65	5.005	-162.948
7. Depreciation of intangible assets, property, plant and equipment		-684.794.204,13		-733.619
thereof: extraordinary depreciation of long-lived assets according to § 204 (2) HGB: EUR 0.00; prior year: TEUR 882				
8. Other operating expenses				
a) Taxes	4.600.914,05		5.227	
b) Sundry	670.740.062,93	-675.340.976,98	755.291	-760.518
9. Subtotal from line 1 to 8 (EBIT)		87.561.553,67		26.718
10. Income from investments		325.541.316,13		454.787
thereof from affiliated companies: EUR 325,003,466.00; prior year: TEUR 454,242				
11. Income from other long-term securities of financial assets		132.860,00		126
12. Other interest and similar income		13.491.890,28		13.269
thereof from affiliated companies: EUR 564,639.24; prior year: TEUR 1,098				
13. Income from disposal and revaluation of financial assets and short-term securities		3.208.665,13		5.393
14. Expenses for financial assets and short-term securities		-1.351.783,00		-860
thereof a) Depreciation: EUR 1,351,783.00; prior year: TEUR 1,118				
b) Expenses for affiliated companies: EUR 1,067,624.00; prior year: TEUR 0				
15. Interest and similar expense		-102.258.726,25		-113.315
thereof for affiliated companies: EUR 46,412,313.30; prior year: TEUR 28,806				
16. Subtotal from line 10 to 15 (Financial result)		238.764.222,29		359.400
17. Ordinary business result		326.325.775,96		386.118
18. Taxes on income		-32.545.543,52		-21.941
19. Net profit for the year		293.780.232,44		364.177
20. Reversal of untaxed reserves		7.997.458,22		50.207
21. Reversal of additional paid-in capital		0,00		-1.701
22. Allocation to taxed reserves		-50.000.000,00		-271.932
23. Profit carried forward from prior year		28.016.341,90		5.131
24. Net result		279.794.032,56		145.882

Notes to the Financial Statements for Financial Year 2005

Table of Contents

	Page
1. Accounting and Valuation Methods	1
1.1. General principles	1
1.2. Long-lived assets	1
1.3. Current assets	3
1.4. Accruals	3
1.5. ABS – asset backed securitization	4
1.6. Liabilities	4
1.7. Deferred income	4
2. Notes to the Balance Sheet	5
2.1. Long-lived assets	5
2.2. Receivables and other assets	7
2.3. Prepaid expenses	7
2.4. Shareholders' equity	7
2.5. Untaxed reserves	9
2.6. Accruals	9
2.7. Liabilities	10
2.8. Other financial obligations	10
3. Notes to the Statement of Operations	11
3.1. Revenues	11
3.2. Other operating income	12
3.3. Expenses for materials and other purchased manufacturing services	12
3.4. Personnel expenses	12
3.5. Expenses for severance payments and pensions	13
3.6. Other operating expenses	14
3.7. Income from investments	14
3.8. Income taxes	14
4. Other information	15
5. Members of the Management Board and the Supervisory Board	20

1. Accounting and Valuation Methods

1.1. *General principles*

The annual financial statements have been prepared in accordance with the provision of the Austrian Commercial Code and generally accepted accounting principles in Austria with the general objective of providing a true and fair view of the balance sheet, the financial position and operating results of the Company.

The principle of completeness was complied with in preparing the annual financial statements.

The principles of individual valuation and going concern were complied with in valuing the individual assets and liabilities.

The principle of prudence was observed in that only those profits that were realized and earned as of the reporting date were recognized. All identifiable risks and contingent losses were taken into account.

The statement of operations was prepared in accordance with the total expenditure format. The figures presented in the notes to the financial statements are shown in thousand euros (TEUR). The reporting date is December 31.

1.2. *Long-lived assets*

Intangible assets are valued at acquisition cost and are amortized using the straight-line method. The useful lives of intangible assets range from 3 to 15 years; fixed line rights are amortized over the terms of the relevant agreements. No impairment charges were recorded in the financial year 2005. According to its future economic use, goodwill is amortized over a useful life of 3 to 15 years using the straight-line method.

Property, plant and equipment are valued at acquisition or production cost less scheduled depreciation. The production cost of plant and equipment manufactured by the Company includes both direct costs and a proportional share of overheads, but excludes social security expenses as defined under Section 203 Paragraph 3 of the Austrian Commercial Code as well as directly allocated interest payable on borrowed capital.

Scheduled depreciation was calculated using the straight-line method based on the following useful lives and depreciation rates:

	Useful life in years	Depreciation rate in %
Buildings	20 – 50	2 – 5
Technical equipment and buildings	3 – 20	5 – 33
Tools, measuring and testing equipment	5 – 10	10 – 20
Computer equipment	4 – 5	20 – 25
Motor vehicles	4 – 8	12.5 – 25
Warehouse and shop fittings and equipment	10	10
Office equipment and other small machines	2 - 5	20 - 50

In accordance with Section 7 Paragraph 2 of the Austrian Income Tax Act, a full year's depreciation is applied to additions made during the first half-year, and half a full year's depreciation for additions made during the second half. With the exception of minor value tools, measuring and testing equipment as well as ADSL modems, all minor value assets (with an individual acquisition cost of TEUR 0.4 or less) were expensed as incurred in the year of acquisition in accordance with Section 13 of the Austrian Income Tax Act. These items are shown as additions and disposals in the schedule of changes in long-lived assets. The constant value set for office equipment pursuant to Section 209 Paragraph 1 of the Austrian Commercial Code amounted to TEUR 6,196 as of the reporting date.

In 2005, impairment charges of TEUR 0 (2004: TEUR 882) were recorded on property, plant and equipment and the useful life of certain assets was reduced resulting in an impact on depreciation of TEUR 15,341.

In 1998 and 1999, the Company entered into a number of contracts with several US trusts for the sale of digital switching equipment. These assets were subsequently leased back by Telekom Austria Aktiengesellschaft. Telekom Austria Aktiengesellschaft is entitled to buy back the leased assets at a contractually fixed price after approximately 10 years.

In 2001, the Company also concluded an agreement to lease digital switching equipment to a US trust. This equipment was subsequently leased back to the Company. Telekom Austria Aktiengesellschaft remains the beneficial owner of these assets.

Shares in affiliated companies, investments and marketable securities are generally valued at acquisition cost. Impairment charges are recorded if the fair value on the reporting date is

lower than the carrying value and the impairment is expected to be permanent. Extraordinary write-downs of TEUR 1,352 (2004: TEUR 1,118) were recorded in financial year 2005.

1.3. Current assets

Inventories are valued at acquisition or production cost, based on the lower of cost or market principle. The inventory value was determined on the basis of the weighted average cost.

Depreciation was required, in particular, due to lower market prices as of the reporting date, limited possibilities for use or unusually slow turnover.

