

Consolidated Sub-Group Financial Statements 1998

Telekom Austria AG

4–9	Management Report for the 1998 Business Year of the Telekom Austria Sub-Group
	Consolidated Sub-Group Financial Statements of Telekom Austria
11	Consolidated Sub-Group Income Statement for 1998
12–13	Consolidated Sub-Group Balance Sheet as of December 31, 1998
14–15	Consolidated Sub-Group Statement of Cash-flows
16–17	Development of the Consolidated Sub-Group Fixed Assets
18–29	Notes to the Consolidated Financial Statements of the Telekom Austria Sub-Group
30	Auditors' Opinion
31	Report of the Supervisory Board

Management Report for the 1998 Business Year of the Telekom Austria Sub-Group

1 The Spin-off of Telekom Austria AG as well as the completed Reorganizations

The enterprise Telekom Austria AG in the past year has found a new, separate identity through its legal independence as a stock corporation. The spin-off also was a pre-condition to the selection of a strategic partner which took place parallel thereto. Telekom Austria AG continues the entire business of the previous Telecommunications Division of Post and Telekom Austria AG. The participating interests in Mobilkom Austria AG and Datakom, which has been converted from a stock corporation into a limited liability corporation in the course of the reorganization, now also belong to the Telekom Austria Group.

The taking in of STET International Netherlands NV as an internationally experienced strategic partner which acquired 25% plus one share of the share capital of Telekom Austria AG, has created the opportunity for an independent positioning of Telekom Austria AG as against the competitors in Austria, and on the international markets.

2 Business Development in the 1998 Business Year

Telekom Austria AG, on an international scale, is a relatively small market participant, and, since the liberalization of the telecommunications market in Austria, is exposed to the competition of large international businesses. Competition requires that the economic efficiency be increased quickly to an internationally comparable level. Only in this manner can the aim of offering the customers top service at competitive prices be reached, and the requirements of international investors in the context of a planned initial public offer (IPO) be satisfied.

In the first year of liberalization of the Austrian market, it was necessary to implement the measures towards a competitive orientation introduced in the short period since the PTA spin-off, in addition to the parallel processes of the spin-off and the partner selection. In sub-markets developing with particularly dynamic force, such as, for example, mobile communications and data services, the subsidiaries Mobilkom Austria AG and Datakom Austria AG provide for strategic flexibility within the corporate group. Market opportunities can thereby be realized selectively.

Telekom Austria AG with its subsidiaries today presents itself as the only full-service provider of telecommunications services in Austria, and offers a comprehensive range of products and services to domestic and business customers. The main emphasis of market communications has rested on the special status of Telekom Austria as the only full-service provider for all customer groups, the wealth of many years of experience, the reliability as well as the special responsibility as provider of the universal service.

The full liberalization of the telecommunications market commenced in Austria as of January 1, 1998, on the basis of the "Telekommunikationsgesetz" (Telecommunications Act – TKG). The TKG and the regulations passed pursuant thereto provide for, besides other matters, the facilitated market access of alternative providers in the context of an intentionally asymmetrical regulation, the prohibition of cross subsidization, the obligation to provide the universal service as well as the conditions regarding the interconnection of networks.

The decisions of the "Telekom Control Kommission" with respect to interconnection have significantly shaped the year 1998. They constitute the core of the evaluation of the market and regulatory situation after one year. At first, the charges for the termination of calls in the network of Telekom Austria were determined in March of 1998: for connections from other Austrian fixed or mobile networks terminating with subscribers, Telekom Austria receives ATS 0.25 respectively 0.33 (respectively per minute).

In October of 1998, the Telekom Control Kommission determined the charges for originating traffic, i. e. the amount which Telekom Austria receives for transporting calls over its lines to the carrier network of an alternative operator. Due to reasons of competition policy, especially in order to force ahead the development of the own infrastructure by the competitors, these rates have been fixed at a higher level than in case of termination, that is, ATS 0.28 (in case of transiting one regional switch) and ATS 0.55 (in case of transiting two regional switches).

The successful presence on the aggressive tele-communications market is the most urgent task of the management of the telecom group, in view of the strongly growing number of competitors. The competitors on the telecom market, which have built up the appropriate know-how by taking in strong international partners, attempt to gain market shares in particular with large and business customers.

