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To the Board of Directors of
Telekom Austria Aktiengesellschaft
Lassallestrasse 9
1020 Vienna



Auditor's Report

We have audited the accompanying consolidated financial statements of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (ISA) issued by IFAC. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Vienna, March 23, 2006

 
KPMG
Wirtschaftsprüfungs- und Steuerberatungs GmbH

TELEKOM AUSTRIA AG
CONSOLIDATED BALANCE SHEETS
(in EUR '000s, except share information)

	Notes No	December 31,		
		2005	2004	2003
ASSETS				
Current assets				
Cash and cash equivalents.....		116,756	288,195	201,926
Short term investments.....	(5)	15,126	17,240	16,225
Accounts receivable - trade, net of allowances of				
EUR 148.624, EUR 113,710 and EUR 121.121				
December 31, 2005, 2004 and 2003	(7)	714,281	723,231	707,753
Receivables due from related parties.....	(8)	23	38	49
Inventories.....	(9)	90,913	83,110	83,535
Prepaid expenses.....	(14)	121,701	100,169	91,177
Income taxes receivable.....		9,214	252	43
Non current assets held for sale.....	(13)	880	9,442	5,560
Other current assets.....		27,643	54,062	37,424
TOTAL CURRENT ASSETS.....		1,096,537	1,275,739	1,143,692
Investments in associates.....	(4)	3,642	3,570	3,555
Financial assets long-term.....	(3)	86,813	80,253	111,170
Goodwill.....	(11)	1,148,916	596,316	597,328
Other intangible assets, net.....	(10)	1,664,020	842,750	891,900
Property, plant and equipment, net.....	(12)	3,583,030	3,746,708	4,277,305
Other assets.....		6,005	15,111	5,862
Deferred tax assets.....	(23)	68,325	120,694	227,384
TOTAL ASSETS.....		7,657,288	6,681,141	7,258,196
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Short-term borrowings.....	(15)	(704,060)	(820,985)	(716,803)
Accounts payable - trade.....		(544,233)	(549,592)	(604,213)
Provisions and accrued liabilities.....	(16)	(166,434)	(175,222)	(202,896)
Payables to related parties.....	(8)	(11,254)	(12,071)	(13,643)
Income taxes payable.....		(6,260)	(18,005)	(7,650)
Other current liabilities.....	(18)	(206,856)	(182,102)	(152,297)
Deferred income.....	(17)	(199,510)	(168,984)	(150,378)
TOTAL CURRENT LIABILITIES.....		(1,838,607)	(1,926,961)	(1,847,880)
Long-term liabilities				
Long-term debt, net of current portion.....	(19)	(2,557,703)	(1,647,171)	(2,342,288)
Lease obligations, net of current portion.....	(20)	(68,684)	(63,495)	(72,023)
Employee benefit obligation.....	(21)	(119,933)	(123,180)	(169,559)
Provisions long-term.....	(16)	(85,705)	(65,316)	(23,262)
Deferred tax liabilities.....	(23)	(17,911)	(3,838)	(19,325)
Other liabilities and deferred income.....		(49,979)	(52,740)	(70,478)
TOTAL LONG-TERM LIABILITIES.....		(2,899,915)	(1,955,740)	(2,696,935)
Stockholders' equity				
Common stock, no par value shares 560,000,000 authorized (2004: 560,000,000, 2003: 510,000,000), 500,000,000 issued, (2004 and 2003: 500,000,000), 482,502,894 outstanding (2004: 493,774,306, 2003: 500,000,000).....		(1,090,500)	(1,090,500)	(1,090,500)
Treasury shares.....		256,396	71,931	-
Additional capital.....		(460,128)	(464,651)	(460,029)
Retained Earnings.....		(1,624,131)	(1,333,067)	(1,177,811)
Revaluation reserve.....		(375)	3,472	5,782
Translation adjustments.....		(11)	14,375	10,679
Equity attributable to equity holders of the parent.....		(2,918,749)	(2,798,440)	(2,711,879)
Minority Interests.....		(17)	0	(1,502)
TOTAL STOCKHOLDERS' EQUITY.....		(2,918,766)	(2,798,440)	(2,713,381)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....		(7,657,288)	(6,681,141)	(7,258,196)

see accompanying notes to consolidated
financial statements

TELEKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF OPERATIONS
(in EUR '000s, except share information)

	Notes No	twelve months ended December 31,		
		2005	2004	2003
Operating revenues.....	(26)	4,365,247	4,042,868	3,959,826
Other operating income.....	(27)	54,812	50,496	46,682
Operating expenses				
Materials.....		(350,151)	(327,465)	(299,575)
Employee costs, including benefits and taxes.....		(698,493)	(692,012)	(719,297)
Depreciation and amortization.....	(10,11,12)	(1,121,440)	(1,114,748)	(1,133,066)
Impairment charges.....	(10,11,12)	(17,388)	(1,334)	(6,825)
Other operating expenses.....	(28)	(1,612,909)	(1,488,338)	(1,472,741)
OPERATING INCOME.....		619,678	469,467	375,004
Other income (expense)				
Interest income.....		32,663	17,497	17,791
Interest expense.....		(144,917)	(142,109)	(175,053)
Foreign exchange differences.....		1,349	2	(132)
Income from investments.....		3,861	10,497	(4,764)
Equity in earnings of affiliates.....	(4)	570	552	19,112
INCOME BEFORE INCOME TAXES.....		513,204	355,906	231,958
Income tax expense.....	(23)	(104,271)	(135,468)	(80,777)
NET INCOME.....		408,933	220,438	151,181
Attributable to:				
Equity holders of the parent.....		408,931	219,835	147,234
Minority interests.....		2	603	3,947
Basic and fully diluted earnings per share.....		0.84	0.44	0.30

see accompanying notes to consolidated
financial statements

TELEKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in EUR '000s, except share information)

	Notes	twelve months ended		
		December 31,		
		2005	2004	2003
Cash generated from operations				
Net income.....		408,933	220,438	151,181
Adjustments to reconcile net income to cash generated from operations				
Depreciation, amortization and impairment charges	(10,11,12)	1,138,828	1,116,081	1,139,891
Write-offs from and appreciation to investments.....		284	(5,232)	3,312
Employee benefit obligation - non cash.....		3,723	504	(1,081)
Allowance for doubtful accounts.....	(7,28)	43,393	23,597	30,659
Change in deferred taxes.....		65,110	89,012	56,961
Equity in earnings of affiliates less than (in excess of) dividends received.....	(4)	(72)	(15)	1,027
Stock compensation.....		13,322	4,622	-
Asset retirement obligation - non cash expense.....	(16)	3,187	5,829	1,336
(Gain) Loss on sale of investments.....		(4,013)	(11,713)	(16,305)
Loss on disposal / retirement of equipment.....		7,839	28,861	41,571
Other.....		(6,222)	667	(198)
		<u>1,674,312</u>	<u>1,472,651</u>	<u>1,408,354</u>
Changes in assets and liabilities, net of effect of business acquired				
Accounts receivable - trade.....		28,094	(29,292)	(59,616)
Due from related parties.....		15	11	1,283
Inventories.....		(2,583)	425	5,765
Prepaid expenses and other assets.....		(838)	(26,518)	95,732
Accounts payable - trade.....		(19,581)	(58,564)	(55,905)
Employee benefit obligation.....		(7,276)	(46,883)	(76,649)
Accrued liabilities.....		(18,724)	(39,926)	5,242
Due to related parties.....		(817)	(1,570)	(16,684)
Other liabilities and deferred income.....		(14,949)	48,884	18,042
		<u>(36,659)</u>	<u>(153,433)</u>	<u>(82,790)</u>
Cash generated from operations		1,637,653	1,319,218	1,325,564
Cash from 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)
Sale of subsidiary, net of cash.....		-	-	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)
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 financing activities				
Proceeds from issuance of bonds.....		1,168,950	-	775,948
Principal payments on bonds.....		(348,616)	(2,180)	(22,765)
Principal payments on long-term debt.....		(760,543)	(568,110)	(385,330)
Change in short term borrowings.....		214,452	(21,268)	(880,332)
Purchase of treasury stock.....		(184,465)	(64,161)	-
Proceeds from treasury stock.....		-	808	-
Dividends paid.....	(25)	(117,866)	(64,579)	-
Cash (used in) generated from financing activities		(28,088)	(719,490)	(512,479)
Effect of exchange rate changes.....		(103)	(4,128)	5,359
Net increase 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.....		<u>116,756</u>	<u>288,195</u>	<u>201,926</u>

see accompanying notes to consolidated
financial statements

TELEKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in EUR '000s, except share information)

	Common stock		Treasury Shares		Additional paid in capital	Retained earnings	Revaluation Reserve	Translation adjustment	Total	Minority Interest	Total stockholders' equity
	Number of shares	Par value	Number of shares	at cost							
Balance January 1, 2003	500,000,000	1,090,500	0	0	460,029	1,030,577	(11,049)	0	2,570,057	28,741	2,598,798
Net unrealized gains on securities, net of											
EUR (1,141) deferred income tax							2,144		2,144		2,144
Foreign currency translation adjustment								(10,679)	(10,679)		(10,679)
Unrealized net gain on hedging activities, net of EUR (1,608) deferred income tax							3,123		3,123		3,123
Net income recognized directly in equity									(5,412)		(5,412)
Net income						147,234			147,234	3,947	151,181
Total recognized income for the period									141,822	3,947	145,769
Acquisition of minority interests									0	(31,186)	(31,186)
Balance December 31, 2003	500,000,000	1,090,500	0	0	460,029	1,177,811	(5,782)	(10,679)	2,711,879	1,502	2,713,381
Change of tax rate							(431)		(431)		(431)
Net unrealized gains on securities, net of											
EUR (565) deferred income tax							1,096		1,096		1,096
Net realized gains on securities, net of											
EUR 1,368 deferred income tax							(2,655)		(2,655)		(2,655)
Foreign currency translation adjustment								(3,696)	(3,696)		(3,696)
Unrealized net gain on hedging activities, net of EUR (2,077) deferred income tax							4,032		4,032		4,032
Realized net gain on hedging activities, net of EUR (138) deferred income tax							268		268		268
Net income recognized directly in equity									(1,386)		(1,386)
Net income						219,835			219,835	603	220,438
Total recognized income for the period									218,449	603	219,052
Distribution of dividends						(64,579)			(64,579)		(64,579)
Stock Options granted					4,622				4,622		4,622
Purchase of Treasury shares			(6,345,442)	(72,977)					(72,977)		(72,977)
Issue of treasury shares to employees			89,748	1,046					1,046		1,046
Acquisition of minority interests									0	(2,105)	(2,105)
Balance December 31, 2004	500,000,000	1,090,500	(6,255,694)	(71,931)	464,651	1,333,067	(3,472)	(14,375)	2,798,440	0	2,798,440
Net unrealized gains on securities, net of											
EUR (201) deferred income tax							602		602		602
Net realized gains on securities, net of											
EUR 3 deferred income tax							(8)		(8)		(8)
Foreign currency translation adjustment											
net of deferred income tax of EUR (308)								14,386	14,386		14,386
Realized net gain on hedging activities, net of EUR (1,058) deferred income tax							3,253		3,253		3,253
Net income recognized directly in equity									18,233		18,233
Net income						408,931			408,931	2	408,933
Total recognized income for the period									427,164	2	427,166
Distribution of dividends						(117,867)			(117,867)		(117,867)
Stock Options granted					(4,523)				(4,523)		(4,523)
Purchase of Treasury shares			(11,241,412)	(184,465)					(184,465)		(184,465)
Addition from acquisition										30	30
Acquisition of minority interests									0	(15)	(15)
Balance December 31, 2005	500,000,000	1,090,500	(17,497,106)	(256,396)	460,128	1,624,131	375	11	2,918,749	17	2,918,766

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in EUR '000s)

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

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

Telekom Austria AG is incorporated as a joint stock corporation ("Aktiengesellschaft") under the laws of the Republic of Austria and located in Vienna. Telekom Austria AG and 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.

Telecom Italia owned 29.78% of Telekom Austria until their 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 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 reduces its holding from 47.17% to approximately 30.17% of voting common shares. In addition to the related party transactions described in note (8), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of the Company. The government holds the taxing authority for the Austrian operations of Telekom Austria and imposes taxes such as income and value added taxes on the Company.

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

Basis of presentation

The Company prepares the accompanying consolidated financial statements in compliance with the provisions of the International Financial Reporting Standards ("IFRS/IAS"), issued by the International Accounting Standards Board ("IASB"), the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") and the interpretation of the Standards Interpretation Committee ("SIC"), effective as per December 31, 2005 for all transactions.

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

In August 2005, IFRS 7, "Financial Instruments: Disclosures" was issued and is effective for annual periods beginning on or after January 1, 2007. The standard supersedes IAS 32 "Financial Instruments, Disclosure and Presentation" and IAS 30, "Disclosure in the Financial Statements of Banks and Similar Financial Statements Institutions". The Company is currently evaluating the impact of the standard on its consolidated financial statement disclosures.

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in EUR '000s)

During 2005, IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”, IFRIC 6 “Liabilities arising from Participation in a specific market – waste electrical and electronic equipment” and IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies”, were issued and are effective for annual periods beginning on or after January 1, 2006 (IAS 8.30). The Company is currently evaluating the impact of the standards on its consolidated financial statements.