Services not yet invoiced are recorded at production cost. Production costs include direct material and labor costs as well as an appropriate share of material and manufacturing overheads.

Accounts receivable and other assets are stated at their face value unless a lower value is recorded in the event of identifiable individual risks. General credit risk is accounted for by recording allowances on an individual or lump sum basis. Where necessary, receivables are discounted to reflect the fact that they fall due at a later date.

Foreign currency receivables are stated at the European Central Bank's euro reference rate as of the transaction date or the lower European Central Bank's euro reference rate as of the reporting date.

Foreign accounts receivable due from and foreign accounts payable due to the same international carrier are netted. The resulting balance is valued according to the lower of cost or market.

1.4. Accruals

Accruals for severance payments are recorded for legal and contractual obligations to members of the Management Board and for employees whose employment with Telekom Austria AG started before January 1, 2003. The calculation is based on the principles of financial mathematics using the partial value method applying an interest rate of 4% and a fluctuation discount of 4%.

Other accruals are created equal to the amount of expected utilization. They take account of all identifiable risks and liabilities that are still indeterminate as of the reporting date.

1.5. *ABS – Asset backed securitization*

In 2002, Telekom Austria AG sold receivables due from domestic telephone customers to a “master purchaser” (trustee) in Ireland within the framework of an asset backed securitization transaction. This master purchaser holds the receivables in trust for Telekom Austria Aktiengesellschaft and, on the other hand, for an investor.

The total volume of receivables sold is limited to a combined maximum of TEUR 290,000 for Telekom Austria and mobilkom, which also carried out a comparable transaction. The maximum individual limit for Telekom Austria is set at TEUR 250,000. In December 2003, the total volume was increased to TEUR 350,000 with a maximum individual limit of TEUR 300,000 for Telekom Austria.

This transaction represents an artificial factoring transaction, since the risk of default remains entirely with the seller and the seller therefore remains the economic owner of these assets. For this reason the accounts receivable and related allowances are reported unchanged in the balance sheet. Since Telekom Austria AG, as the seller, is responsible for the creditworthiness of the receivables, this transaction is to be viewed as a loan secured by an assignment for security of the receivables. The net financial liability to the trustee comprises the initial purchase price (IPP) less the deferred purchase price (DPP). These amounts are netted because of their similarity, identical terms and identical creditor and debtor and are reported under other financial liabilities. The discount is reported in prepaid expenses.

1.6. *Liabilities*

Liabilities are reported at the amount due to be repaid in accordance with the principle of prudence. Foreign currency liabilities are recorded at the European Central Bank’s euro reference rate as of the reporting date, if this value exceeds the carrying amount. Foreign accounts receivable due from and foreign accounts payable due to the same international carrier are netted. The resulting balance is valued at the exchange rate prevailing when the liability was incurred or the higher exchange rate on the reporting date.

1.7. *Deferred income*

This item primarily contains deferred revenue and deferred income from cross-border lease contracts.

2. Notes to the Balance Sheet

2.1. Long-lived assets

Changes to individual items recorded under long-lived assets and the classification of the annual depreciation to the individual items are shown in the schedule of changes in long-lived assets (Annex 1).

Property, plant and equipment includes properties with a basic value of TEUR 57,027 (December 31, 2004: TEUR 56,612).

Loans with a remaining term of up to 1 year amount to TEUR 7,826 (December 31, 2004: TEUR 6,701).

Liabilities in connection with the use of property, plant and equipment not reported in the balance sheet amount to:

	Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
Rentals and lease commitments for the next 5 years	128,908	121,628
Thereof rental and lease commitments in the following year	24,477	24,619

Marketable securities contain 66,430 shares in mutual funds with a carrying value of TEUR 4,445 and a fair market value of TEUR 4,811.

Telekom Austria Aktiengesellschaft, Vienna
Appendix III/6

Telekom Austria Aktiengesellschaft's shares in affiliated companies and investments amounting to at least 20% of the relevant company's equity:

Name and corporate seat	Share in capital as of Dec. 31, 2005 %	Book value of equity as of Dec. 31, 2005 TEUR	Net income/loss 2005 TEUR
Affiliated companies			
mobilkom austria AG & Co KG, Vienna	74.999	1,215,921	330,528
mobilkom austria AG, Vienna	75.0 ¹	128	12
Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft mbH, Vienna	100.0	403	280
Telekom Projektentwicklungs GmbH, Vienna	100.0	369	37
Telekom Austria Personalmanagement GmbH, Vienna	100.0	624,536	0
Jet2Web Stream Slovakia s.r.o, Bratislava ²	100.0	673	115
Jet2Web Stream Hungary Kft, Budapest ²	100.0	378	8
Telekom Austria Beteiligungen GmbH, Vienna	100.0	659,666	-3
TA Mreza d.o.o., Ljubljana ²	100.0	370	57
World-Direct eBusiness solutions GmbH, Vienna	100.0	474	158
Investments			
Omnimedia Werbegesellschaft mbH, Vienna ³	26.0	2,466	1,912
Output Service GmbH, Vienna	25.1	49	-4

A profit transfer agreement has been concluded with Telekom Austria Personalmanagement GmbH.

Following the signing of a share purchase agreement on June 1, 2005, the Bulgarian subsidiary of Telekom Austria Internationale-Beteiligungsverwaltung GmbH (a wholly owned subsidiary of Telekom Austria Beteiligungen GmbH) TAG-Tel EOOD acquired 100% of MobilTel AD from a consortium of Austrian and international financial investors on July 12, 2005. Telekom Austria AG provided grandmother subsidy of EUR 639 million to Telekom Austria Internationale-Beteiligungsverwaltung GmbH. TAG-Tel EOOD was liquidated on August 23, 2005 and TAG-Tel EAD was established as its legal successor. It was then merged with MobilTel AD in October to form MobilTel EAD.

¹ 75% less one share

² Figures according to package as of December 31, 2005, prepared under US-GAAP

³ Reporting date June 30, 2005

2.2. *Receivables and other assets*

The maturity and structure of accounts receivable is shown in the schedule of accounts receivable (Annex 2).

At the year-end, lump sum allowances of TEUR 7,974 (December 31, 2004: TEUR 2,924) were recorded for trade accounts receivable.

2.3. *Prepaid expenses*

This item consists mainly of a discount (EMTN programme) and deferrals relating to maintenance and insurance expenses.

As of December 31, 2005, deferred tax assets that had not been capitalized totaled TEUR 40,478 (December 31, 2004: TEUR 47,282). This amount is expected to lead to tax relief in subsequent years.

2.4. *Shareholders' equity*

The common stock of Telekom Austria Aktiengesellschaft remains unchanged at TEUR 1,090,500 and is divided into 500,000,000 bearer shares (unit shares). ÖIAG holds 25.2% and a convertible bond entitling the holder to convert the bond into 5% of Telekom Austria AG's existing shares. 66.3% of the shares represent a free float while the remaining 3.5% are held as treasury stock by the Company.