The Austrian mobile telecommunications market has been booming now unchanged for several years. Despite another award of a license by the Republic of Austria, Mobilkom Austria AG has been able to clearly confirm its pioneer role both as technology leader as well as also as market leader in this segment. In the 1998 business year, the essential management task of positioning the products concerned consistently and optimally on the strongly contested market has been fulfilled satisfactorily.

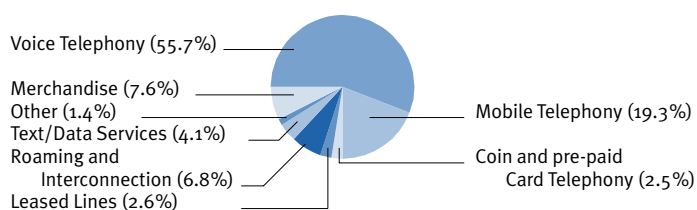
Datakom Austria GmbH today is Austria's leading and most comprehensive provider of data communications solutions. Through technological competence and solution-oriented thinking, the enterprise has been able to maintain the market leadership also in this market segment which has been exposed to competition for years.

Management considers the provision of business-wide networks, in the sense of an all-inclusive solution for the customer concerned, its most urgent tasks.

The consolidated turnover of the Telecom Sub-Group in 1998 amounted to TATS 46,585,098. It is composed essentially of the following:

	ATS thousands (TATS)
Voice Telephony	25,988,325
Mobile Telephony	9,026,786
Coin and pre-paid Card Telephony	1,199,713
Leased Lines	1,215,552
Roaming and Inter- connection	3,160,864
Text/Data Services	1,906,038
Merchandise	3,575,268
Other	667,116
- Revenue Curtailment	-154,564
	46,585,098

**Breakdown of sales –
Telekom Austria Sub-Group**



In the 1998 business year, Telekom Austria AG again remained the dominating market leader, despite the already existing competition in the fixed network.

The Austrian telephone network at the end of 1998 reached a rate of penetration of approximately 50% (related to total population including ISDN channels), of which approximately 92% are already connected to digital exchanges. This provides customers with access to many additional features (such as, for example, call forwarding or call waiting), and markedly improves the transmission quality.

Mobilkom Austria AG has succeeded in maintaining its position as market leader in the strongly growing segment of mobile telephony, and, at year's end, had more than 1,280,000 subscribers in the digital mobile network A1, which corresponds to an increase of more than 86%. At the end of the year, the degree of coverage in the A1 network amounted to 97%. This was achieved with 2,657 base stations. Despite the hard price competition on the Austrian mobile telecommunications market, Mobilkom Austria succeeded in the past business year to consistently position its products, in particular the premium brand A1, as leader in technology and quality. In 1998, Mobilkom, as the first Austrian mobile radio provider, brought convergent products to the market. With A1-PocketNet, customers are able to access the Internet both via the mobile phone as well as with the fixed network. The successful course of the pre-paid cards offered by Mobilkom continues its steep climb. B-Free, the pre-paid card mobile phone in the A1 network, registered 397,000 new subscribers in 1998.

Datakom Austria AG is the market leader in Austria with data services and network solutions. The past business year has been highlighted by an increasing customer demand for networking and information procurement. Business-wide networks, so-called "Corporate Networks", currently constitute Datakom's largest potential for growth.

A swift expansion of the WAN (Wide Area Network) is the basis of Datakom's efforts to firm up its position as market leader. In 1998, operations were commenced at 30 additional sites for the protocol-oriented service DX FR (Dataswitch Frame Relay).

Operating Results

	in TATS
Telekom Austria AG	8,100,749
Mobilkom Austria AG	3,086,230
Datakom Austria GmbH	316,192

3 Result

The individual corporations of the Telecom Sub-Group have contributed to the operating result in the amount of TATS 11,456,736, as follows: A net operating margin of 24.6% was attained in the 1998 business year.

The financial result of the Telecom Sub-Group is strongly shaped by the debts assumed with the spin-off from the federal household. Thus, the negative interest result burdens the income statement with the amount of TATS 2,971,349.

The result from ordinary business activities amounted to TATS 8,521,558.