The Company prepares financial statements for the first time in accordance with the above specified IFRS. January 1, 2003 was set as the transition date. Previously the Company prepared its financial statements in accordance with U.S. GAAP. The opening balance sheet is not presented in the notes. Under IFRS 1, “First-time Adoption of International and Financial Reporting Standards”, the Company uses the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the reporting date of its first financial statement. In accordance with IFRS 1, the Company has applied the following exemptions and exceptions from that principle:

- a) Business combination: The Company elected not to apply IFRS 3 “Business Combinations” retrospectively to past business combinations realized before the date of transition.
- b) Fair value or revaluation as deemed cost: The Company elected to use a previous GAAP valuation at fair value prior to the date of transition.
- c) Employee benefits: The Company elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses.
- d) Cumulative translation differences: The Company elected to deem the cumulative translation adjustments to be zero at the date of transition.
- e) Compound financial instruments: The Company elected not to separate the two components of financial instruments as no liability component was outstanding at the date of transition.
- f) Assets and liabilities of subsidiaries, associations and joint ventures: This exception was not applicable as none of the entities has prepared financial statements in accordance with IFRS prior to the Company.
- g) Share-based payments: The Company elected not to apply IFRS 2, “Share-based Payments” to equity instruments that were granted on or before November 7, 2002 and vested before the later of the date of transition and January 1, 2005.
- h) Insurance Contracts: This exception was not applicable as the Company does not issue insurance contracts or financial instruments with a discretionary feature or hold reinsurance contracts.
- i) Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment: The Company measured the liability as at the date of transition to IFRS in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Therefore the Company estimates the amount that would have been included in the cost of the related assets when the liability first arose, by discounting the liability to that date using its best estimate of the historic risk-adjusted discount rates that would have applied for that liability over the intervening period. The Company calculates accumulated depreciation on that amount, as at the date of transition on the basis of current estimated of the useful life of the assets.
- j) Leases: The Company has applied the transitional provisions of IFRIC 4, “Determining whether an Arrangement contains a Lease”.

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in EUR '000s)

- k) Fair value measurement of financial assets or financial liabilities: The Company applied the requirements in the last sentences of IAS 39 paragraphs AG76 and AG76A prospectively to transactions entered into after October 25, 2002.
- l) Derecognition of financial assets and financial liabilities: The Company did not derecognize non-derivative financial assets or non-derivative financial liabilities under its previous GAAP.
- m) Hedge accounting: The Company did not reflect a hedging relationship in its opening IFRS balance sheet that did not qualify for hedge accounting under IAS 39 (revised 2004), "Financial Instruments: Recognition and Measurement".
- n) Estimates: The Company's estimates under IFRS at the date of transition to IFRS are consistent with estimates made for the same date under previous GAAP.
- o) Assets classified as held for sale and discontinued operations: The Company applied the requirements of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" as of the date of transition as the valuations and other information needed to apply with the IFRS were obtained at the time those criteria were originally met.

In note (36), the Company provides a reconciliation of its equity reported under previous GAAP to its equity under IFRSs for the date of transition and for the end of the latest period presented. Additionally, a reconciliation is provided for the net income reported under previous GAAP for the periods presented to its net income under IFRSs.

Principles of consolidation

The consolidated financial statements of the Company include 14 (2004: 14, 2003: 17) subsidiaries in Austria and 15 (2004 and 2003: 8) subsidiaries abroad in which Telekom Austria, either directly or indirectly holds the majority of the voting rights or has the power to govern the subsidiaries' financial and operating policies. Special purpose entities, irrespectively of their legal structure, are consolidated when the Company has the power to govern the financial and operating policies of an entity.

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

All significant intercompany balances and transactions have been eliminated in consolidation.

The subsidiaries included in the consolidated financial statements are listed in note (35).

Financial instruments

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

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in EUR '000s)

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

Cash and cash equivalents

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

Marketable securities and other long-term investments

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

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

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

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 net realizable value, cost being determined on the basis of weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expense. The Company assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction.

Trade accounts receivable

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

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations. Government grants are deducted from the acquisition or manufacturing costs. Value added tax ("VAT"), which is charged by suppliers and

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in EUR '000s)

refunded by the tax authorities, is not included in cost. Plant and equipment under capital leases are stated at the lower of present value of minimum lease payments or fair value.

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

The useful lives are:

	<u>Years</u>
Transmission equipment.....	3 – 20
Cables and wires.....	10 – 20
Communications equipment.....	4 – 10
Furniture, fixtures and other.....	3 – 8
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 not amortized, but are tested for impairment in accordance with IFRS 3 “Business Combination” and IAS 38 “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 if an event or circumstances indicate that an asset may be impaired.

Irrespective of whether there is any indication of impairment, an intangible asset with an indefinite useful life or an intangible asset not yet available for use is tested for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

Irrespective of whether there is any indication of impairment, goodwill acquired in a business combination is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than a segment based on either the entity’s primary or the entity’s secondary reporting format. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss. The impairment loss shall be allocated first to the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to the other assets of the unit (group of units) pro rata on the basis of

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the carrying amount of each asset in the unit (group of units). These reductions in carrying amounts shall be treated as impairment losses on individual assets.

In each reporting period, the Company is required to reevaluate its decision that an intangible asset has an indefinite useful life.

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
Software.....	3– 8
Other	10– 30

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

Internally developed software

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

Impairment of intangible and tangible fixed assets

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

In each reporting period, the Company is required to reevaluate its decision that an intangible asset has an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the intangible asset is written down to 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 the carrying value over fair value is recognized as an impairment loss.

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

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Changes in existing decommissioning, restoration and similar liabilities

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

Assets held for sale

In accordance with IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", assets held for sale are measured at the lower of its carrying value and fair value less costs to sell, are no longer depreciated and are classified separately on the face of the balance sheet as assets held for sale.

Advertising and promotional costs

Generally, advertising and promotional costs are expensed as incurred.

Research and development costs

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

Research and development costs expensed as incurred totaled EUR 43,031, EUR 42,387 and EUR 42,759 for the year ended December 31, 2005, 2004 and 2003, respectively, and are classified based on their origination as personnel, depreciation or operating expenses in the consolidated statement of operations.

Income taxes

Under IAS 12 (revised 2000), "Income Taxes", deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax bases, tax credits and operating loss carry-forwards. For purposes of calculating deferred tax assets and liabilities, the Company uses the rates that have been enacted or substantively enacted at the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the legislation is substantively enacted. A

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deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the credits and tax loss carry-forwards can be applied.

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

Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share are calculated by adjusting the weighted average number of shares for the effect of the stock option plans. No adjustments to net income were necessary for the computation of diluted earnings per share. The diluted earnings per share were calculated under the assumption that all potential diluting options are exercised.

Accrued liabilities

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

Leases

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

Employee benefit obligations

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

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

All other 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 IAS 19 (revised 2002), "Employee Benefits". The future benefit obligations are valued using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase and rate of increase of pensions. The Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the reporting period exceed the corridor of 10% of the greater of the projected benefit obligation or the market related value of plan assets. The excess is amortized over the expected

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remaining service period. As of the transition date, January 1, 2003, the Company recorded the projected benefit obligation as a liability and charged the unrecognized gains and losses directly to retained earnings.

Concentration of risks

A portion of the Company's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications and cellular companies and internet online services. As a result, the Company has some concentration of credit risk in its customer base. The Company performs ongoing credit evaluations of its large customers' financial condition to support 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.

Through 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 in this environment. Consequently, operations in the CEE-region involve uncertainties, including tax uncertainties that typically do not exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the CEE business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment

Foreign currency translation

The consolidated financial statements of Telekom Austria are expressed in Euro "€".

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. Equity is translated at historical exchange rates. Adjustments for foreign currency translation fluctuations are excluded from net income and are reported as a separate component of shareholders' equity.

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

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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	2003	2005	2004	2003
Bulgarian Lev (BGN)	1.9563	1.9559	-	1.9558	1.9530	-
Croatian Kuna (HRK)	7.3715	7.6712	7.6495	7.4038	7.4943	7.5621
Czech Crown (CZK).....	29.0000	30.4640	32.4100	29.7803	31.9062	31.8409
Hungarian Forint (HUF).....	252.8700	245.9700	262.500	247.9480	251.6906	253.0343
Japanese Yen (JPY)	138,9000	139.6500	135.0500	136,8544	134.3904	130.8971
Slovak Crown (SKK).....	37.8800	38.7450	41.1700	38.5928	40.0270	41.4919
Slovenian Tolar (SIT)	239.5000	239.7600	236.700	239.5698	239.0826	233.8404
Swiss Franc (CHF).....	1.5551	1.5429	1.5579	1.5484	1.5442	1.5204
US Dollar (USD)	1.1797	1.3621	1.2630	1.2446	1.2432	1.1299

Revenue recognition

Wireline

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

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

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

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

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

The Company has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby the Company 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. The Company does not recognize revenue or an obligation to the counter party 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.

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Wireless

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

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

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

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 are separate and distinct from the sale of wireless services to customers.

Activation revenues and direct incremental expenses are generally recognized over the average expected contract term. When direct incremental expenses exceed revenues, the excess is expensed.

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

Interest, royalties and dividends

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

Share based compensation

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

Derivative financial instruments

In accordance with IAS 39 (revised 2004) the Company recognizes all financial assets and liabilities, as well as all derivative instruments, as assets or liabilities in the balance sheet and measures all, apart from some exemptions (e.g. held to maturity securities, originated financial instruments and liabilities), at fair value, regardless of the

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Company's intent. Changes in the fair value of derivative instruments are recognized in income or shareholders' equity (as revaluation reserve) depending on whether the derivative is designated as a fair value or cash flow hedge. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in the income statement. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in equity (revaluation reserve) until the hedged item is recognized in the income statement. The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and fair value changes of derivatives which do not qualify for hedge accounting are recognized in the income statement immediately.

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

The fair value of some investments is estimated based on quoted market prices. For other investments, mainly in unconsolidated subsidiaries and equity investments, for which there are no quoted market prices, the Company estimates the fair value to approximate 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 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and of contingent liabilities reported at the end of any given period and the reported amounts of revenues and expenses for that reported period. Actual results could differ from these estimates. The Company's estimates under IFRS at the date of transition to IFRS are consistent with estimates made for the same date under previous GAAP.

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

- a) Pension Plans: The valuation of the various pension plans is based on the methodology used applying some parameter, including the expected discount rate, rate of compensation and pension increase and return on plan assets. If the relevant parameter would developed, materially differently than expected this could have a material impact on our defined benefit obligation and subsequently on our net periodic pension cost. The unrecognized net losses as of December 31, 2005 are EUR 11,550.
- b) Impairments: The impairment analysis for goodwill, other intangible assets and tangible assets is principally based upon discounted estimated future cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the

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discount rates used could lead to impairments. Regarding the carrying value of goodwill, other intangible assets and tangible assets see Note 9,10 and 11.

- c) Employee incentive plans: The Stock Option Plans are measured based on the fair value of the options on the grant date and every subsequent reporting date. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, duration of the option and expected dividend. Compensation expense and liabilities could materially differ from the estimated amount on the balances sheet date if the parameters used changed. The liability recorded for the Stock Option Plans as of December 31, 2005 amounted to EUR 17,845.
- d) Deferred taxes: In assessing the recoverability of deferred tax assets, management considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. If the Company does not generate sufficient taxable income deferred tax assets on loss carry forwards cannot be used and will have to be provided for. The Company has capitalized deferred tax assets on loss carry forwards of EUR 16,810.

(2) BUSINESS COMBINATIONS

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

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 direct cost of acquisition of EUR 7,155, an 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 strong strategic and operating position in the Bulgarian telecommunication market.

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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	234,463
Intangible assets	910,308
Deferred tax assets from acquisition.....	7,003
Goodwill	565,963
Current liabilities	(376,609)
Long-term liabilities.....	<u>(237,834)</u>
Net assets acquired.....	<u>1,214,268</u>

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

Mobiltel is reported in the wireless segment.

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

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

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

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

	<u>2005</u>	<u>2004</u>
Operating revenues.....	4,682,039	4,567,639
Net income	471,483	311,931
Weighted average number of common shares outstanding	489,050,517	496,524,827
Basic and fully diluted earnings per share.....	Euro 0.96	Euro 0.63

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The pro forma results include amortization of intangible assets presented above, depreciation on fair value adjustments on property plant and equipment, interest expense on debt assumed to financing 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. Since the acquisition Mobitel generated net income of EUR 67,613.

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

Current assets	102,929
Tangible assets	268,148
Intangible assets	758,409
Goodwill	30,671
Current liabilities	(371,814)
Long-term liabilities.....	(209,341)
Deferred tax liabilities	<u>(7,576)</u>
Net assets	<u><u>571,426</u></u>

As of 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 bringing its interest to 100%.

(3) FINANCIAL ASSETS LONG-TERM

Financial assets long-term consist of the following:

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other investments	748	748	2,931
Other financial assets long term.....	1,206	2,429	3,272
Derivative financial instruments.....	-	-	16,425
Marketable securities long-term (note (6)).....	15,239	14,179	17,635
Deposits cross border lease (note (20)).....	<u>69,620</u>	<u>62,897</u>	<u>70,907</u>
December 31,	<u><u>86,813</u></u>	<u><u>80,253</u></u>	<u><u>111,170</u></u>

The carrying amount of other investments is measured at cost. In 2004 and 2003, the Company sold investments with a carrying amount of EUR 1,189 and EUR 26 respectively, recognized a gain of EUR 506 in 2004 and no gain or loss in 2003.

In 2005, 2004 and 2003, the Company recognized an impairment charge on financial assets long term of EUR 284, EUR 716 and EUR 2,840, respectively.

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(4) INVESTMENTS IN ASSOCIATES

As of December 31, 2005, 2004 and 2003, the investments in affiliates comprise a 26.00% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia") and a 25.10% interest in Output Service GmbH ("OSG"). Both investments are held in the wireline segment.

Omnimedia has June 30 as a reporting date but provides the Company with interim quarterly financial statements, which are used for the recognition of the Company's share of income as of December 31, 2005.

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 a total purchase price of EUR 22,000 and realized a gain of EUR 18,367 which is recorded in equity in earnings of affiliates.