Dividend payment

With the consent of the Supervisory Board, the Management Board will ask the Annual General Meeting to approve the payment of a dividend of EUR 0.55 per unit share that is entitled to a dividend. The remaining retained earnings will be carried forward.

Authorized capital

In accordance with Section 159 Paragraph 3 of the Austrian Stock Corporation Act, the Management Board was authorized at the Annual General Meeting on June 4, 2003 to increase the Company's shareholders' equity by up to EUR 21,810,000.00 by issuing up to 10 million

new ordinary bearer shares or ordinary registered shares with no par value (unit shares) to service stock options. This authorization is valid for 5 years. With the consent of the Supervisory Board, the Management Board approved a conditional capital increase of up to EUR 6,543,000.00 on March 23, 2004 to service options issued in 2004 as part of ESOP 2004+. On March 15, 2005, the Management Board approved a cash settlement as an alternative form of servicing the options issued as part of ESOP 2004+. As a result, no use was made of the conditional capital increase approved on March 23, 2004. Furthermore, on December 13, 2004 the Management Board approved a conditional capital increase of up to EUR 7,415,400.00 to service the options issued in 2005 for ESOP 2005+. The conditional capital increase will only be carried out to the extent that the exercise of any options is serviced by issuing new shares.

Conditional capital increase

In accordance with Section 159 Paragraph 2 No. 1 of the Austrian Stock Corporation Act, a conditional capital increase of up to EUR 109,050,000.00 was authorized at the Annual General Meeting on June 3, 2004 for the purpose of granting subscription rights and/or conversion rights to holders of convertible bonds.

Reduction in the common stock

At the Annual General Meeting on May 25, 2005, the Management Board was authorized in accordance with Section 65 (1) No. 8 last sentence in conjunction with Section 192 of the Austrian Stock Corporation Act to reduce the common stock by up to EUR 109,050,000.00 by retiring no par treasury stock, whether bearer or registered stock without any further resolution by the Annual General Meeting.

2.5. *Untaxed reserves*

Reserves from special depreciation

	Balance on Jan. 1, 2005 TEUR	Release TEUR	Balance on Dec. 31, 2005 TEUR
Continuation of special depreciation as permitted in Sections 8 and 122 of the Austrian Income Tax Act 1972	2,085	0	2,085
Transfer of hidden reserves as permitted in Section 12 of the Austrian Income Tax Act	239	2	237
	<u>2,324</u>	<u>2</u>	<u>2,322</u>

Other untaxed reserves

Year	Balance on Jan. 1, 2005 TEUR	Release TEUR	Balance on Dec. 31, 2005 TEUR
Investment allowances as permitted in Section 10 of the Austrian Income Tax Act			
1998	553	553	0
1999	262	200	62
2000	5,801	5,541	260
	<u>6,616</u>	<u>6,294</u>	<u>322</u>
	Balance on Jan. 1, 2005 TEUR	Release TEUR	Balance on Dec. 31, 2005 TEUR
Transfer reserve as permitted in Section 12 Paragraph 7 of the Austrian Income Tax Act	1,701	1,701	0

2.6. *Accruals*

Accrued tax liabilities as of December 31, 2005 relate primarily to municipal rates and fees to the chamber of commerce.

Other accruals include provisions for:

	Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
Outstanding purchase invoices	67,150	72,187
Discounts for major customers	41,430	39,676
Estimated real estate devaluations	36,404	36,699
Removal of old poles	13,994	9,888
Stock options	9,871	2,716
Unused vacation	5,205	5,651
Estimated losses from retirement of local telephone network	4,000	17,034
Miscellaneous	13,359	20,784
	<u>191,413</u>	<u>204,635</u>

2.7. Liabilities

The maturity and structure of liabilities are shown in the schedule of liabilities (Annex 3).

2.8. Other financial obligations

Commitments and contingencies

	Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
Guarantee for Telekom Finanzmanagement GmbH in connection with the EMTN programme	1,750,000	750,000
Obligations arising from cross-border leases	693,326	632,857
Guarantee to banks for loans of Mobilkom International GmbH & Co KEG	305,000	305,000
Bank guarantees	384,530	206,529
	<u>3,132,856</u>	<u>1,894,386</u>
thereof pertaining to affiliated companies	2,435,000	1,255,000

On June 30, 2003, Telekom Austria AG (TA) and Telekom Finanzmanagement GmbH (TFG) initiated a Euro Medium Term Note (EMTN) programme of EUR 2.5 billion. All payments due in relation to bonds issued by TFG under this framework programme are guaranteed irrevocably and unconditionally by TA.

On July 10, 2003, TFG successfully launched and placed a Eurobond offering which raised TEUR 750,000 with a 10-year maturity and a coupon of 5.00% under this programme. The notes were issued at a re-offer price of 99.193% and were used to refinance existing debt.

On January 27, 2005, TFG successfully launched and placed two Eurobonds which raised TEUR 500,000 each with maturities of 5 and 12 years and a coupon of 3.375% and 4.250% respectively under the EMTN programme. The notes were issued at a re-offer price of 99.598% and 98.829% respectively.

In December 2005, the volume of the existing EMTN programme was increased to EUR 5 billion.

TA guarantees the interest rate swaps entered into by TFG.

	Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
Other liabilities		
Order purchase obligations for investments ⁴	23,400	39,900

3. Notes to the Statement of Operations

3.1. Revenues

	2005 TEUR	2004 TEUR
Switched voice base monthly & other voice revenues	546,845	562,255
Switched voice base traffic	389,209	403,363
Data & IT solutions	281,422	291,045
Wholesale voice & internet	349,110	356,305
Internet access & media	230,009	198,869
Wholesale data	137,084	141,310
Payphones & VAS	47,974	52,651
Other	112,165	119,406
	<u>2,093,817</u>	<u>2,125,204</u>

⁴ Statistical survey, estimated to some extent

3.2. Other operating income

	2005 TEUR	2004 TEUR
Income from the retirement of long-lived assets, with the exception of financial assets	2,893	7,559
Income from the reversal of accruals	16,822	21,227
Other	42,304	58,501
	<u>62,019</u>	<u>87,287</u>

Other operating income comprises the following:

	2005 TEUR	2004 TEUR
Rental and lease income	7,717	8,411
Settlement of damage claims	8,081	13,847
Income from previous periods	5,450	21,381
Other operating income	21,056	14,862
	<u>42,304</u>	<u>58,501</u>

3.3. Expenses for materials and other purchased manufacturing services

	2005 TEUR	2004 TEUR
Cost of materials	66,848	73,369
Cost of purchased services	492,189	481,030
	<u>559,037</u>	<u>554,399</u>