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

	2005	2004	2003
January 1,	3,570	3,555	8,642
Dividends received.....	(498)	(537)	(1,750)
Recognized income.....	570	552	918
Investments sold	-	-	(4,255)
December 31,	<u>3,642</u>	<u>3,570</u>	<u>3,555</u>

A summary of aggregated 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	2003
Total current assets.....	39,018	31,068	31,003
Total assets	39,501	31,566	31,684
Current liabilities	36,167	28,590	28,808
Long-term debt.....	1,480	1,401	1,357
Total liabilities.....	37,647	29,991	30,165
Total stockholders' equity.....	1,854	1,575	1,519

(5) SHORT-TERM INVESTMENTS

Financial assets short-term consist of the following:

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At December 31,	2005	2004	2003
Marketable securities short-term (note (6))	7,300	10,539	6,867
Deposits and cross border lease (note (20)).....	7,826	6,701	6,727
American call option (note (22)).....	-	-	2,630
December 31,	<u>15,126</u>	<u>17,240</u>	<u>16,225</u>

(6) MARKETABLE SECURITIES

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

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2005				
Available -for-sale				
debt securities	5,363	104	27	5,440
equity securities	119	-	1	118
mutual funds	10,472	442	24	10,890
Held-to-maturity.....	6,091	-	-	6,091
At December 31, 2004				
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.....	5,063	71	-	5,134
At December 31, 2003				
Available -for-sale				
debt securities	4,702	168	-	4,870
equity securities	6,914	2,646	605	8,955
mutual funds	5,679	2	163	5,518
Held-to-maturity.....	5,159	36	-	5,195

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

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

The unrealized losses on the investment in mutual funds, corporate bonds and equity securities were caused by fluctuations in the capital markets. The Company considers the fluctuation of the fair value of these investments to

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be temporary and therefore did not record impairment. Presented below is the fair value information for marketable securities held by the Company:

	Less than 12 months		12 months or longer		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	holding losses	Fair value	holding losses	Fair value	holding losses
At December 31, 2005						
<i>Non-current assets</i>						
Available-for-sale						
debt corporate						
securities	1,838	27	-	-	1,838	27
equity securities	118	1	-	-	118	1
mutual funds	-	-	4,948	23	4,948	23
Total temporarily impaired securities	1,956	28	4,948	23	6,904	51

(7) ACCOUNTS RECEIVABLE - TRADE

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

	2005	2004	2003
Allowance beginning of the year.....	113,710	121,121	137,426
Foreign currency adjustment.....	762	(201)	(846)
Change in consolidated entities	27,763	-	35
Released.....	(3,432)	(4,516)	(950)
Charged to expenses.....	46,825	28,113	31,608
Amounts written-off.....	(37,004)	(30,087)	(46,152)
Allowance at the end of the year.....	148,624	113,710	121,121

December 31,	2005	2004	2003
Accounts receivable-trade - domestic, gross.....	812,221	769,163	755,511
Accounts receivable-trade - foreign, gross.....	50,684	67,778	73,363
Allowances	(148,624)	(113,710)	(121,121)
Accounts receivable-trade, net	714,281	723,231	707,753

As of December 31, 2005, 2004 and 2003, respectively, of these receivables EUR 481,793, EUR 542,868 and EUR 487,827 were sold under the securitization program described in note (15).

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(8) RELATED PARTY TRANSACTIONS

Related parties comprehend the majority shareholder ÖIAG, associated companies, key management personnel including the management board and members of the supervisory board.

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

The terms of services provided by Telekom Austria to government entities are generally based on standard pricing policies. However, the Company is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was EUR 41,298, EUR 40,303 and EUR 41,396 in 2005, 2004 and 2003, respectively.

On June 28, 2001, a partner in a law firm which provides legal services to the Company was elected to the supervisory board. In 2005, 2004 and 2003, respectively, the Company was charged EUR 464, EUR 640 and 560 for legal services by that law firm.

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

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 realized through reduced interconnection obligations and revenues, respectively.

For the year ended December 31, 2005, 2004 and 2003, respectively, of the total accounts payable EUR 11,239, EUR 12,039 and EUR 13,192 relate to Omnimedia and originate from advertising and marketing services provided to the Company.

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

Year ended December 31,	2005	2004	2003
Revenues	155	114	24,434
Other operating income	1	1	193
Expenses	41,434	45,393	52,193
Interest income	-	1	2
Interest expenses	-	1	8

For the year ended December 31, 2005, 2004 and 2003, respectively, EUR 40,629, EUR 44,440 and EUR 36,146 of other expenses mainly relate to advertising and marketing services provided by Omnimedia.

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(9) INVENTORIES

Inventories consist of:

At December 31,	2005	2004	2003
Spare parts, cables and supplies.....	44,209	41,167	44,510
Merchandise.....	46,616	41,943	39,025
Prepayments.....	88	-	-
Total.....	90,913	83,110	83,535

As of December 31, 2005, 2004 and 2003, respectively, the carrying amount of inventories carried at fair value less cost to sell amount to EUR 43,921, EUR 33,430 and 30,849. The Company recognized as an expense EUR 9,228, EUR 5,913 and EUR 9,621 as a write down of inventories in 2005, 2004 and 2003, respectively.

(10) OTHER INTANGIBLE ASSETS

	<u>Licenses</u>	<u>Brandnames</u>	<u>Software</u>	<u>Customer base</u>	<u>Other</u>	<u>Total</u>
Cost						
Balance at January 1, 2003.....	544,893	158,934	325,387	120,999	120,321	1,270,534
Additions.....	1,916	15,728	52,081	17,996	38,435	126,156
Disposals.....	0	0	(33,507)	0	(6,018)	(39,525)
Transfers.....	0	0	33,422	0	(32,159)	1,263
Translation adjustments.....	(780)	(616)	(855)	(373)	(179)	(2,803)
Changes in reporting entities.....	13,244	0	39	0	685	13,968
Balance at December 31, 2003....	<u>559,273</u>	<u>174,046</u>	<u>376,567</u>	<u>138,622</u>	<u>121,085</u>	<u>1,369,593</u>
Additions.....	17,215	0	47,707	0	46,643	111,565
Disposals.....	(6,782)	0	(15,632)	0	(853)	(23,267)
Transfers.....	0	0	32,708	0	(30,339)	2,369
Translation adjustments.....	(163)	(98)	(88)	(118)	80	(387)
Changes in reporting entities.....	320	0	(39)	0	0	281
Balance at December 31, 2004....	<u>569,863</u>	<u>173,948</u>	<u>441,223</u>	<u>138,504</u>	<u>136,616</u>	<u>1,460,154</u>
Additions.....	4,390	0	58,300	69	35,435	98,194
Disposals.....	0	0	(68,463)	0	(9,603)	(78,066)
Transfers.....	565	0	28,623	0	(25,248)	3,940
Translation adjustments.....	1,251	955	1,656	982	170	5,014
Changes in reporting entities.....	115,117	262,991	57,969	591,846	6,713	1,034,636
Balance at December 31, 2005....	<u>691,186</u>	<u>437,894</u>	<u>519,308</u>	<u>731,401</u>	<u>144,083</u>	<u>2,523,872</u>

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	<u>Licenses</u>	<u>Brandnames</u>	<u>Software</u>	<u>Customer base</u>	<u>Other</u>	<u>Total</u>
Accumulated amortization						
Balance at January 1, 2003.....	(139,043)	0	(181,261)	(10,083)	(33,856)	(364,243)
Additions.....	(33,506)	0	(75,804)	(22,084)	(12,666)	(144,060)
Impairments.....	0	0	(3,255)	0	0	(3,255)
Disposals.....	0	0	29,873	0	3,278	33,151
Transfers.....	0	0	599	0	(1)	598
Translation adjustments.....	248	0	429	79	71	827
Changes in reporting entities.....	0	0	(26)	0	(685)	(711)
Balance at December 31, 2003....	<u>(172,301)</u>	<u>0</u>	<u>(229,445)</u>	<u>(32,088)</u>	<u>(43,859)</u>	<u>(477,693)</u>
Additions.....	(38,207)	0	(81,903)	(23,191)	(13,382)	(156,683)
Disposals.....	(2)	0	15,283	0	637	15,918
Transfers.....	0	0	(66)	0	685	619
Translation adjustments.....	77	0	165	130	24	396
Changes in reporting entities.....	0	0	39	0	0	39
Balance at December 31, 2004....	<u>(210,433)</u>	<u>0</u>	<u>(295,927)</u>	<u>(55,149)</u>	<u>(55,895)</u>	<u>(617,404)</u>
Additions.....	(42,860)	0	(77,694)	(59,583)	(12,397)	(192,534)
Disposals.....	0	0	67,589		8,574	76,163
Transfers.....	0	0	(1,921)		1,929	8
Translation adjustments.....	(327)	0	(983)	(350)	(98)	(1,758)
Changes in reporting entities.....	(16,128)	0	(25,011)	(83,164)	(24)	(124,327)
Balance at December 31, 2005....	<u>(269,748)</u>	<u>0</u>	<u>(333,947)</u>	<u>(198,246)</u>	<u>(57,911)</u>	<u>(859,852)</u>
Carrying amount at						
December 31, 2005.....	421,438	437,894	185,361	533,155	86,172	1,664,020
December 31, 2004.....	359,430	173,948	145,296	83,355	80,721	842,750
December 31, 2003.....	386,972	174,046	147,122	106,534	77,226	891,900

As of December 31, 2005, 2004 and 2003, of the total carrying value of software EUR 13,129, EUR 19,451 and EUR 21,755 relate to self developed software.

Interest capitalized for the years ended December 31, 2005, 2004 and 2003, respectively, totaled EUR 1,351 EUR 95 and EUR 1,921.

The disposal of licenses in 2004 relate to a UMTS license with a carrying value of EUR 6,782 that was reclassified to assets held for sale.

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

	<u>GSM licenses</u>	<u>UMTS licenses</u>
Granted until.....	2013 – 2015	2020 – 2024
License cost.....	429,233	253,366
Renewal of the Croatian license until year	2019	2044
Onetime license fee for extension of the Croatian license.....	14,244	17,907

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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.

In 2004 and 2005, no impairment charges were recorded. In 2003 the impairment charge related to software no longer used.

The total carrying amount of intangible assets not subject to amortization is EUR 437,894, EUR 173,948 and EUR 174,046 as of December 31, 2005, 2004 and 2003. These amounts relate entirely to the value of brandnames in the wireless segment. The increase in 2005 is due to the acquisition of Mobiltel (see note (2)) and the decrease in 2004 is due to foreign exchange differences. The same impairment tests as described in note (11) are performed for brand names, applying identical parameters.

As of December 31, 2005, the brandnames are allocated to the following cash generating units within the wireless segment as follows:

	2005
mobilkom austria AG & Co KG.....	145,860
Si.mobil telekomunikacijske storitve d.d.	3,150
Vipnet d.o.o	25,947
Mobiltel EAD.....	262,937
Total wireless segment.....	437,894

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

2006.....	238,975
2007.....	216,467
2008.....	166,931
2009.....	150,669
2010.....	134,390
Thereafter.....	318,694

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(11) GOODWILL

In accordance with IFRS 1, the Company applies the regulations regarding impairment testing at the transition date and did not amortizing goodwill in accordance with IFRS 3. The following tables illustrate the changes in net book value of goodwill by segment for the periods ended December 31, 2005, 2004 and 2003:

	Wireline	Wireless	Total
Goodwill January 1, 2003	30,795	559,932	590,727
Acquisitions	1,000	11,505	12,505
Translation adjustment	(376)	(5,528)	(5,904)
Goodwill December 31, 2003.....	31,419	565,909	597,328
Acquisitions	202	-	202
Impairment	(211)	-	(211)
Translation adjustment	907	(1,910)	(1,003)
Goodwill December 31, 2004.....	32,317	563,999	596,316
Acquisitions	-	565,971	565,971
Impairment	(16,317)	-	(16,317)
Translation adjustment	347	2,599	2,946
Goodwill December 31, 2005.....	16,347	1,132,569	1,148,916

As of December 31, 2005 the accumulated impairment charged totaled EUR 176,919.

For the purpose of impairment testing goodwill is allocated to the cash generating units that expect to benefit from the synergies of the combination. As of December 31, 2005, 2004 and 2003, goodwill is allocated to the following cash generating units:

December 31,	2005	2004	2003
Goodwill wireless			
mobilkom austria AG & Co KG.....	364,000	364,000	364,000
Si.mobil telekomunikacijske storitve d.d.	136,340	136,197	137,960
Vipnet d.o.o	66,374	63,802	63,949
Mobiltel EAD.....	565,855	-	-
Total wireless	1,132,569	563,999	565,909
Goodwill wireline			
Telekom Austria AG.....	15,107	15,107	15,107
Czech On Line a.s.	-	15,110	14,212
World Direct.....	1,240	2,100	2,100
Total wireline	16,347	32,317	31,419

In accordance with IAS 36, the Company tests goodwill for impairment each in the fourth quarter or when there is an indication that an impairment has occurred. The Company performs these impairment tests by estimating the value in use. Value in use is determined by estimating future cash flows of the cash generating unit based on the business plans, which are prepared for period of four years and which are based on historic performance and management's best estimates about future developments. The growth rates in the business plan reflect the weighted average growth rates based on market estimates. Estimated cash flow projections beyond the period covered by the

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business plan are based on steady growth rates for subsequent years and do not exceed the long-term average growth rate for the industries and the country in which the cash generating unit operates. The following parameters are applied: growth rates: wireline -1 % to 2 %; wireless -3.5 % to 14.4 %, interest rates: wireline 8.5 % to 10.8 %, wireless: 8.18 % to 12.14 %. The determined value in use was then compared with the carrying value of the cash generating unit including goodwill.

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%.

Both impairment charges were recognized in the wireline segment.

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(12) 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.