3.4. Personnel expenses

Personnel expenses comprise the following:

	2005 TEUR	2004 TEUR
Salaries	131,465	119,496
Expenses for severance payments	4,644	2,927
Payments to staff contribution plans	179	136
Expenses for pensions	5,637	5,337
Expenses for statutory social security contributions and pay-roll related duties and other mandatory contributions	31,599	30,047
Other employee-related expenses	4,131	5,005
	<u>177,655</u>	<u>162,948</u>

As of June 30, 2000, the entire workforce of Telekom Austria Aktiengesellschaft – with the exception of Management Board members – was transferred to Telekom Austria Personalmanagement GmbH. Subsequently staff were taken on again by TA on a regular basis. In financial year 2005, 71 (2004: 245) employees switched from Telekom Austria Personalmanagement GmbH to Telekom Austria Aktiengesellschaft. The personnel expenses charged by Telekom Austria Personalmanagement GmbH to Telekom Austria Aktiengesellschaft for staff made available but not taken on are included in the item for other operating expenses as services received.

The average number of full-time employees in the financial year was:

	2005	2004
Employees	2,671	2,625

On average 80 apprentices (2004: 41) were employed by the Company during the financial year.

	2005 TEUR	2004 TEUR
Remuneration paid to members of the Management Board	2,769	2,334
Remuneration paid to members of the Supervisory Board	114	101
	<u>2,883</u>	<u>2,435</u>

The remuneration paid to members of the Management Board does not include benefits from the stock option programme 2004; see "4. Other information".

3.5. Expenses for severance payments and pensions

Expenses for severance payments and pensions are allocated as follows:

	2005 TEUR	2004 TEUR
Management Board members	1,558	223
Top-level management	1,521	1,795
Other employees	7,381	6,382
	<u>10,460</u>	<u>8,400</u>

3.6. Other operating expenses

	2005 TEUR	2004 TEUR
Other operating taxes	4,601	5,227
Miscellaneous	670,740	755,291
	<u>675,341</u>	<u>760,518</u>

Other operating expenses include losses on the retirement of long-lived assets of TEUR 0 (2004: TEUR 14,841).

3.7. Income from investments

Income from investments includes withdrawals of TEUR 229,647 (2004: TEUR 283,946) from mobilkom austria AG & Co KG and profits of TEUR 95,032 (2004: TEUR 170,121) transferred from Telekom Austria Personalmanagement GmbH under the profit transfer agreement.

3.8. Income taxes

The Company is the top-tier corporation in a tax group as defined in Section 9 of the Austrian Corporation Tax Act and has concluded a group tax apportionment agreement with the members 3G Mobile Telecommunications GmbH, Telekom Austria Personalmanagement GmbH, mobilkom austria AG, Telekom Projektentwicklungs GmbH, Telekom Finanzmanagement GmbH, Österreichische Fernmeldetechnische Entwicklungs- und FörderungsgmbH, World-Direct eBusiness solutions GmbH, Telekom Austria Beteiligungen GmbH and Telekom Austria Internationale-Beteiligungsverwaltung GmbH.

	2005 TEUR	2004 TEUR
Corporate income tax from the group	28,899	21,941
Corporate income tax, prior periods	3,647	0
	<u>32,546</u>	<u>21,941</u>

Income tax relates to the results from ordinary activities. No deferred taxes were recorded in 2005.

The reversal of untaxed reserves totaling TEUR 1,810 leads to an income tax charge of TEUR 453 (without taking account of any losses carried forward).

4. Other information

Stock Option Programme 2004 (ESOP 2004+)

In the course of the first tranche of the Stock Option Programme 2004 (ESOP 2004+) 1,450,445 options in Telekom Austria Aktiengesellschaft were issued on April 19, 2004. Each option entitles the holder either to purchase a stock at the exercise price of EUR 11.92 or to receive a cash payment equal to the difference between the exercise price and the closing price of TA stock on the date the option is exercised.

The exercise price of EUR 11.92 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (April 19, 2004).

ESOP 2004+ based on the profitability of the Company. The exercise of options that were allocated in 2004 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2004 has been reached. If this EPS target value for financial year 2004 is not reached, options may still be exercised if an EPS target value set by the Supervisory Board for financial year 2005 or financial year 2006, which must be at least equal to the 2004 EPS target value, is reached.

The first tranche of ESOP 2004+ allocated on April 19, 2004 can be converted up to the end of May 2008 (maturity) if the EPS target value is reached. The options are subject to a 12-month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from April 20, 2005.

As the hurdle was reached in March 2005, the participants are entitled to exercise their options in the form of a cash payment. The average value of the options at the time they were exercised in 2005 amounted to EUR 4.87.

The stock option programme led to employee costs of TEUR 5,179 and ancillary wage costs of TEUR 380 in the financial year.

Those options that had not yet been exercised were valued using an option valuation model at EUR 7.27 per unit as of the reporting date December 31, 2005 and form the basis for calculating Telekom Austria AG's obligation to its employees.

ESOP 2004+	Options granted 2004	Options exercised 2005
Management Board members		
Heinz Sundt	96,000	96,000
Boris Nemsic	96,000	0
Stefano Colombo	96,000	0
Rudolf Fischer	96,000	96,000
Top-management	1,066,445	871,320
Total Telekom Austria AG	1,450,445	1,063,320
Executive bodies and top-management in subsidiaries	942,480	600,030

Stock Option Programme 2005 (ESOP 2005+)

In the course of the second tranche of the ongoing Stock Option Programme ESOP 2005+ 1,653,360 options in Telekom Austria Aktiengesellschaft were issued on January 19, 2005. Each option entitles the holder to purchase a stock at the exercise price of EUR 13.98 or to receive a cash payment equal to the difference between the exercise price and the closing price of TA stock on the date the option is exercised.

The exercise price of EUR 13.98 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 19, 2005).

As was the case with ESOP 2004+, ESOP 2005+ based on the profitability of the Company. The exercise of options that were allocated in 2005 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2005 has been reached. If this EPS target value for financial year 2005 is not reached, options may still be exercised if an EPS target value set by the Supervisory Board for financial year 2006 or for financial year 2007, which must be at least equal to the 2005 EPS target value, is reached.

The second tranche of ESOP 2005+ allocated on January 19, 2005 can be converted up to the end of May 2009 (maturity) if the EPS target value is reached. The options are subject to a 14-

month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from March 2006.

The options were valued using an option valuation model at EUR 5.65 per unit as of the reporting date December 31, 2005 and form the basis for calculating Telekom Austria AG's obligation to its employees, which is built up pro rata temporis over the vesting period. Employee costs of TEUR 7,612 were incurred in connection with ESOP 2005+ in the financial year.