	Land Leasehold & buildings	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2003.....	718,661	9,362,570	16,207	197,116	10,294,554
Additions.....	12,869	380,619	239	114,120	507,847
Disposals.....	(15,744)	(498,882)	(2,444)	(24)	(517,094)
Transfers.....	8,898	146,837	0	(156,998)	(1,263)
Translation adjustments.....	(457)	(10,445)	(39)	(967)	(11,908)
Changes in reporting entities.....	0	395	0	0	395
Balance at December 31, 2003....	<u>724,227</u>	<u>9,381,094</u>	<u>13,963</u>	<u>153,247</u>	<u>10,272,531</u>
Additions.....	23,529	349,937	177	101,687	475,330
Disposals.....	(11,656)	(301,170)	(5,284)	(70)	(318,180)
Transfers.....	16,607	101,739		(120,715)	(2,369)
Translation adjustments.....	(63)	(1,270)	105	(104)	(1,332)
Changes in reporting entities.....	(1)	(268)	0	0	(269)
Balance at December 31, 2004....	<u>752,643</u>	<u>9,530,062</u>	<u>8,961</u>	<u>134,045</u>	<u>10,425,711</u>
Additions.....	22,563	408,432	0	123,850	554,845
Disposals.....	(4,078)	(438,461)	(305)	148	(442,696)
Transfers.....	17,954	108,381	0	(129,075)	(2,740)
Translation adjustments.....	716	15,903	97	1,806	18,522
Changes in reporting entities.....	14,767	357,049	0	36,591	408,407
Balance at December 31, 2005....	<u>804,565</u>	<u>9,981,366</u>	<u>8,753</u>	<u>167,365</u>	<u>10,962,049</u>

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	Land Leasehold & buildings	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Accumulated depreciation					
Balance at January 1, 2003.....	(239,989)	(5,221,983)	(8,843)	0	(5,470,815)
Additions.....	(41,291)	(945,638)	(2,077)	0	(989,006)
Impairments.....	(1,807)	(174)	(1,589)	0	(3,570)
Disposals.....	7,730	454,294	2,446	0	464,470
Transfers.....	(1)	(597)	0	0	(598)
Translation adjustments.....	106	4,453	31	0	4,590
Changes in reporting entities.....	0	(297)	0	0	(297)
Balance at December 31, 2003....	<u>(275,252)</u>	<u>(5,709,942)</u>	<u>(10,032)</u>	<u>0</u>	<u>(5,995,226)</u>
Additions.....	(41,315)	(915,284)	(1,466)	0	(958,065)
Impairments.....	(882)	(241)	0	0	(1,123)
Disposals.....	6,703	262,022	5,172	0	273,897
Transfers.....	(686)	67	0	0	(619)
Translation adjustments.....	44	1,909	(89)	0	1,864
Changes in reporting entities.....	1	268	0	0	269
Balance at December 31, 2004....	<u>(311,387)</u>	<u>(6,361,201)</u>	<u>(6,415)</u>	<u>0</u>	<u>(6,679,003)</u>
Additions.....	(43,684)	(883,814)	(1,408)	0	(928,906)
Impairments.....	0	(1,071)	0	0	(1,071)
Disposals.....	2,150	411,816	295	0	414,261
Transfers.....	(17)	9	0	0	(8)
Translation adjustments.....	(208)	(10,055)	(85)	0	(10,348)
Changes in reporting entities.....	<u>(2,246)</u>	<u>(171,698)</u>	<u>0</u>	<u>0</u>	<u>(173,944)</u>
Balance at December 31, 2005....	<u>(355,392)</u>	<u>(7,016,014)</u>	<u>(7,613)</u>	<u>0</u>	<u>(7,379,019)</u>
December 31, 2005.....	449,173	2,965,352	1,140	167,365	3,583,030
December 31, 2004.....	441,256	3,168,861	2,546	134,045	3,746,708
December 31, 2003.....	448,975	3,671,152	3,931	153,247	4,277,305

Interest capitalized totaled EUR 1,023, EUR 1,462 and EUR 1,529 for the years ended December 31, 2005, 2004 and 2003, respectively.

In the period ended December 31, 2005, 2004 and 2003, respectively, impairment charges of EUR 1,071, EUR 1,123 and 3,570 primarily relate to technical facilities in 2005 and 2003 and to buildings in 2004 in the wireline segment.

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.

Government grants totaling EUR 654, EUR 107 and EUR 50 were deducted from the acquisition in 2005, 2004 and 2003, respectively.

The disposals in 2004 and 2003 contain assets with a carrying value EUR 1,450 and EUR 5,560 which were reclassified to assets held for sale. In 2005 the transfers contain a building with a carrying value of EUR 1,200 which was reclassified from assets held for sale to property plant and equipment.

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As of December 31, 2005 and 2004 of the communication network and other equipment a carrying value of EUR 251,716 and EUR 287.125, respectively, is held under the cross border lease transaction described in note (20).

(13) NON CURRENT ASSETS HELD FOR SALE

	<u>2005</u>	<u>2004</u>	<u>2003</u>
UMTS license frequency band.....	-	6,782	-
Buildings	880	2,660	5,560
Total.....	<u>880</u>	<u>9,442</u>	<u>5,560</u>

The Company classified one Austrian UMTS license frequency band with a carrying amount of EUR 6,782 and several buildings with carrying amount of EUR 2,660 as held for sale as of December 31, 2004. The UMTS license frequency band was acquired among others in 2003 in the purchase of 100% of 3G Mobile Telecommunications GmbH and has subsequently been classified as held for sale. The license frequency band was sold in January 2005.

Certain buildings are subject to the Company's real estate optimization program and were expected to be sold on several dates during 2005 and therefore reclassified to assets held for sale. One of the buildings remained classified as held for sale at December 31, 2005, which is expected to be sold on 2006.

The assets have been accounted for at the lower of the carrying amount or each asset's estimated fair value less costs to sell. The Company recognized a net gain from assets held for sale of EUR 833, EUR 4,762 and EUR 10 for the years ended December 31, 2005, 2004 and 2003, respectively. The net gain is recorded together with gains and losses from retirement of equipment either in other operating expenses or other operating income. Of the net gain of EUR 833 a gain of EUR 1.118 related to the wireless segment and a loss of EUR 285 related to wireline segment. The entire net gain of 2004 and 2003 related to the wireline segment.

(14) PREPAID EXPENSES

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Employees.....	13,182	12,392	14,437
Rent.....	12,684	11,778	10,067
Other.....	95,835	75,999	66,673
Total.....	<u>121,701</u>	<u>100,169</u>	<u>91,177</u>

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(15) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2005	2004	2003
Current portion of long-term debt	296,840	653,022	530,869
Short-term debt	357,736	-	-
Asset backed security loan (ABS).....	31,606	155,871	170,432
Lines of credit.....	8,484	2,775	4,962
Current portion of lease obligations.....	9,394	9,317	10,540
Total.....	704,060	820,985	716,803

The weighted-average interest rate on lines of credit was 2.30%, 2.21% and 3.20% in 2005, 2004 and 2003 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.

In January 2002, the Company entered into a revolving period securitization and sold trade receivables to a Special Purpose Entity (SPE) 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 SPE, the Company retains interests in the sold receivables (retained interests). The Company did not derecognize the sold receivables as the assets transferred are not readily obtainable in the market and the Company has retained substantially all of the risk of ownership through a total return swap.

In December 2003, the asset-backed securitization program was extended regarding the trade receivables sold and the maximum amount transferred to the trust. Additionally, the discounts required were reduced. The maximum program limit was increased from EUR 290,000 to EUR 350,000.

At December 31, 2005, 2004 and 2003, respectively, the Company recorded cash received in exchange for the sold receivables as a short term debt totaling EUR 31,500, EUR 155,500 and EUR 170,000 and recorded accumulated fees and interest of EUR 106, EUR 371 and EUR 432.

Cash settlement with the SPE takes place on a monthly basis. Gross trade receivables sold represent the fair value of billed and unbilled receivables to the SPE during the periods ended December 31, 2005. As the Company services these receivables, collection of the receivables previously sold is made on behalf of the SPE. The Company recorded discounts, liquidity and program fees related to the securitization of trade receivables of EUR 2,270, EUR 3,107 and EUR 5,960 for the period ended December 31, 2005, 2004 and 2003, respectively. These discounts and fees are included in interest expense in the statement of operations.

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(16) PROVISIONS AND ACCRUED LIABILITIES

Provisions and accrued liabilities consist of the following:

	<u>Non income tax</u>	<u>Employees</u>	<u>Customer allowance</u>	<u>Customer retention</u>	<u>Asset retirement obligation</u>	<u>Other</u>	<u>Total</u>
Balance at January 1, 2005.....	7,643	61,830	42,279	34,712	65,535	28,539	240,538
Additions.....	1,012	31,490	37,642	3,970	2,808	30,584	107,506
Change in estimate.....	-	-	-	-	12,846	-	12,846
Used.....	(1,387)	(27,509)	(27,565)	(3,846)	(1,340)	(32,958)	(94,605)
Released.....	(1,672)	(12,286)	(4,130)	-	-	(8,570)	(26,658)
Accretion expense.....	-	-	-	-	3,187	-	3,187
Reclassification to liabilities.....	-	(2,240)	-	-	-	-	(2,240)
Change in reporting entity.....	6	1,834	-	604	2,502	6,117	11,063
Translation adjustments.....	21	137	-	46	167	131	502
Balance at December 31, 2005...	<u>5,623</u>	<u>53,256</u>	<u>48,226</u>	<u>35,486</u>	<u>85,705</u>	<u>23,843</u>	<u>252,139</u>
Thereof Long Term							
December 31, 2005.....	-	-	-	-	85,705	-	85,705
December 31, 2004.....	-	-	-	-	65,316	-	65,316

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

The non income tax accrual contains amounts for land tax, chamber of commerce and other fees. The accruals for employees contain vacation days, bonuses and overtime. Customer allowance contains rebates earned by customers but not paid as of the balance sheet date and customer retention mainly consist of accrued points earned by customers and subsidized hardware cost which are accrued and recognized ratable over the contract period.

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

The Company expects that the majority of the balances of provisions and accrued liabilities will be utilized during 2006 except for the asset retirement obligation.

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

The Company has an obligation to operate a sufficient number of booths to assure that the Austrian population has sufficient access to telecommunications services. As long as the Company stays in business and technology does not materially change, the number of booths operated will be reduced but not eliminated completely 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.

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

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

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

(17) DEFERRED INCOME

At December 31,	2005	2004	2003
Unearned income	192,398	162,002	143,266
Unamortized balance on sale of tax benefits	37,349	44,331	51,573
	<u>229,747</u>	<u>206,333</u>	<u>194,839</u>
Less non-current portion.....	(30,237)	(37,349)	(44,461)
Deferred income net of non-current portion.....	<u>199,510</u>	<u>168,984</u>	<u>150,378</u>

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 (20).

(18) OTHER CURRENT LIABILITIES

At December 31,	2005	2004	2003
Employees.....	23,826	19,249	17,330
Stock option plans.....	17,845	-	-
Fiscal authorities.....	73,355	62,758	48,607
Social security.....	8,177	8,025	10,192
Other.....	83,653	92,070	76,168
Total.....	<u>206,856</u>	<u>182,102</u>	<u>152,297</u>

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(19) LONG-TERM DEBT

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

At December 31,	Maturity	2005	2004	2003
Face value of bonds under EMTN Programme.....	2010-2017	1,750,000	750,000	750,000
Interest rate SWAP on EMTN bonds	2010-2013	(5,311)	11,200	4,883
Discount and issue cost of EMTN bonds	2010-2017	(16,654)	(7,731)	(10,992)
Other bonds guaranteed by the Federal				
Republic of Austria	2005	-	149,602	152,471
Bank debt	2006-2009	790,312	675,296	612,926
Bank debt guaranteed by the Federal				
Republic of Austria	2006-2011	297,232	707,566	1,354,583
Other.....	2006-2007	38,964	14,260	9,286
		<u>2,854,543</u>	<u>2,300,193</u>	<u>2,873,157</u>
Less current portion of long-term debt.....		(296,840)	(653,022)	(530,869)
Long-term debt, net of current portion.....		<u>2,557,703</u>	<u>1,647,171</u>	<u>2,342,288</u>

The interest rates on the guaranteed and unguaranteed bank debt vary between 2.3% and 7.0% in 2005. The weighted average interest rate for the years ended December 31, 2005, 2004 and 2003, respectively, were 4.32%, 5.0% and 4.6% for bonds and 4.5%, 4.9% and 5.2% for bank debt.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Bonds	4.32%	4.56%	4.57%
Bank debt	4.07%	4.62%	4.96%

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 were increased to EUR 5,000,000 in December 2005. The payments of all amounts due in respect of

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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, 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 amortized over the related terms. For Eurobonds with a face value of EUR 800,000 the Company entered into fixed to floating interest rate swap agreements to reduce fluctuations of the bond's fair market value.

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.

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.

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As of December 31, 2005, all bank debt incurred by the Company are denominated in Euro.

(20) LEASES

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

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

	Cross border leases	Finance leases	Operating leases
2006.....	8,908	578	42,579
2007.....	9,367	47	39,772
2008.....	7,739	9	35,348
2009.....	31,108	-	33,785
2010.....	11,335	-	33,794
after 2010.....	28,841	-	34,584
Total minimum lease payments.....	97,298	634	<u>219,862</u>
Less amount representing interest.....	(19,852)	(2)	
Present value of lease payments.....	77,446	632	
Less current portion.....	(8,908)	(486)	
Non-current lease obligations.....	<u>68,538</u>	<u>146</u>	

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

The Company will receive future minimum lease payments for noncancelable operating lease contracts which mainly relate to private automatic branch exchange equipment (PABX) and leased lines to customers as of December 31, 2005 as follows:

	Operating leases
2006.....	16,528
2007.....	10,889
2008.....	7,651
2009.....	5,316
2010.....	3,129
after 2010.....	3,899
Total minimum lease payments.....	<u>47,412</u>

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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 counter-parties whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for a deposit. The counterparties in the PUAs received upfront payments totaling EUR 509,285 and EUR 113,763 for a portion of the debt assumed in 1999 and 1998, respectively. Interest accruing on the cash deposits matches interest on the debt portion financed through the deposit. In addition to the cash deposits, the Company purchased debt securities, deposited those securities with a custodian and pledged the securities to one of the counter-parties in the PUA; the 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 counterparties 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 the 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 relates to the total gain from the sale of the tax benefits which amounted to EUR 14,547, EUR 44,437 and EUR 7,337 in 2001, 1999 and 1998, respectively. The Company is amortizing these amounts over the term of the lease.

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

However, for the 2001 transactions the major part of the investment accounts and the lease payment obligations have to be recorded as assets and liabilities because the Company is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the balance sheets. Accordingly, interest income and expenses in an equal amount totaling EUR 6,488, EUR 5,367 and EUR 6,955, have been recognized in 2005, 2004 and 2003, respectively. The amortization of benefit in 2005 of EUR 6,982 is recorded in interest income.