The options granted were allocated as follows:

	Options granted ESOP 2005+
Management Board members	
Heinz Sundt	99,100
Boris Nemsic	99,100
Stefano Colombo	99,100
Rudolf Fischer	99,100
Top-management	1,256,960
Total Telekom Austria AG	1,653,360
Executive bodies and top-management in subsidiaries	1,220,740

Share Buyback Programme

In accordance with Section 65 Paragraph 1 No. 8 of the Austrian Stock Corporation Act, the Annual General Meeting of May 25, 2005 authorized the Management Board to acquire up to 50 million bearer or registered unit shares, which represent up to 10% of the common stock at the time the resolution was passed. The acquisition must take place within a period of 18 months from the date of the resolution at a price ranging between EUR 9.00 and EUR 21.00 per share.

The authorization by the Annual General Meeting of May 25, 2005 restricts use of the repurchased shares to the following:

- to service options granted to employees, top-management and members of the Management Board/executive management of the Company or an affiliated company,
- to service convertible bonds,
- for acquisitions and

- to sell the shares in every legally permissible way, including off-market and by excluding the public from buying
- to reduce the common stock by up to EUR 109,050,000.00

At the reporting date, Telekom Austria AG held a total of 17,497,106 treasury shares worth EUR 256,396,851.96.

Presentation of derivative financial instruments in accordance with Section 237a of the Austrian Commercial Code

Derivative financial instruments were used by Telekom Austria AG to manage adverse fluctuations in interest and foreign exchange rates. All interest and currency swaps outstanding as of December 31, 2004 were completed as agreed during 2005. 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.

Credit risk

The Company monitors its exposure to credit risk; it does not have any significant exposure to any individual customer or counterparty or any individual financial instrument.

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

The following valuation approaches are used for derivative financial instruments:

Interest swaps are used to hedge the risk of interest rate changes on individual loans. Interest accrued up to the reporting date amounts to TEUR 0 (December 31, 2004: TEUR 985) and

interest payable to TEUR 0 (December 31, 2004: TEUR 2,877). Interest accrued is reported under other receivables and assets while interest payable is reported under bank debt.

Foreign currency swaps are entered into to hedge foreign currency liabilities. Foreign currency derivatives themselves are not valued, as the hedged foreign currency liabilities are reported at the hedging rate of the foreign currency derivatives. The exchange rate gain is spread over the term of the financing. Interest accrued up to the reporting date amounts to TEUR 0 (December 31, 2004: TEUR 6,821) and interest payable to TEUR 0 (December 31, 2003: TEUR 8,667). Interest accrued is reported under other receivables and assets while interest payable is reported under bank debt.

These swaps are summarized according to the categories interest rate swap and foreign exchange swap in the following table. Market values are calculated using the net present value method.

	2005	2004
Interest rate swaps		
<i>Variable to fixed swaps</i>		
Nominal value in EUR	0	145,346
Market value in EUR	0	-6,094
Foreign exchange agreements		
<i>EUR – CHF</i>		
Nominal value in CHF	0	300,000
Nominal value in EUR	0	176,635
Market value in EUR	0	15,849

5. Members of the Management Board and the Supervisory Board

Management Board:

Heinz Sundt	(Chairman and Chief Executive Officer)
Boris Nemsic	(Vice-Chairman of the Management Board and COO Wireless)
Stefano Colombo	(CFO)
Rudolf Fischer	(COO Wireline)

Supervisory Board:

Peter Michaelis	(Chairman of the Supervisory Board)
Edith Hlawati	(Deputy Chairwoman)
Hans Haider	
Stephan Koren	
Harald Sommerer	
Harald Stöber	
Rainer Wieltsch	
Wilhelm Eidenberger	
Walter Hotz	
Michael Kolek	
Franz Kusin	
Otto G. Zich	
Peter Mitterbauer	
Wilfried Stadler	
Markus Hinker	

Vienna, March 2006

The Management Board

Heinz Sundt

Boris Nemsic

Rudolf Fischer

Stefano Colombo

Telekom Austria Aktiengesellschaft, Vienna
Appendix III/21
Development of Long-lived Assets
Annex III, 1

	Cost of acquisition				Dec 31, 2005	Accumulated Depreciation	Book Value		Depreciation Fiscal Year 2005
	Jan 1, 2005	Additions	Disposals	Changes			Dec 31, 2005	Dec 31, 2004	
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	
I. Intangible assets									
1. Licenses, industrial property rights and similar rights	120.271	13.043	34.329	2.777	101.762	64.785	36.977	44.493	21.803
2. Goodwill	6.889	0	0	0	6.889	6.410	479	534	55
	127.160	13.043	34.329	2.777	108.651	71.195	37.456	45.027	21.858
II. Property, plant and equipment									
1. Land, similar rights and buildings including buildings on non-owned land	671.869	5.405	1.497	2.408	678.185	323.230	354.955	382.033	34.294
2. Technical plants and machinery	7.472.041	223.092	189.626	27.848	7.533.355	5.554.530	1.978.825	2.327.299	594.225
3. Other plants, furniture and fixtures	267.877	17.821	60.488	5.493	230.703	162.563	68.140	81.982	34.418
4. Assets under construction	45.847	46.083	44	-38.526	53.360	0	53.360	45.847	0
	8.457.634	292.401	251.655	-2.777	8.495.603	6.040.323	2.455.280	2.837.161	662.937
III. Financial assets									
1. Investments in affiliated companies	1.342.156	639.412	0	0	1.981.568	3.361	1.978.207	1.339.862	1.067
2. Investments	7.715	284	0	0	7.999	3.843	4.156	4.157	284
3. Securities	4.445	0	0	0	4.445	0	4.445	4.445	0
4. Other loans	109.131	4.861	7.760	0	106.232	28.696	77.536	69.676	-10.758
	1.463.447	644.557	7.760	0	2.100.244	35.900	2.064.344	1.418.140	-9.407
	10.048.241	950.001	293.744	0	10.704.498	6.147.418	4.557.080	4.300.328	675.388

Accounts receivable table Dec 31, 2005

amounts in TEUR	balance sheet value	maturity	
		up to 1 year	exceeding 1 year
1. Accounts receivable - trade	383.923	383.923	0
2. Accounts receivable - affiliated companies			
- prepayments	0	0	0
- trade	17.952	17.952	0
- financial	2.753	252	2.501
- other receivables and assets	318.304	318.304	0
	339.009	336.508	2.501
3. Accounts receivable - associated companies			
- prepayments	0	0	0
- trade	31	31	0
- financial	0	0	0
- other receivables and assets	0	0	0
	31	31	0
4. Other receivables and assets			
- financial	196.411	192.381	4.030
- others	18.116	15.508	2.608
	214.527	207.889	6.638
Accounts receivable	937.490	928.351	9.139