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

At December 31,	2005	2004	2003
Deposits long-term.....	69,620	62,897	70,909
Deposits short-term.....	7,826	6,701	6,727
Other assets	-	1,570	2,840
Total assets in connection with cross border leases.....	<u>77,446</u>	<u>71,168</u>	<u>80,476</u>
Lease obligations.....	77,446	71,168	80,476
Of which current.....	8,908	8,128	8,775

(21) EMPLOYEE BENEFIT OBLIGATIONS

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

At December 31,	2005	2004	2003
Contractual termination benefits	10,456	19,394	31,932
Service awards.....	49,385	44,418	46,870
Severance.....	51,546	51,863	82,866
Pensions.....	7,133	7,505	7,891
Other.....	1,413	-	-
Total.....	<u>119,933</u>	<u>123,180</u>	<u>169,559</u>

Contractual 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. 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 relate to 110 employees. In connection with VRIPs the Company made payments of EUR 3,436, EUR 5,365 and 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.

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Actuarial assumptions

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

At December 31,	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 plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two months salary after 25 years of service and four months salary after 40 years of service. Employees with at least 35 years of service when retiring are also eligible to receive a bonus equal to four months salary. The compensation is accrued as earned over the period of service taking into account estimates of employees whose employment will be terminated or who will retire prior to reaching the required service period. All actuarial gains and losses are recognized immediately in the period realized.

The following table provides the components and a reconciliation of the changes in service awards for the year ended December 31, 2005, 2004 and 2003, respectively:

	2005	2004	2003
Accrual at the beginning of the year.....	44,418	46,870	57,862
Change in reporting entity.....	48	-	-
Service cost.....	1,973	2,149	2,301
Interest cost.....	2,278	2,288	2,814
Recognized actuarial losses (gains).....	2,861	(4,191)	(12,125)
Benefits paid.....	(2,193)	(2,698)	(3,982)
Accrual at the end of the year	<u>49,385</u>	<u>44,418</u>	<u>46,870</u>

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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 after January 1, 2003 are covered by a defined contribution plan and the Company paid EUR 484, EUR 330 and EUR 119 to this deferred contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2005, 2004 and 2003, respectively.

Upon retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime and bonuses. Maximum severance is equal to a multiple of twelve times 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 year ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Service cost.....	4,914	2,853	4,218
Interest cost.....	2,140	1,467	1,784
Curtailment loss / settlement.....	-	-	563
Amortization of actuarial gains.....	(176)	(254)	-
Net periodic benefit cost.....	<u>6,878</u>	<u>4,066</u>	<u>6,565</u>
	2005	2004	2003
Defined benefit obligation at the beginning of the year.....	40,810	29,628	36,850
Change in reporting units.....	306	-	(587)
Service cost.....	4,914	2,853	4,218
Curtailment loss / settlement.....	-	-	563
Interest cost.....	2,140	1,467	1,784
Benefits paid.....	(2,934)	(1,777)	(2,723)
Actuarial losses (gains).....	13,694	8,639	(10,477)
Defined benefit obligation at the end of the year.....	<u>58,930</u>	<u>40,810</u>	<u>29,628</u>
Unrecognized actuarial gains (losses).....	(12,286)	1,584	10,477
Accrued liability at the end of the year.....	<u>46,644</u>	<u>42,394</u>	<u>40,105</u>
Voluntary severance obligation.....	<u>4,902</u>	<u>9,469</u>	<u>42,761</u>
Total accrued severance liabilities at the end of the year.....	<u>51,546</u>	<u>51,863</u>	<u>82,866</u>

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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 government offered to civil servants at 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 accrued severance costs of EUR 19,315 and EUR 39,630 in the year ended December 31, 2004 and 2003, respectively and other cost of EUR 7,678 in the year ended December 31, 2003. 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 one-time offer the Company's workforce was reduced by 470 and 650 civil servants in 2004 and 2003, respectively.

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% of the remuneration 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.

The Company sponsored a defined contribution plan covering substantially all employees of Telekom Austria and all its Austrian subsidiaries. The Company's contributions to this plan are based on a percentage of the compensation not exceeding 5% of the salaries. The annual cost of this plan amounted to approximately EUR 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 the salary and on the years employed, not exceeding 80% of the salary before retirement including the pension provided by social security.

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

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

	2005	2004	2003
Interest cost.....	334	363	396
Amortization of actuarial gain.....	(15)	-	-
Net periodic pension benefit cost.....	<u>319</u>	<u>363</u>	<u>396</u>

The following table provides a reconciliation of the changes of benefit obligations for the year ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Defined benefit obligation at the beginning of the year.....	6,650	7,618	8,327
Interest cost.....	334	363	396
Benefits paid.....	(691)	(749)	(832)
Unrecognized net gain	(104)	(582)	(273)
Defined benefit obligation at the end of the year.....	<u>6,397</u>	<u>6,650</u>	<u>7,618</u>
Unrecognized net gain	736	855	273
Accrued pension liability at the end of the year.....	<u>7,133</u>	<u>7,505</u>	<u>7,891</u>

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

(22) STOCK BASED COMPENSATION

In 2000, the Company launched a stock option plan (Stock Option Plan 2000), under which all exercisable options were exercised in the year ended December 31, 2004. In 2004, the company launched a succeeding stock option plan 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.

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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 and 2003:

	<u>2004</u>	<u>2003</u>
Outstanding as of January 1	3,268,850	3,432,927
Forfeited.....	(38,132)	(164,077)
Exercised.....	(3,230,718)	-
Outstanding as of December 31	<u>-</u>	<u>3,268,850</u>

The weighted average share price at the date of exercise was Euro 11.65 per share.

Stock Option Plan 2004 (2004 plan)

Based on an authorization of the Annual General Meeting, the Supervisory Board of Telekom Austria approved the 2004 plan for members of the Management Board and senior members of management on April 16, 2004. Under this plan, the Company may grant a total of 10,000,000 options in three tranches between April 2004 and April 2006. Each tranche has to be approved separately by the Supervisory Board and has a vesting period of twelve months or longer and an exercise period of approximately three years. To be eligible to 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's stock during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. If one year's hurdle is not met, options will accumulate until the hurdle of the next tranche is achieved provided that it is set higher than the original hurdle. The vesting period is adjusted until the next tranche becomes exercisable.

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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

The expected volatility used in the option pricing model is based upon the development of historical volatility for various observation periods and other indicators such as OTC or implied volatility. The share price as of December 31, 2005 and 2004 of Euro 19.00 and Euro 13.95, respectively, was used in the calculation.

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 day and an exercise period of three years after becoming exercisable. The fair value of the options as of grant day 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 performance condition set for the first tranche was met as of December 31, 2004 and the options became exercisable on 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 day and an exercise period of three years after becoming exercisable. The fair value of the options as of grant day 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 and the options became exercisable on March 16, 2006. The options can be exercised until May 29, 2009.

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

	<u>2005</u>	<u>2004</u>
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	-

The weighted average share price at the date of exercise was Euro 16.65 per share. The total intrinsic value at the end of the period of the exercisable options totals EUR 4,692.

American call option

On November 21, 2000, Telekom Austria purchased 3,832,248 American call options for a premium of EUR 12,527. The expiration date was February 27, 2004. The underlying share of the American call option was the share of Telekom Austria AG. The 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. The American call option was used to satisfy any obligation resulting from the stock option plan. As of December 31, 2003, together with mobilkom austria, the Company held 3,326,881 options. At December 31, 2003, the American call option was recorded at fair market value of EUR 2,631 as short term investments. On February 27, 2004, the Company exercised 3,326,881 call options. The fair value of the American call option on the exercise date represents ancillary cost of the treasury shares acquired. The total acquisition cost of the treasury shares amounts to EUR 38,664.

(23) INCOME TAXES

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Domestic	344,086	286,683	182,091
Foreign.....	169,118	69,223	49,867
Total.....	<u>513,204</u>	<u>355,906</u>	<u>231,958</u>

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Income tax expense attributable to income before income taxes for the years ended December 31, 2005, 2004 and 2003, respectively, consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current			
Domestic.....	18,523	22,266	8,899
Foreign.....	20,747	14,800	14,511
	<u>39,270</u>	<u>37,066</u>	<u>23,410</u>
Deferred			
Domestic.....	54,166	97,497	50,174
Foreign.....	10,835	905	7,193
	<u>65,001</u>	<u>98,402</u>	<u>57,367</u>
Total.....	<u>104,271</u>	<u>135,468</u>	<u>80,777</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Continuing operations	104,271	135,468	80,777
Unrealized gains on securities (charged to equity).....	197	(779)	1,141
Unrealized gain on hedging activities (charged to equity).....	1,058	2,623	1,608
Unrealized gain on translation adjustments (charged to equity).....	308	-	-
	<u>105,834</u>	<u>137,312</u>	<u>83,526</u>

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 lead to an overall tax expense of EUR 41,884 from revaluation of the deferred tax assets and liabilities as of December 31, 2004.

The following table shows the principal components for the difference between the reported income tax expense and the amount of income tax expense that would result from applying the Austrian statutory income tax rate to income before income taxes and changes in cumulative effect of a change in accounting principle:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income tax expense at statutory rate	128,301	121,008	78,866
Foreign tax rate differential.....	(18,897)	(10,018)	(7,062)
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)
Change in tax rate.....	47	41,884	-
Impairment Charges.....	4,079	-	-
Taxes previous years.....	3,048	(579)	304
Deferred tax assets (subsequently) not recognized.....	(14,125)	(14,863)	7,724
Other.....	351	(1,208)	1,389
Income tax expense.....	<u>104,271</u>	<u>135,468</u>	<u>80,777</u>
Effective income tax rate.....	20.3%	38.1%	34.8%

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.

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In 2005, the deferred tax assets totaling EUR 14,125, which were previously not recognized, were recorded. This benefit resulted from the recognition of deferred tax asset of EUR 17,190 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 not recognizing deferred tax assets on current losses of EUR 3,715.

In 2004, deferred tax assets totaling EUR 2,594 were not recognized. This expense was more than offset by the recognition of deferred tax assets of EUR 17,457 not recorded in prior periods. The net increase of deferred tax assets of EUR 14,863 resulted from a change in circumstances caused by a change in management estimate regarding the realizability of the related deferred tax asset in future years.

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

	2005	2004	2003
Deferred tax assets			
Goodwill.....	60,645	72,101	117,065
Intangible assets	1,246	12,579	338
Deferred deduction for write downs of investments in subsidiaries	26,142	36,241	63,129
Operating loss carry -forwards.....	16,810	58,861	146,464
Accounts receivable.....	7,088	1,687	11,960
Long-term debt.....	1,027	655	6,614
Deferred credits and other liabilities	4,197	6,341	6,763
Other current assets and prepaid expenses.....	774	1,109	1,340
Provisions long-term.....	20,306	16,192	7,833
Employee benefit obligations.....	7,188	5,979	8,361
Property plant and equipment.....	10,037	1,527	2,400
Other.....	3,533	7,756	1,169
Total deferred tax assets.....	158,993	221,028	373,436
Deferred tax liabilities			
Property, plant and equipment.....	(13,589)	(19,414)	(22,867)
Other intangible assets	(89,775)	(74,770)	(106,593)
Long-term investments and other financial assets.....	(83)	(84)	(11,858)
Accrued liabilities	(375)	-	(13,877)
Other assets	-	(4,376)	(2,411)
Other.....	(4,757)	(5,528)	(7,771)
Total deferred tax liabilities	(108,579)	(104,172)	(165,377)
Net deferred tax asset.....	50,414	116,856	208,059
Thereof deferred tax assets	68,325	120,694	227,584
Thereof deferred tax liabilities.....	(17,911)	(3,838)	(19,325)

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At December 31, 2005, the Company had approximately EUR 221,593 of operating loss carry-forwards. Thereof, EUR 101,881 relate to foreign subsidiaries. Of these loss carry -forwards relating to foreign subsidiaries, EUR 92,085 have expiration dates as follows:

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

The remaining amount of operating loss carry-forwards are in Austria and do not expire. In Austria the annual usage is limited to 75% of the taxable income for that year. As of December 31, 2005, the Company did not recognize deferred tax assets on operating loss carry-forwards of EUR 153,640.

In assessing the recoverability of deferred tax assets, management considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable that the Company will realize the benefits of these deductible differences and operating loss carry forwards. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

(24) FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company to manage its exposure to adverse fluctuations in interest and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, approval, reporting and monitoring of derivative financial instrument activities. The Company is not a party to leveraged derivatives and the policies prohibit the holding or issuing of financial instruments for speculative purposes.

The Company uses various types of financial instruments including derivative financial instruments in the normal course of business for purposes other than trading.

By their nature, all such instruments involve risk, including market risk and credit risk of nonperformance by counterparties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, at December 31, 2005, 2004 and 2003 in management's opinion the probability of nonperformance of the counterparties in these financial instruments was remote.

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Credit risk

The Company monitors its exposure to credit risk. The Company does not have any significant exposure to any individual customer or counterparty, nor does it have any major concentration of credit risk related to any financial instrument other than noted under section concentration of credit risk in significant accounting policies.

The Company does not require collateral in respect of financial assets. In order to reduce the risk of nonperformance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

The carrying amounts of the financial instruments represent the maximum credit risk.

Market risk

The market risk is monitored by using value-at-risk models for interest rate as well as currency risk for the long-term debt and derivative portfolios.

The following table presents the exposure of financial instruments to interest rate risk and provides information regarding maturity dates and carrying values:

	Assets subject to interest rate risk at December 31, 2005						Total	Fair Value
	Maturities, year ended December 31,							
	2006	2007	2008	2009	2010	2011 and thereafter		
(in EUR thousands, except percentages)								
ASSETS:								
Cash at bank and in hand:								
Fixed rate.....	116,756	-	-	-	-	-	116,756	116,756
Average interest rate (%).....	2.72%	-	-	-	-	-	2.72%	
Short-term investments:								
Securities available-for-sale.....	16,449	-	-	-	-	-	16,449	16,449
Securities held -to-maturity	6,091	-	-	-	-	-	6,091	6,091

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Liabilities and related derivative instruments subject to interest rate risk at December 31, 2005								
Maturities, year ended December 31,								
	2006	2007	2008	2009	2010	2011 and thereafter	Total	Fair Value
(in EUR thousands, except percentages)								
LIABILITIES:								
Bank Overdrafts								
Fixed Rate	8,484	-	-	-	-	-	8,484	8,484
Average interest rate (%).....	2.30%	-	-	-	-	-	2.30%	
Short-term borrowings								
Fixed Rate.....	357,736	-	-	-	-	-	357,736	357,736
Average interest rate (%).....	2.26%	-	-	-	-	-	2.26%	
Asset backed security loan (ABS)	31,606	-	-	-	-	-	31,606	31,606
Bonds								
Fixed rate 1)	(5,311)	-	-	-	490,731	1,242,615	1,728,035	1,923,304
Average interest rate (%).....	4.33%	-	-	-	3.38%	4.70%	4.33%	
Variable rate.....	-	-	-	-	-	-	-	-
Average interest rate (%).....	-	-	-	-	-	-	-	-
Loans								
Fixed rate	257,341	6,012	184,762	415,659	-	-	863,775	897,148
Average interest rate (%).....	6.65%	7.00%	5.40%	5.50%	-	-	5.83%	
Variable rate.....	44,810	93,677	51,234	63,756	4,724	4,532	262,732	262,732
Average interest rate (%).....	2.65%	2.41%	4.03%	4.04%	3.34%	3.34%	3.20%	
INTEREST RATE SWAP AGREEMENTS:								
Variable to fixed Swaps in EUR								
Variable to fixed.....	-	-	-	-	-	-	-	-
Average pay rate (%).....	-	-	-	-	-	-	-	-
Average receive rate (%).....	-	-	-	-	-	-	-	-
Fixed to variable Swaps in EUR								
Fixed to variable	-	-	-	-	500,000	300,000	800,000	(5,311)
Average pay rate (%).....	-	-	-	-	2.40%	2.99%	2.62%	
Average receive rate (%).....	-	-	-	-	3.38%	5.00%	3.98%	

1) The negative amount reported in 2006 represents the fair market value of the interest rate swap.

The modified duration (sensitivity) was 2.82%, 3.96% and 3.91% in 2005, 2004 and 2003. The sensitivity is based on the assumption of a 1% change in market interest rates occurring at the balance sheet date.

Information with respect to cash flow hedges

Changes in the fair value of interest rate swaps designated as hedging instruments 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, 2004 and 2003 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.

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In line with its risk policy the Company entered into fix to floating interest rate swaps in 2005 and 2003. The interest rate swap hedges the risk of fluctuation of the fair value of the underlying due to interest rate changes. The floating rate is based on EURIBOR and enables the company to participate from current low short-term interest rates.

The following table indicates the types of swaps in use at December 31, 2005, 2004 and 2003, 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	2003
Variable to fixed swaps in EUR (cash flow hedge)			
Notional amount in EUR.....	-	145,346	181,682
Average receive rate.....	-	2.26%	2.25%
Average pay rate.....	-	6.66%	6.47%
Average maturity in years.....	-	0.4	1.4
Fixed to variable swaps in EUR (fair value hedge)			
Notional amount in EUR.....	800,000	300,000	300,000
Average receive rate.....	3.98%	5.00%	5.00%
Average pay rate.....	2.62%	3.02%	2.96%
Average maturity in years.....	5.38	8.5	9.5
Variable to fixed swaps in Japanese Yen ("JPY") (cash flow hedge)			
Notional amount in JPY.....	-	-	10,000,000
Notional amount in EUR.....	-	-	74,047
Average receive rate.....	-	-	0.005%
Average pay rate.....	-	-	3.15%
Average maturity in years.....	-	-	0.5

The interest rate swap transactions resulted in a decrease of interest rates by 12% in 2005 and an increase of interest rates by 21% and 55% in 2004 and 2003 for hedged transactions.

Foreign exchange agreements

The Company entered into foreign currency denominated loans because of low interest rates connected to loans denominated in Swiss Francs ("CHF"). 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, 2005, ranged from 7.6% to 7.7%.

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The following table indicates the types of foreign exchange agreements in use at December 31, 2005, 2004 and 2003, and if applicable their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

	2005	2004	2003
Cross Currency Swaps EUR – CHF			
Notional amount in EUR.....	-	176,635	176,635
Notional amount in CHF.....	-	300,000	300,000
Average receive rate – CHF.....	-	5.47%	5.47%
Average pay rate – EUR.....	-	7.65%	7.65%
Average maturity in years.....	-	0.4	1.4
Cross Currency Swaps EUR – JPY			
Notional amount in EUR.....	-	-	73,554
Notional amount in JPY.....	-	-	10,000,000
Average receive rate – JPY.....	-	-	3.15%
Average pay rate – EUR.....	-	-	6.41%
Average maturity in years.....	-	-	0.5
Forward exchange contracts – US \$			
Notional amount in EUR.....	2,794	4,399	2,862
Notional amount in US \$.....	3,300	5,700	3,350
Forward exchange rate (weighted).....	1.18	1.3	1.17
Exchange rate as of the balance sheet date.....	1.18	1.36	1.26
Longest term of the contracts.....	February 2006	April 2005	February 2004

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.

The following table summarizes the fair values of financial instruments:

	2005		2004		2003	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial instruments						
Cash.....	116,756	116,756	288,195	288,195	201,926	201,926
Accounts receivable – trade.....	714,281	714,281	723,231	723,231	707,753	707,753
Balances due from related parties.....	23	23	38	38	49	49
Accounts payable – trade.....	(544,233)	(544,233)	(549,592)	(549,592)	(604,231)	(604,231)
Payables to related parties.....	(11,254)	(11,254)	(12,071)	(12,067)	(13,643)	(13,643)
Securities held-to-maturity.....	6,091	6,091	5,063	5,134	5,159	5,195
Securities available-for-sale.....	16,448	16,448	19,663	19,663	19,343	19,343
Long-term debt.....	(2,557,703)	(2,786,345)	(1,647,171)	(1,772,904)	(2,342,288)	(2,423,348)

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	2005		2004		2003	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Derivative financial instruments						
Interest rate swap agreements (cash flow hedge).....	-	-	(6,094)	(6,094)	(14,699)	(14,699)
Interest rate swap agreements (fair value hedge).....	(5,311)	(5,311)	(11,200)	(11,200)	(4,883)	(4,883)
Cross currency swap agreements	-	-	15,849	15,849	13,065	13,065
Foreign currency forward contract			(216)	(216)	(180)	(180)

(25) SHAREHOLDERS' EQUITY

Share Capital

At the Annual General Meeting on June 3, 2004 the Management Board was authorized to issue convertible bonds, which grant the holders subscription and/or conversion rights of up to 90,000,000 shares. The authorization was given for a period of 5 years from the day of authorization, ending in 2009.

In addition, the Management Board was authorized to increase the share capital by up to EUR 109,050 by issuing 50,000,000 ordinary shares to holders of convertible bonds to the extent that they exercise their subscription and/or conversion rights.

At the Annual General Meeting on June 4, 2003, the Management Board was authorized to increase the share capital by up to EUR 21,810 in order to provide employee stock options for a period of five years, ending 2008. The share issue is subject to approval by the Supervisory Board. Based on this authorization and following the relevant approvals by the Supervisory Board, the Management Board decided (i) to increase conditionally the share capital by up to EUR 6,543 by issuing up to 3,000,000 shares in order to settle the options granted in the first tranche of the Stock Option Plan 2004 (see note (22)) on March 23, 2004 and (ii) to increase conditionally the share capital by up to EUR 7,415 by issuing up to 3,400,000 shares in order to settle the options granted in the second tranche of the Stock Option Plan 2004 on December 13, 2004 (see note (22)).

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

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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.

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 (22), (ii) to use it to satisfy obligations resulting from the issue of convertible bonds, (iii) to use it as consideration for acquisitions (iv) to retire 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. This results in total acquisition cost of treasury shares of 38,758 including the fair value of the American call options as of the exercise date, which represent ancillary cost. Following the exercise of the American call option, the Company held 3,326,881 shares in treasury, 0.67% of its share capital and available for issuance to employees under the employee stock option plan, of which 3,230,718 had been awarded and were exercisable by employees. During the year ended December 31, 2004, 89,748 options were exercised by employees at the exercise price of Euro 9. The remaining option holders elected to receive cash for the difference between the exercise price and the average quoted price of Telekom Austria stock.

Furthermore, the Company acquired 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.

At December 31, 2005, the Company holds 17,497,106 shares in treasury at an average purchase price of Euro 14.65 per share reported as a reduction to shareholders' equity in the amount of EUR 256,396.

Earnings per share

Basic earnings per share and diluted earnings per share for the years ended December 31, 2005, 2004 and 2003 is calculated as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Income attributable to shareholder of Telekom Austria AG.....	408,931	219,835	147,234
Weighted average number of common shares outstanding	489,050,517	496,495,378	500,000,000
Dilutive effect of Stock Option Plan 2004	-	29,449	-
Weighted average number of dilutive shares outstanding.....	489,050,517	496,524,827	500,000,000
Basic earnings per share.....	Euro 0.84	Euro 0.44	Euro 0.30
Diluted earnings per share	Euro 0.84	Euro 0.44	Euro 0.30

On April 19, 2004 the first tranche of 2,392,925 options was granted to the eligible employees within the scope of Stock Option Plan 2004 as described in note (22). The dilutive effect of this transaction had no impact on earnings per share, which are reported on the face of the Consolidated Statements of Operations. In March 2005, the Company

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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			December 31, 2005
	January 1, 2005	Purchased	Sold	
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

Accounting for derivative and hedging activities

For derivatives designed either as fair value or cash flow hedges, changes in the time value of the derivatives are excluded from the assessment of hedge effectiveness and are recorded in earnings. Hedge ineffectiveness, determined in accordance with IAS 39 had no impact on the Company's earnings for the years ended December 31, 2005, 2004 and 2003, respectively. No fair value hedges were derecognized or discontinued during the years ended December 31, 2005, 2004 and 2003. All cash flow hedges were recognized in 2005.

The cumulative unrealized gains and losses for hedging activities recorded in equity (valuation reserve) are as follows:

December 31,	2005	2004	2003
Unrealized Losses			
Gross.....	-	(4,313)	(10,645)
Less change in income tax rate.....	-	(406)	-
Less income tax.....	-	1,466	3,498
Unrealized losses, net of income tax.....	-	(3,253)	(7,147)

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Revaluation reserve and currency translation adjustment

Revaluation reserve and currency translation adjustment consist of the following items:

	Unrealized gain (loss) on securities	Unrealized gain (loss) on hedging activities	Foreign currency translation	Revaluation reserve and currency translation adjustment
Balance January 1, 2003.....	(779)	(10,270)	-	(11,049)
Changes, net of income tax.....	2,144	3,123	(10,679)	(5,412)
Balance December 31, 2003.....	1,365	(7,147)	(10,679)	(16,461)
Change of tax rate.....	(25)	(406)	-	(431)
Changes, net of income tax.....	1,096	4,032	(3,696)	1,432
Realized, net of income tax.....	(2,655)	268	-	(2,387)
Balance December 31, 2004.....	(219)	(3,253)	(14,375)	(17,847)
Changes, net of income tax.....	602	-	14,386	14,988
Realized, net of income tax.....	(8)	3,253	-	3,245
Balance December 31, 2005.....	375	-	11	386

(26) REVENUES

Year ended December 31,	2005	2004	2003
Revenues from services.....	4,081,131	3,797,491	3,717,031
Revenues from sales of merchandise.....	284,116	245,377	242,795
Total.....	<u>4,365,247</u>	<u>4,042,868</u>	<u>3,959,826</u>

(27) OTHER OPERATING INCOME

Year ended December 31,	2005	2004	2003
Rental revenue.....	9,936	10,503	9,166
Own work capitalized.....	29,857	26,592	29,772
Foreign exchange gains.....	-	2,397	-
Other.....	15,019	11,004	7,744
Total.....	<u>54,812</u>	<u>50,496</u>	<u>46,682</u>

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Foreign exchange gains and losses are netted and are reported as other operating income or other operating expenses depending if a net gain or a net loss is reported:

Year ended December 31,	2005	2004	2003
Foreign exchange gains.....	783	10,482	7,991
Foreign exchange (losses).....	(1,282)	(8,085)	(12,728)
Net foreign exchange gains (losses).....	<u>(499)</u>	<u>2,397</u>	<u>(4,737)</u>

(28) OTHER OPERATING EXPENSES

Year ended December 31,	2005	2004	2003
Interconnection.....	489,585	452,171	421,787
Repairs.....	176,144	177,277	178,256
Services received.....	238,478	206,446	187,234
Advertising and marketing.....	229,580	198,138	198,362
Other support services.....	110,076	109,721	107,079
Rental expenses.....	83,534	79,206	74,358
Commission expenses.....	56,409	41,301	41,078
Bad debt expenses.....	43,393	23,597	30,658
Legal and other consulting.....	38,862	40,353	44,451
Travel expenses.....	22,777	22,302	23,696
Other taxes.....	6,185	8,023	7,201
Energy.....	23,599	21,824	21,979
Training expenses.....	12,928	11,657	13,129
Net loss from retirement of fixed assets.....	7,839	28,795	41,571
Foreign exchange losses.....	499	-	4,737
Other.....	73,021	67,527	77,165
Total.....	<u>1,612,909</u>	<u>1,488,338</u>	<u>1,472,741</u>

(29) COMMITMENTS AND CONTINGENCIES

The Company had further purchase obligations amounting to EUR 3,020,184, EUR 1,754,300 and EUR 1,641,200, of which EUR 866,130, EUR 538,500 and EUR 437,000 is short-term as of December 31, 2005, 2004 and 2003, respectively. Of these purchase obligations EUR 341,069, EUR 71,200 and EUR 89,900 relate to property, plant and equipment and intangible assets as of December 31, 2005, 2004 and 2003, 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.