Annex III, 2.1

Accounts receivable table Dec 31, 2004

amounts in TEUR	balance sheet value	maturity	
		up to 1 year	exceeding 1 year
1. Accounts receivable - trade	386.651	386.651	0
2. Accounts receivable - affiliated companies			
- prepayments	0	0	0
- trade	19.063	19.063	0
- financial	189.651	189.651	0
- other receivables and assets	540.678	540.678	0
	749.392	749.392	0
3. Accounts receivable - associated companies			
- prepayments	0	0	0
- trade	61	61	0
- financial	0	0	0
- other receivables and assets	0	0	0
	61	61	0
4. Other receivables and assets			
- financial	86.214	79.446	3.669
- others	18.613	21.649	63
	104.827	101.095	3.732
Accounts receivable	1.240.931	1.237.199	3.732

Table of liabilities Dec 31, 2005

amounts in TEUR	balance sheet value	maturity		
		up to 1 year	1 - 5 years	exceeding 5 years
1. Bonds	0	0	0	0
2. Bank loans and overdrafts	605.628	255.051	345.854	4.723
3. Payments received in advance	1.689	1.689	0	0
4. Accounts payable - trade	204.741	203.787	928	26
5. Accounts payable - affiliated companies				
- payments received in advance	0	0	0	0
- trade	10.449	10.449	0	0
- financial	1.296.608	120.608	146.000	1.030.000
- others	117.392	67.490	49.902	0
	1.424.449	198.547	195.902	1.030.000
6. Accounts payable - associated companies				
- payments received in advance	0	0	0	0
- trade	3.546	3.546	0	0
- others	0	0	0	0
	3.546	3.546	0	0
7. Other liabilities				
- financial	214.674	214.674	0	0
- others	129.876	57.725	48.870	23.281
	344.550	272.399	48.870	23.281
Accounts payable	2.584.603	935.019	591.554	1.058.030

Table of liabilities Dec 31, 2004

amounts in TEUR	balance sheet value	maturity		
		up to 1 year	1 - 5 years	exceeding 5 years
1. Bonds	149.602	149.602	0	0
2. Bank loans and overdrafts	1.062.100	474.315	578.338	9.447
3. Payments received in advance	716	716	0	0
4. Accounts payable - trade	202.629	201.801	816	12
5. Accounts payable - affiliated companies				
- payments received in advance	0	0	0	0
- trade	40.232	40.232	0	0
- financial	545.517	15.517	0	530.000
- others	239.480	188.415	50.973	92
	825.229	244.164	50.973	530.092
6. Accounts payable - associated companies				
- payments received in advance	0	0	0	0
- trade	3.285	3.285	0	0
- others	0	0	0	0
	3.285	3.285	0	0
7. Other liabilities				
- financial	212.795	212.795	0	0
- others	120.671	53.579	40.144	26.948
	333.466	266.374	40.144	26.948
Accounts payable	2.577.027	1.340.257	670.271	566.499

Management Report of Telekom Austria Aktiengesellschaft for the Period January 1 to December 31, 2005

Stable Economic Growth

According to figures from the Austrian National Bank, Austria experienced stable economic growth in 2005 compared to the previous year, with GDP rising 1.9% in real terms. Domestic economic growth was thus 0.5% higher than the EU average of 1.4%. The unemployment rate as calculated by Eurostat rose slightly from 4.5% in 2004 to 5.2% at year-end 2005. Due to increases in the costs of housing, water and energy, the annual inflation rate rose modestly to 2.3% for the year 2005, slightly higher than the EU average of 2.2%.

Information and Communications Technologies (ICT) Driving Growth and Innovation

As the market and innovation leader Telekom Austria makes an important contribution to safeguarding Austria's standing as a business location and centre of technology, and thus to protecting employment in the long term.

The European Union believes that information and communications technologies will play a decisive role in driving growth and innovation in the European economy in the next few years. Approximately one quarter of annual economic growth is attributable to ICT. In Austria this is the equivalent to 0.5% percentage points.

The shift in voice telephony traffic toward mobile communication networks continued unabated in the reporting year 2005. Full coverage and fierce price competition on the Austrian mobile communications network combined with cutting-edge ICT technologies reinforced this development. According to the latest internal estimates, some 60% of all Austrian voice traffic is carried within mobile communications networks.

Telekom Austria took action to counter this trend in the year under review with customer retention measures and by stepping up broadband activities. In comparison to the previous year the company was able to increase its share of the broadband market (including wholesale customers) by 4.7% to 51.0%. Although the takeover of Inode by UPC Telekabel led to a consolidation of the market, competition is expected to remain keen.

Important Regulatory Decisions

In 2005, the procedure which started in 2004 to define the 17 different (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 conditions laid down in the decision, Telekom Austria's existing four 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 (market for "terminating rental line segments"). In accordance with the results of the analysis of the Austrian broadband market, a "naked ADSL" wholesale product was made compulsory and was introduced by Telekom Austria in early December 2005.

Among the most important decisions in the reporting year (draft regulations) for the wireline segment were the reduction of the unbundling fees for the subscriber line 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 has lessened the financial burden on Telekom Austria. This decision came into force retroactively as of January 2005.

Affiliated Companies

At year-end 2005 the wireless subsidiaries mobilkom austria, VIPnet, Si.mobil and Mobiltel were the largest affiliates of Telekom Austria.

At year-end 2005 the mobile communications penetration rate in Austria had reached 106.0%. A penetration figure in excess of 100% indicates a clear trend toward second SIM cards. With a subscriber base of 3.4 million at the end of 2005 mobilkom austria has a market share of 39.1%. The slight decline in market share compared to the previous year is mainly attributable to increased competition in the prepaid segment.

Mobiltel, which became part of the Telekom Austria Group in July 2005, is the leading mobile communications provider in Bulgaria with a market share of 57.6%. In comparison with the previous year, the subscriber base grew by 18.4% to 3.6 million at year-end 2005. The

Bulgarian market has a penetration rate of 79.5% and, in addition to Mobiltel, two other mobile communications providers are active there.

The Croatian subsidiary VIPnet was able to increase the number of its subscribers by 23.3% to 1.6 million compared with last year. Due to the market entry of a third provider, VIPnet saw its market share decline to 44.1%. The penetration rate on the Croatian mobile communications market rose 18.4 percentage points to 82.9% at year-end 2005.

Telekom Austria is active in Slovenia with Si.mobil. The penetration rate on the Slovenian mobile communications market increased slightly from 79.1% to 80.1% at the end of 2005. Due to a changed definition by the Slovenian Agency for Postal and Electronic Communications the number of subscribers fell from 363,300 to 359,600.

The total number of wireless customers, including those of all subsidiaries, rose by 81.0% to approximately 9 million. Much of this increase stemmed from the acquisition of Mobiltel.

Development of Results

In the reporting year 2005 Telekom Austria saw operating income surge 227.7% to EUR 87.6 million. A slight decline in operating revenues of 1.5% was more than offset by falling depreciation and amortization expenses and a reduction in other operating expenses.

Telekom Austria's share of the voice market increased by 1.0 percentage points to 55.4% compared to the previous year. Including Internet dial-up traffic, market share expanded from 55.2% to 55.7% at year-end 2005. However, compared to 2004 the volume of pure voice traffic carried by the Austrian fixed line network once again declined by a substantial 9.4% to 9.3 billion minutes. The volume of voice traffic including Internet dial-up traffic fell by 17.0% to 13.3 billion minutes. The wireline business is characterized by the general migration of voice minutes to the mobile communication networks and the continued migration of Internet dial-up customers to higher value broadband products.

To counter the downward trend in the traditional voice market, Telekom Austria is actively promoting the broadband business. The number of ADSL access lines (including Wholesale) increased from 383,600 in 2004 to 574,300 in 2005, a net addition of 190,700 lines. The number of fixed line access lines declined 3.6% to 2.8 million compared to the previous year.

Net income in the financial year 2005 amounted to EUR 293.8 million, falling by 19.3% compared to the previous year. With the consent of the Supervisory Board, the Management Board will request the Annual General Meeting to approve the payment of a dividend of EUR 0.55 per share that is entitled to a dividend. This is an increase of 129.2% on the previous year. Remaining retained earnings will be carried forward.

In the financial year 2005 Telekom Austria made additions to long-term assets amounting to EUR 950.0 million, of which EUR 292.4 million were additions to property, plant and equipment and EUR 644.6 million additions to financial assets in connection with the acquisition of Mobiltel. Capital expenditures pertained mainly to broadband technology, the upgrading of infrastructure and expansions of the core network for regional customer projects.

Financial Performance Indicators

The most important financial and profitability figures of Telekom Austria AG are explained in more detail below. The equity-assets ratio, gearing ratio, equity ratio, fictitious debt repayment period and the Return on Invested Capital (ROIC) are cited as examples and the method according to which they are calculated explained in brief:

- The equity-assets ratio increased by 0.6% to 90.1% in 2005. This figure is calculated by dividing equity plus long-term borrowed capital by long-term assets and shows the extent to which the company's assets base is covered by long-term capital.
- The gearing ratio rose from 63.4% in the previous year to 66.9% and is calculated by dividing interest-bearing borrowed capital less cash and cash equivalents by adjusted equity. This figure shows the degree to which a company's activities are financed by equity capital or by borrowed funds.
- The equity to assets ratio pursuant to §23 of the Business Reorganization Act (URG) increased from 48.4% in 2004 to 50.2% in the reporting year 2005. This ratio is calculated from total equity plus untaxed reserves divided by total assets.
- The fictitious debt repayment period in 2005 is 2.8 years (2004: 2.5 years) and indicates how many years it would take to discharge debts using the operating cash flow.

- The Return on Invested Capital (ROIC) declined from 11.1% in 2004 to 10.6% in 2005. The ROIC is calculated by dividing operating income by the average invested capital.

Risk Management

Telekom Austria AG operates in a number of countries and a variety of markets (wireline and Internet and through its wireless subsidiaries). While this diversification reduces risks, Telekom Austria has also installed a value-oriented risk management system across the company to ensure the systematic, proactive and transparent management of risks.

One of the most far-reaching provisions of the Sarbanes-Oxley Act, which was 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, refers to the audit of the internal control system for financial reporting (SOA ICS) which must be implemented by the end of 2006.

The following description summarizes the main risk factors.

Market and Competitive Risks

Given the extensive saturation of the fixed line business in Austria there is no indication that the extremely fierce competition will ease off. The takeover of Inode by UPC has created a powerful rival which will help ensure that the business environment remains difficult. The rapid pace of technological change and the overlapping of wireline and mobile communications products due to convergence mean that the future development of revenues at Telekom Austria AG will also be dependent on the acceptance of new products and services. Telekom Austria AG is responding to these challenges with new offers in order to safeguard its price and performance leadership.

Regulatory and Legal Risks

The operational flexibility of Telekom Austria is limited by the need to obtain approval from the regulator for customer tariffs and charges prior to commercial launch and by the obligation to grant access to infrastructure and services. Legal risks arise above all from unforeseen interventions by the regulator and law suits with competitors.

Telekom Austria AG is committed to acting with the utmost transparency and is engaged in an active dialogue and exchange of information with its stakeholders in order to identify

controversial issues which could pose a threat to the company as early as possible and to take measures to counter them.

Technical and Financial Risks

Force majeure, human error and defective materials can cause damage to the company's technical infrastructure. Technological progress also aggravates risks arising from the ever-increasing speed with which the infrastructure becomes obsolescent. Telekom Austria AG mitigates these risks by placing greater emphasis on network reliability and fault tolerance.

Telekom Austria is also exposed to risks from loss of receivables and non-performance in the event of bankruptcy of corporate customers and suppliers.

The high percentage of employees with civil servant status limits Telekom Austria's ability to reduce employee costs.

Telekom Austria intends to continue its expansion in the countries of southeast Europe. The future value of these investments will depend on the political, economic and legal development of these countries.

Workforce

At year-end 2005 the Telekom Austria AG workforce comprised 2,678 employees and 111 apprentices. Compared to the previous year, the number of apprentices increased by 46, while the number of employees declined by 7.

Presentation of derivative financial instruments in accordance with Section 237a of the Austrian Commercial Code

Derivative financial instruments were used by Telekom Austria AG to manage adverse fluctuations in interest and foreign exchange rates. All interest and currency swaps outstanding as of December 31, 2004 were completed as agreed during 2005. 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 company's policies prohibit the holding or issuing of financial instruments for speculative purposes.

Credit Risks: The Company monitors its exposure to credit risk; it does not have any significant exposure to any individual customer or counterparty or any individual financial instrument. In order to reduce the risk of nonperformance by the counterparties to swap agreements, the contracts are subject to Swap Dealer Agreements.

Market Risks: 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.

Research & Development

Research and development activities at Telekom Austria AG focus on expanding the company's technological leadership and thus securing the basis for its future business success. In 2005 the main area of focus was the convergence of communications and information technologies, as well as the digitalization of content and efforts to promote broadband technology. Work also continued on the migration of existing networks to the ALLmediaNET, (All-IP network).

Total research and development expenditure by Telekom Austria AG increased from EUR 26.6 million in 2004 to EUR 28.5 million in 2005.

Non-Financial Performance Indicators

Telekom Austria AG also pays special attention to important environmental and social aspects in the pursuit of its business objectives, including providing information on environmental affairs and the concerns of its employees.

Telekom Austria endeavours to close geographical gaps in coverage and counter the digital exclusion of disadvantaged members of the community by continuously investing in innovative technologies and measures. This should also reduce the risk of Telekom Austria services and products becoming unavailable.