As of December 31, 2005, 2004 and 2003, the Company has incurred lease obligations totaling EUR 862,501, EUR 783,663 and EUR 874,227, respectively, in connection with the cross border lease transactions (note (20)) which were not recorded as liability in accordance with SIC 27 and the framework. In 2001, two banks issued letters of credit to the trust for the liabilities of the Company resulting from the transaction 1998 and 1999. As of December 31, 2005, these letters of credit totaled EUR 70,774.

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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.

(30) 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

Cash acquired in acquisitions totaled EUR 28,638 and EUR 1,001 in 2005 and 2003, respectively.

(31) SEGMENT REPORTING

The following segment information has been prepared in accordance with IAS 14, "Segment Reporting". The accounting policies of the segments are the same as those described in note (1).

The Company has two reportable segments – wireline and wireless. The segments are determined based on the nature of services provided and reflect the management structure of the organization. The column other contains the financing activity of the Company. The reporting system reflects the internal financial reporting and the predominant sources of risks and returns in the Company's businesses.

Wireline includes fixed line, data communications and internet services and focuses on wholesale and retail customers. Wholesale customers including telecommunications operators and service providers are offered network-based services, while retail customers, including business and residential end-users are offered voice telephony, data communications, internet and other services.

Wireless, operated by our mobile communications segment, offers a full range of digital mobile communications services to business and residential customers.

Segment revenue, segment expenses and segment result include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Those transfers are eliminated.

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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.

	Wireline	Wireless	Others	Elimination	Consolidated
Year ended December 31, 2005					
External Revenues.....	1,965,366	2,399,834	47	-	4,365,247
Intersegmental revenues.....	158,518	85,003	-	(243,521)	-
Total revenues.....	2,123,884	2,484,837	47	(243,521)	4,365,247
Other operating income.....	50,699	10,514	-	(6,401)	54,812
Segment expenses.....	(1,385,206)	(1,527,620)	(148)	251,421	(2,661,553)
EBITDA (excl. impairment charges)....	789,377	967,731	(101)	1,499	1,758,506
Impairment charges.....	(16,317)	(1,071)	-	-	(17,388)
EBITDA (incl. impairment charges)....	773,060	966,660	(101)	1,499	1,741,118
Depreciation and amortization.....	(705,010)	(416,850)	-	420	(1,121,440)
Operating income.....	68,050	549,810	(101)	1,919	619,678
Interest income.....	13,787	17,376	78,267	(76,767)	32,663
Interest expense.....	(100,064)	(44,143)	(77,477)	76,767	(144,917)
Equity in earnings of associates.....	570	-	-	-	570
Other income.....					5,210
Tax expense.....					(104,271)
Net income.....					408,933
Segment assets.....	4,751,075	4,802,387	2,713,676	(4,609,850)	7,657,288
Segment liabilities.....	(2,694,599)	(2,426,508)	(2,700,869)	3,083,454	(4,738,522)
Capital expenditure.....	314,145	313,494	-	-	627,639
Other non cash expenses.....	36,826	30,831	7	-	67,664

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	Wireline	Wireless	Others	Elimination	Consolidated
Year ended December 31, 2004					
External Revenues.....	2,004,109	2,038,731	28	-	4,042,868
Intersegmental revenues.....	166,361	82,661	-	(249,022)	-
Total revenues.....	2,170,470	2,121,392	28	(249,022)	4,042,868
Other operating income.....	43,719	11,734	-	(4,957)	50,496
Segment expenses.....	(1,395,233)	(1,355,590)	(67)	243,075	(2,507,815)
EBITDA (excl. impairment charges).....	818,956	777,536	(39)	(10,904)	1,585,549
Impairment charges.....	(1,334)	-	-	-	(1,334)
EBITDA (incl. impairment charges).....	817,622	777,536	(39)	(10,904)	1,584,215
Depreciation and amortization.....	(757,176)	(357,993)	-	421	(1,114,748)
Operating income.....	60,446	419,543	(39)	(10,483)	469,467
Interest income.....	13,469	8,929	38,882	(43,783)	17,497
Interest expense.....	(109,070)	(38,407)	(38,656)	44,024	(142,109)
Equity in earnings of associates.....	552	-	-	-	552
Other income.....					10,499
Tax expense.....					(135,468)
Net income.....					220,438
Segment assets.....	4,710,046	3,050,803	1,250,757	(2,330,465)	6,681,141
Segment liabilities.....	(2,678,892)	(1,440,405)	(1,250,406)	1,487,002	(3,882,701)
Capital expenditure.....	280,390	267,779	-	-	548,169
Other non cash expenses.....	(32,417)	(14,038)	(8)	9	(46,453)

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Year ended December 31, 2003	Wireline	Wireless	Others	Elimination	Consolidated
External Revenues.....	2,022,619	1,937,207	-	-	3,959,826
Intersegmental revenues.....	162,713	90,201	-	(252,914)	-
Total revenues.....	2,185,332	2,027,408	-	(252,914)	3,959,826
Other operating income.....	44,771	7,151	-	(5,240)	46,682
Segment expenses.....	(1,443,452)	(1,308,538)	(44)	260,421	(2,491,613)
EBITDA (excl. impairment charges).....	786,651	726,021	(44)	2,267	1,514,895
Impairment charges.....	(6,825)	-	-	-	(6,825)
EBITDA (incl. impairment charges).....	779,826	726,021	(44)	2,267	1,508,070
Depreciation.....	(807,936)	(325,537)	-	407	(1,133,066)
Operating income.....	(28,110)	400,484	(44)	2,674	375,004
Interest income.....	15,406	5,278	31,772	(34,665)	17,791
Interest expense.....	(143,345)	(34,741)	(31,632)	34,665	(175,053)
Equity in earnings of associates.....	19,365	(253)	-	-	19,112
Other income.....					(4,896)
Tax expense.....					(80,777)
Net income.....					151,181
Segment assets.....	5,242,526	2,960,760	1,125,163	(2,070,253)	7,258,196
Segment liabilities.....	(3,287,883)	(1,470,753)	(1,124,798)	1,338,619	(4,544,815)
Capital expenditure.....	299,919	300,128	-	(363)	599,684
Other non cash expenses.....	(33,466)	(27,055)	-	-	(60,521)

The segments are reported on a consolidated basis. Segment assets and segment liabilities do not include income tax assets and income tax liabilities. The elimination and reconciliation column contains the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and intangible assets.

Other non-cash expenses mainly consist of pension expense, compensation expenses for stock option programs, impairment charges, accretion expense and additions to provisions for bad debt.

The following table presents selected financial information by geographic region:

Year ended December 31, 2005	Austria	Bulgaria	Croatia	other countries	Reconciliation & Eliminations	Consolidated
External revenues.....	3,254,530	259,216	367,048	484,453		4,365,247
Segment assets.....	6,975,187	1,789,114	498,059	310,824	(1,915,896)	7,657,288
Capital expenditures.....	488,066	52,977	71,152	15,444		627,639

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Year ended December 31, 2004	Austria	Bulgaria	Croatia	other countries	Reconciliation & Eliminations	Consolidated
External revenues.....	3,284,832	2,050	329,613	426,373	-	4,042,868
Segment assets.....	6,388,418	-	385,146	174,843	(267,266)	6,681,141
Capital expenditures.....	440,935	-	89,148	18,086	-	548,169

Year ended December 31, 2003	Austria	Bulgaria	Croatia	other countries	Reconciliation & Eliminations	Consolidated
External revenues.....	3,249,714	1,111	301,019	407,982	-	3,959,826
Segment assets.....	6,821,540	-	363,716	172,935	(99,995)	7,258,196
Capital expenditures.....	506,299	-	72,347	21,038	-	599,684

(32) Remuneration paid to Managing and Supervisory Board

In 2005, 2004 and 2003, remuneration expenses for members of the Management Board amounted to EUR 1,537, EUR 1,374 and EUR 1,378 and attributable bonuses of EUR 1,314, EUR 750 and EUR 676. Benefits derived from the stock option programs amounted to EUR 867 and EUR 1,499 in 2005 and 2004, respectively. The actual bonuses depend on specific performance goals and are finally determined in the preceding year. Fees paid to the members of the Supervisory Board totaled EUR 114, EUR 101 and EUR 94 in 2005, 2004 and 2003, respectively.

Key Management personnel compensation is as follows:

	2005	2004	2003
Short-term employee benefits.....	11,827	9,101	10,071
Long-term employee benefits.....	2	-	-
Post-employment benefits.....	610	614	641
Termination benefits.....	2,856	336	922
Share-based payments.....	8,350	6,304	-
Total.....	23,645	16,355	11,634

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(33) Employees

The average number of employees during the business year 2005, 2004 and 2003 was 14,403, 13,639 and 14,657, respectively. As of December 31, 2005, 2004 and 2003, respectively, the Company employed 15,595, 13,307 and 13,890 employees in full time equivalents.

(34) 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 (22)) 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 deputy CEO.

On January 9, 2006, Mr. Colombo and Mr Nemsic exercised 75,000 options each at an exercise price of Euro 19.70 and Mr. Sundt exercised 99,100 options on March 13, 2006 at an exercise price of Euro 20.05.

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.

The management board approved the financial statements on March 21, 2006.

(35) 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

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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 euro pe 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 *)
Vipnet usluge 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, AD, 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

*) plus one share

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All affiliated Companies have December 31, as reporting date except for Omnimedia which has June 30 as its reporting date.

(36) Reconciliation to U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with IFRS as described in note (1). These principles and practices differ in various respects from U.S. GAAP. The differences that affect net income for the years ended December 31, 2005, 2004 and 2003 and shareholders' equity as of January 1, 2003, December 31, 2003, 2004 and December 31, 2005 are set out in the reconciliation below:

	Note	For the years ended December 31,		
		2005	2004	2003
Net income under IFRS.....		408,933	220,438	151,181
Adjustments				
American call option	a	-	(6,108)	2,069
Provisions for pensions and similar obligations	b	(525)	(404)	(1,388)
Asset retirement obligation.....	c	3,320	-	(17,931)
Minority Interests.....	d	(2)	(631)	(3,422)
Intangible assets	e	7,303	-	-
Change in tax rate.....	f	427	-	-
Other.....		218	687	(82)
Tax effect of U.S. GAAP adjustments.....	g	(2,528)	1,939	3,814
Differences in accounting for income taxes on goodwill and intangible assets	e, h	-	11,342	-
Net income under U.S. GAAP.....		<u>417,146</u>	<u>227,263</u>	<u>134,241</u>
Basic and diluted earnings per share under U.S. GAAP.....		0.85	0.46	0.27

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	Note	At December 31, 2005	At December 31, 2004	At December 31, 2003	At January 1, 2003
Shareholders' equity under IFRS.....		2,918,766	2,798,440	2,713,381	2,598,798
Adjustments					
American call option.....	a	-	-	(2,631)	(5,659)
Provisions for pensions and similar obligations	b	12,671	13,196	13,600	14,988
Asset retirement obligation.....	c	3,320	-	-	17,931
Minority Interests	d	(17)	-	(1,116)	(29,430)
Intangible assets	e	(6,000)	(13,303)	-	-
Other.....		554	613	697	1,353
Tax effect of U.S. GAAP adjustments.....	g	(613)	1,907	(4,015)	(7,898)
Differences in accounting for in come taxes standards	h	(59,223)	(59,223)	(80,543)	(80,543)
Shareholders' equity under U.S. GAAP.....		<u>2,869,458</u>	<u>2,741,630</u>	<u>2,639,373</u>	<u>2,509,540</u>

a) American call option

In accordance with IAS 39, option contracts on equity instruments are recorded as derivative financial instruments and valued at fair market value at each balance sheet date if settlement of the contract is either physical delivery of the shares or cash.

Under U.S. GAAP, the original acquisition of the American call options was accounted for as permanent equity under the provisions of EITF 00-19, because the underlying share is the share of Telekom Austria AG. In accordance with that provision 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.

In 2004, when the American call options were exercised, the fair value of the American call options represented ancillary cost of the treasury shares acquired. This resulted in different acquisition cost under IFRS and U.S. GAAP for the treasury shares.

b) Provisions for pensions and similar obligations

Under IFRS, the Company elected the option to defer and amortize actuarial gains and losses exceeding a corridor of 10% (the "corridor approach") over the average remaining service period of active employees. However, applying the exemption for employee benefits of IFRS 1 the Company recognized all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions", the corridor approach has been applied in all periods presented.

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The reconciling item relates to the recognized cumulative actuarial losses under IFRS and is as follows:

	Severance liability	Pension liability
December 31, 2005		
Liability in accordance with IFRS	46,644	7,133
Unrecognized net loss (gain) under IFRS	12,286	(736)
Defined (Projected) benefit obligation	56,930	6,397
Unrecognized net gain (loss) under U.S. GAAP	(26,408)	2,186
Liability in accordance with U.S. GAAP	<u>32,522</u>	<u>8,583</u>
December 31, 2004		
Liability in accordance with IFRS	42,394	7,505
Unrecognized net gain under IFRS	(1,584)	(855)
Defined (Projected) benefit obligation	40,810	6,650
Unrecognized net gain (loss) under U.S. GAAP	(13,183)	2,426
Liability in accordance with U.S. GAAP	<u>27,627</u>	<u>9,076</u>
December 31, 2003		
Liability in accordance with IFRS	40,105	7,891
Unrecognized net gain under IFRS	(10,477)	(273)
Defined (Projected) benefit obligation	29,628	7,618
Unrecognized net gain (loss) under U.S. GAAP	(4,783)	1,934
Liability in accordance with U.S. GAAP	<u>24,845</u>	<u>9,552</u>

c) Asset retirement obligation

Under IAS 16, "Property Plant and Equipment" the estimated cost of dismantling and removing the asset and restoring the site are a component of directly attributable cost of an item of property plant and equipment to the extent that it is recognized as a provision under IAS 37. In accordance with IFRS 1, the Company measured the liability as at the date of transition to IFRS in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Therefore the Company estimates the amount that would have been included in the cost of the related assets when the liability first arose, by discounting the liability to that date using its best estimate of the historic risk-adjusted discount rates that would have applied for that liability over the intervening period. The Company calculated accumulated depreciation on that amount as of the transition date on the basis of current estimates of the useful life of the assets.