The sponsoring activities of Telekom Austria serve to build brand image and strengthen customer loyalty.

In the area of environmental protection Telekom Austria uses key figures to evaluate the success of its environmental protection measures and, for example, to control the risk of rising energy costs. In autumn 2005 the environmental management system at the wireline segment

was successfully recertified in accordance with ISO 14001; this should minimize the risk of negative impact on the environment.

Telekom Austria regularly implements education and further training programmes and is also stepping up apprentice training at its own training centres in order to meet future demand for skilled specialists. The personnel restructuring measures which have become necessary in the wireline segment were and will in the future be carried out in the most socially responsible manner possible and include numerous measures to allow the affected employees to retrain.

Outlook

In accordance with Telekom Austria forecasts, the migration of voice minutes to mobile communications networks will continue in 2006, leading to a decrease in operating revenues. The broadband business in Austria will continue to grow, but the increase in ADSL access lines will not be able to fully compensate for the decline in traditional voice telephony. Operating income at Telekom Austria is expected to show strong growth in 2006 supported by continued reductions in scheduled depreciation.

Events After the Balance Sheet Date

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

As of February 2, 2006 Telekom Austria sold its 19.9% interest in a.trust, but will maintain a close distribution partnership for all a.trust products.

The earnings-per-share target value for the second tranche of the stock option programme started in 2004 was reached. Holders may exercise the options once the results for 2005 have been published. A provision amounting to EUR 7.6 million has been included in the financial statements for the year 2005.

On January 12, 2006 the eligible employees were offered 3,897,968 options from the third tranche of the stock option programme. 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 3 years following a vesting period of roughly 14 months. The options therefore have a life of slightly more than 4 years.

Telekom Austria Aktiengesellschaft, Vienna

Appendix V/1

Telekom Austria Aktiengesellschaft, Wien

Annex V/1

Affiliated companies and equity investments as of Dezember 31, 2005

	Currency	Share capital	Capital held	Share in capital	Book value of equity as of Dec. 31, 2005 EUR	Book value of equity as of Dec. 31, 2004 EUR	Last reporting date	(Negative) equity TEUR	Net income/loss TEUR
1. Affiliated companies									
Telekom Austria Personalmanagement GmbH, Wien	EUR	70.000	70.000	100%	709.582.004	709.582.004	31.12.2005	624.536	0 1)4)
mobilkom austria Aktiengesellschaft & Co KG, Wien	EUR	79.940.118	59.954.289	74,999%	605.589.870	605.588.870	31.12.2005	1.215.921	330.528 1)
Telekom Austria Beteiligungen GmbH, Wien	EUR	35.000	35.000	100%	659.682.295	20.570.000	31.12.2005	659.666	-3 1)
World-Direct eBusiness solutions GmbH, Wien	EUR	35.000	35.000	100%	1.766.000	2.833.624	31.12.2005	474	158 1)
Jet2Web Stream Hungary kft, Budapest	HUF	15.000.000	15.000.000	100%	692.160	692.160	31.12.2005	378,0	8 1)3)
Jet2Web Stream Slovakia s.r.o, Bratislava	SKK	2.300.000	2.300.000	100%	473.753	473.753	31.12.2005	673,0	115,0 1)3)
mobilkom austria AG, Wien	EUR	100.000	74.999	75%	74.999	75.999	31.12.2005	128	12 1)5)
Telekom Projektentwicklungs GmbH, Wien	EUR	35.000	35.000	100%	35.000	35.000	31.12.2005	369	37 1)
TA Mreza d.o.o., Ljubljana	SIT	2.100.000	2.100.000	100%	309.134	9.134	31.12.2005	370,0	57,0 1)3)
Osterreichische Fernmeldetechnische Entwicklungs- und Föderungsgesellschaft m.b.H., Wien	EUR	37.000	37.000	100%	1.387	1.387	31.12.2005	403	280 1)
					1.978.206.603	1.339.861.931			
2. Equity investments									
Omnimedia Werbegesellschaft m.b.H., Wien	EUR	218.100	56.706	26%	3.401.089	3.401.089	30.06.2005	2.466	1.912
Wiener Börse AG	EUR	5.089.000	101.780	2%	543.342	543.342	31.12.2005	43.700,0	15.300
Netz & Plan Leitungsdokumentations GmbH, Linz	EUR	74.000	7.400	10%	138.537	138.537	31.10.2005	314,0	20
Internet - Lösungen und Dienstleistungen RIS GmbH, Steyr	EUR	150.000	22.500	15%	64.864	64.864	31.12.2005	x	x 2)
Output Service GmbH, Wien	EUR	35.000	8.785	25,1%	8.785	8.785	31.12.2005	49	-4
Austrian Research Centers GmbH - ARC, Wien	EUR	470.920	13.081	2,78%	0	0	31.12.2005	x	x 2)
A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH, Wien	EUR	4.790.013	953.213	19,9%	0	0	31.12.2005	x	x 2)
					4.156.617	4.156.617			
					1.982.363.220	1.344.018.549			

1) Preliminary financial statements

2) Financial statements not available at time of audit

3) Figures according to US-GAAP package as of Dec. 31, 2005

4) After transfer of profit to TA (TEUR 95.032)

5) Investment: 75% less one share

Unqualified Auditor's Report

We have audited the financial statements including the underlying accounting records of

**Telekom Austria Aktiengesellschaft,
Vienna, Austria.**

for the fiscal year from 1 January to December 31, 2005. The maintenance of the accounting records and the preparation and contents of these financial statements including management report in accordance with the Austrian Commercial Code are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether management report corresponds with the financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether we can state that the management report is in accordance with the financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the Company as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the financial statements and underlying accounting records 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 financial statements are in accordance with legal requirements and present fairly, in all material aspects the financial position and the results of its operations and its cash flows in accordance with Generally Accepted Accounting Principles in Austria. The management report is in accordance with the financial statements.

Vienna, March 6, 2006

KPMG

Wirtschaftsprüfungs- und Steuerberatungs GmbH

signed:

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

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 earnings 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 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, have 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.

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 Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft 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 remain with the company on its successful journey to success.

Peter Michaelis

Chairman of the Supervisory Board

Vienna, March 2006

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 Haider⁶

Member since June 4, 2003

Chairman of the Management Board of
Österreichische Elektrizitätswirtschafts- AG

Stephan Koren

Member since September 17, 1999

Chairman of the Management Board of
Österreichische Postsparkasse AG

Peter Mitterbauer⁶

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 Stadler⁶

Member since July 15, 2005

Chairman of the Management Board of
Investkredit Bank AG

Harald Stöber⁴

Member since June 4, 2003

Chairman of the Management Board of
Arcor AG & Co KG

Otto G. Zich⁶

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 Hotz⁴

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

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