Under U.S. GAAP 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. The Company adopted SFAS No. 143 as of January 1, 2003 and recorded additions to long-lived assets, asset retirement obligation and a cumulative change in accounting principles. Under IFRS these amount was already included in retained earnings as of the transition date which resulted in a reconciliation item of net income.

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Additionally, in accordance with IFRIC 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities" changes in the measurement of the liability of an existing decommission, restoration and similar liability that result from changes in the estimates timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate shall be added to the carrying amount of the related asset or deducted from the cost of the asset not exceeding the carrying amount of the asset with any excess recognized as gain or loss.

In accordance with SFAS 143 changes in the measurement of the liability of an existing decommission resulting in an upward revision to the undiscounted estimated cash flows shall be treated as new liability and discounted at the current interest rate. For any downward revisions, the amount of the liability to be removed from the existing accrual shall be discounted at the rate that was at the time the obligation to which the downward revisions relates was originally recorded.

For 2003 the assets retirement obligation under IFRS and U.S. GAAP were identical. The estimated retirement obligation under IFRS and US GAAP for the periods ended December 31, 2005 and 2004 developed as follows:

	IFRS	U.S. GAAP
Asset retirement obligations as of January 1, 2004.....	23,262	23,262
Foreign exchange differences.....	(33)	(33)
Change in estimate	27,274	-
Liability incurred in the current period.....	11,451	11,451
Accretion expense.....	6,173	6,173
Settlements	(2,248)	(2,248)
Releases.	(344)	(344)
Asset retirement obligations as of December 31, 2004	<u>65,535</u>	<u>38,261</u>
Foreign exchange differences.....	167	167
Addition from acquisition of Mobiltel.....	2,502	2,502
Change in estimate	12,846	2,558
Liability incurred in the current period.....	2,808	2,808
Accretion expense.....	3,187	3,087
Settlements	(1,340)	(1,274)
Asset retirement obligations as of December 31, 2005	<u>85,705</u>	<u>48,109</u>

d) Minority interests

In accordance with IAS 1, "Presentation of Financial Statements", minority interests are reported as a component of stockholder's equity, while under U.S. GAAP minority interests are classified as liabilities. Additionally, the attributable net income to minority interests deviate from the amount reported under U.S. GAAP due to the different accounting principles applicable under IFRS and U.S. GAAP.

e) Intangible assets

Under U.S. GAAP, the Company recognizes deferred tax liabilities or assets for differences between the assigned values and the tax bases 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 carry-forwards 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,

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(ii) second to reduce to zero other non-current intangible assets related to the acquisition, and (iii) third to reduce income tax expense.

If the potential benefit of the acquiree's income tax loss- carry forwards did not satisfy the criteria for separate recognition when a business combination initially was accounted for but is subsequently realized, the acquirer shall recognize that benefit as income and reduce the carrying amount of goodwill to the amount that would have been recognized if the deferred tax asset had been recognized as an identifiable asset from the acquisition and recognize the reduction of the carrying amount of goodwill as an expense under IFRS.

This resulted in the reduction of intangible assets and assets held for sale acquired in a business combination under U.S. GAAP in 2004. Under IFRS the total tax benefit of the subsequent recognition of deferred tax assets from the tax loss carry – forward was recognized as income tax benefit, because no goodwill was recognized at the initial accounting for the business combination.

December 31, 2005	IFRS	U.S.GAAP	Reconciliation
Intangible assets	6,000	-	6,000
Deferred tax assets.....	11,534	13,034	1,500
December 31, 2004			
Intangible assets	6,521	-	6,521
Assets held for sale	6,782	-	6,782
Deferred tax assets.....	12,817	16,142	3,325
Recognized tax benefit, net of change in tax rate	12,817	2,839	9,978

f) Change in tax rate

In accordance with IAS 12 net income directly recognized in equity is recorded net of tax. The recognized income tax amount was adjusted in accordance with the change in tax rate in 2005 in Austria from 34% to 25%.

In accordance with SFAS 109 the income tax items recorded in other comprehensive income are not adjusted when the change in tax rate occurred but only when the items are realized.

All cash flow hedges were realized in 2005. Therefore the related income tax that was still recorded in equity at the tax rate before the change of the tax rate in 2004 was also recognized in income in 2005.

g) Tax effect of U.S. GAAP adjustments

The adjustment relates to the current and deferred tax effect of the above adjustments.

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h) Differences in accounting for income taxes

In accordance with U.S.GAAP a deferred tax liability was recorded for the difference of taxable goodwill of mobilkom austria resulting from the foundation of the company in 1996 and the goodwill arising from the acquisition of the remaining 25,001% in June 2002. In 2004, the deferred tax liability had to be adjusted due to the change in tax rate in Austria from 34% to 25%. Accordingly the deferred tax liability was reduced by EUR 21,320 in 2004.

Under IFRS no such regulation exists, which resulted in the de-recognition of the deferred tax liability on the transition date.

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(37) Additional disclosures

Consolidated balance sheets

Certain items in the consolidated balance sheet would be classified differently if presented under U.S. GAAP. The reconciliation for the balance sheets as of the transition date January 1, 2003 between IFRS and U.S. GAAP are as follows.

	IFRS	America n call option	Asset retirement obligation	Severance and pension accruals	Goodwill	Cross Border Lease	Asset backed securities	Related Parties	other	Deferred Taxes	US GAAP
Cash and cash equivalents.....	27,337	-	-	-	-	-	-	-	-	-	27,337
Short term investments.....	18,299	(5,659)	-	-	-	(7,313)	-	-	-	-	5,327
Accounts receivable net of allowances.....	680,560	-	-	-	-	-	(215,136)	(13,490)	-	-	451,934
Receivables due from related parties.....	693	-	-	-	-	-	-	6,030	-	-	6,723
Inventory.....	91,261	-	-	-	-	-	-	-	-	-	91,261
Deferred tax assets.....	-	-	-	-	-	-	-	-	-	4,657	4,657
Income Taxes receivable.....	7,151	-	-	-	-	-	-	-	(7,151)	-	-
Taxes receivable.....	-	-	-	-	-	-	-	-	22,829	-	22,829
Non current assets held for sale.....	30,512	-	-	-	-	-	-	-	-	-	30,512
Prepaid expenses and other current assets.....	167,940	-	-	-	-	102,211	-	-	(45,473)	-	224,678
TOTAL CURRENT ASSETS.....	1,023,753	(5,659)	-	-	-	94,898	(215,136)	(7,460)	(29,795)	4,657	865,258
Investments in associates.....	8,641	-	-	-	-	-	-	-	-	1	8,642
Financial assets long-term.....	199,145	-	-	-	-	(36,462)	-	-	-	(1)	162,682
Goodwill.....	590,727	-	-	-	-	-	-	-	-	-	590,727
Long-lived assets.....	5,730,030	-	(4,023)	-	-	-	-	-	545	-	5,726,552
Other assets.....	13,894	-	-	-	-	973,251	-	-	(82)	-	987,063
Deferred tax assets.....	284,893	1,721	(6,107)	470	-	-	-	-	305	(87,868)	193,414
TOTAL ASSETS.....	7,851,083	(3,938)	(10,130)	470	-	1,031,687	(215,136)	(7,460)	(29,027)	(83,211)	8,534,338
Short-term debt.....	1,493,031	-	-	-	-	94,898	(277,617)	(408)	1	-	1,309,905
Accounts payable - trade.....	661,696	-	-	-	-	-	-	(15,462)	3,656	-	649,890
Accrued liabilities.....	198,455	-	-	-	-	-	62,481	-	(4,146)	-	256,790
Payables due to related.....	30,102	-	-	-	-	-	-	7,096	-	-	37,198
Income taxes payable.....	5,981	-	-	-	-	-	-	-	96	-	6,077
Other current liabilities.....	155,841	-	-	-	-	-	-	1,314	(24,656)	8,711	141,210
Deferred income.....	130,055	-	-	-	-	-	-	-	(93)	1	129,963
TOTAL CURRENT LIABILITIES.....	2,675,161	-	-	-	-	94,898	(215,136)	(7,460)	(25,142)	8,712	2,531,033
Long-term debt, net of current portion.....	2,079,885	-	-	-	-	-	-	-	-	-	2,079,885
Lease obligations, net of current portion.....	139,565	-	-	-	-	936,789	-	-	-	-	1,076,354
Employee benefit obligation.....	247,517	-	-	(14,988)	-	-	-	-	-	-	232,529
Other liabilities.....	110,157	-	(21,988)	5,566	80,543	-	-	-	22,641	(91,922)	104,997
TOTAL LONG-TERM LIABILITIES.....	2,577,124	-	(21,988)	(9,422)	80,543	936,789	-	-	22,641	(91,922)	3,493,765
Common stock.....	1,090,500	-	-	-	-	-	-	-	-	-	1,090,500
Additional paid in capital.....	460,029	(7,496)	-	-	-	-	-	-	(35)	-	452,498
Retained Earnings.....	1,030,577	3,683	11,826	9,892	(80,543)	-	-	-	(5,807)	(2)	969,626
Other changes in equity.....	(11,049)	(125)	-	-	-	-	-	-	8,089	1	(3,084)
Minority Interests.....	28,741	-	32	-	-	-	-	-	(28,773)	-	-
TOTAL STOCKHOLDERS' EQUITY.....	2,598,798	(3,938)	11,858	9,892	(80,543)	-	-	-	(26,526)	(1)	2,509,540
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	7,851,083	(3,938)	(10,130)	470	-	1,031,687	(215,136)	(7,460)	(29,027)	(83,211)	8,534,338

Cross border lease

Under U.S.GAAP all deposits, marketable securities and lease obligations were recorded for all cross border lease transactions as the Company was not finally released as an obligor from its obligations..

In accordance with SIC 27 "Evaluating the substance of Transactions Involving the Legal Form of a Lease" and the Framework for the 1998 and 1999 transactions no assets or liabilities were recorded for the separate investment account and the lease payment obligations. The cash deposits the securities purchased in connection

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with the PUAs and the upfront payments received for the head lease and the lease obligations are not recorded in the balance sheet but disclosed as contingent liabilities only.

However, for the 2001 transactions the major part of the investment accounts and the lease payment obligations have to be recorded as assets and liabilities because the Company is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the balance sheet. Accordingly, interest income and expenses in an equal amount totaling EUR 6,488, EUR 5,367 and EUR 6,955, have been recognized in 2005, 2004 and 2003, respectively.

Asset backed securities

In January 2002, the Company entered into a revolving period 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.

The Company determined that the transaction met the three sales criterion in accordance with U.S.GAAP, 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" and derecognized the accounts receivables sold.

In accordance with SIC 12.10, the Company has to consolidate the special purpose entity because the Company controls the SPE. The criteria for derecognizing of assets in accordance with IAS 39 are not fulfilled either, therefore the Company reports higher accounts receivables and short term debt.

Deferred taxes

In accordance with IFRS, all deferred tax assets and liabilities are classified as non-current. Under U.S. GAAP, deferred tax assets and liabilities would be classified as current or non-current based on the classification for financial reporting of the related asset or liability. At December 31, 2005, 2004 and 2003, deferred tax assets and liabilities for U.S. GAAP were as follows:

At December 31,	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred tax assets – current	27,803	59,939	45,633
Deferred tax assets – non-current	5,385	19,436	94,349
Deferred tax liabilities – current	(377)	(115)	(3,709)
Deferred tax liabilities – non-current	(42,236)	(19,720)	(12,773)

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Consolidated income statements

Certain items in the consolidated income statements would be classified differently if presented under U.S. GAAP. The reconciliation for the income statement as of the reporting date December 31, 2005 between IFRS and U.S. GAAP are as follows:

	IFRS	Asset retirement Obligation	Pension and severance accrual	Change in tax rate	Cross border lease	Own work capitalized	Intangible assets	Other	US GAAP
Operating revenues.....	(4,420,059)	-	-	-	-	29,857	-	12,911	(4,377,291)
Materials.....	350,151	42	-	-	-	(3,689)	-	-	346,504
Employee costs, including benefits and taxes.....	698,493	-	523	-	-	(20,042)	-	-	678,974
Depreciation and amortization.....	1,121,440	(1,202)	-	-	-	-	(522)	85	1,119,801
Impairment charges.....	17,388	-	-	-	-	-	-	-	17,388
Other operating expenses.....	1,612,909	1,029	-	-	-	(6,126)	(6,782)	(6,398)	1,594,632
OPERATING INCOME.....	(619,678)	(131)	523	-	-	-	(7,304)	6,598	(619,992)
Interest income.....	(32,663)	-	-	-	(56,421)	-	-	-	(89,084)
Interest expense.....	144,917	(3,187)	-	-	56,421	-	-	-	198,151
Foreign exchange differences.....	(1,349)	-	-	-	(25)	-	-	1,374	-
Income from investments.....	(3,861)	-	-	-	-	-	-	3,861	-
Equity in earnings of affiliates.....	(570)	-	-	-	-	-	-	-	(570)
Other, net.....	-	(2)	-	-	25	-	-	(12,048)	(12,025)
NET INCOME BEFORE INCOME TAXES									
AND MINORITIES INTEREST.....	(513,204)	(3,320)	523	-	-	-	(7,304)	(215)	(523,520)
Income tax expense.....	104,271	831	(131)	(388)	-	-	1,826	(37)	106,372
Minority interests.....	-	-	-	-	-	-	-	2	2
NET INCOME.....	(408,933)	(2,489)	392	(388)	-	-	(5,478)	(250)	(417,146)

Consolidated cash flow statements

The main difference results from the different presentation of the asset backed security program. Under IFRS the cash flows from the asset backed security program are classified in the financing cash flow totaling EUR 124,265, EUR 14,561 and EUR 105,688 for the years ended December 31, 2005, 2004 and 2003. Because the cash received is presented as short-term debt. Under U.S. GAAP the cash flows are classified in the operating section because they result from the sale and the de-recognition of the accounts receivable.