In the 1998 business year, the Telecom Sub-Group had annual earnings of TATS 6,260,765.

4 Investments and financial Position

The capital investment volume in the Telecom Sub-Group in the 1998 business year amounted to TATS 12,577,147. Of this amount, TATS 12,406,857 were allocated to intangible assets and property, plant and equipment, and TATS 170,290 to financial assets.

During the period under review, the main emphasis regarding investments was placed on line and switching technology and mobile radio telecommunications. The development of the fiber optics network proceeded according to schedule. The investments in switching technology concerned essentially the digitalization of the network, which is to be completed entirely by the year 1999. The number of A1 base stations was increased by 561 to 2,657.

In the 1998 business year, the Telecom Sub-Group earned cash-flows from the result in the amount of TATS 19,923,068. The Telecom Sub-Group used these funds, besides the capital investments above described, for the retirement of financial liabilities. The liabilities to banks and from bonds were reduced in total by TATS 5,483,900, that is 10.9%, as against the previous year.

As of December 31, 1998, the equity ratio of the Telecom Sub-Group amounted to approximately 43.6% (prior to the distribution of the dividend for the 1998 business year).

5 Research and Development

By reason of the range of activities, numerous initiatives in the area of research and development were carried out in the Telecom Sub-Group. The group cooperated with the most important players in industry and business, and is participating in projects at the national, European and international levels.

The positioning of Telekom Austria in the research and technology programs of the European Union was a very important success factor. The further development and the application of new technologies and infrastructure components was advanced in the context of the ACTS (Advanced Communication Technologies and Services) comprising numerous projects. These include the PHOTON (Pan-European Photonic Transport Overlay Network) project for new dimensions of data transmission, and the JAMES (Joint ATM Experiment on European Services) project for the establishment of a European-wide ATM-network. Telekom Austria coordinated the establishment of a trial network in connection with the work toward a global standard for Internet telephony (TIPHON project) in connection with the Transeuropean Networks for Telecommunications and ETSI (European Telecommunications Standardization Institute). At the national level, alongside the research, new technologies such as ADSL, Internet telephony and the digital signature were tested in pilot tests and during practical application, and the required experience for a nation-wide deployment was collected. In the sector of the digital signature, Datakom was able to establish itself as a certifying body.

6 Personnel

In 1998, the Telekom Austria Group employed, at an annual average, 19,425 personnel corresponding to 18,720 full-time positions. The share of civil servants amounted to 76.9%. The ratio of women was situated at 27%. During the 1998 business year, 268 apprentices and 714 part-time employees were employed on average.

1,277 personnel were allocated to Mobilkom, Datakom employed 760 personnel on average. The rationalization measures to reduce the number of personnel have been swiftly continued with pre-retirement and severance allowance schemes.

Consolidated Sub-Group Financial Statements of Telekom Austria

- **Consolidated Sub-Group Income Statement for 1998**
- **Consolidated Sub-Group Balance Sheet as of December 31, 1998**
- **Consolidated Sub-Group Statement of Cash-flows**
- **Development of the Consolidated Sub-Group Fixed Assets**

**Consolidated Sub-Group Income Statement
for the 1998 Business Year
Telekom Austria AG**

	Jan 1 – Dec 31, 1998 ATS 1,000
1. Turnover	46,585,098
2. Change in inventory and work in progress	2,887
3. Other capitalized own work	1,923,260
4. Other operating income	1,578,594
5. Cost of material and services purchased	-8,359,265
6. Personnel expenses	-9,581,340
7. Depreciation and amortization	-13,158,755
8. Other operating expenses	-7,533,743
9. Subtotal from lines 1 to 8	11,456,736
10. Income from participating interests	24,258
11. Income from other securities and loans forming part of financial assets	9,596
12. Other interest and similar income	331,710
13. Income from retirement of financial assets and current assets' securities	4,644
14. Expenses arising from financial assets and current assets' securities	-2,327
15. Interest and similar expenses	-3,303,059
16. Subtotal from lines 10 to 15	-2,935,178
17. Result from ordinary business activities	8,521,558
18. Taxes on income	-2,260,793
19. Net income for the year	6,260,765
20. Minority interest	-482,567
21. Allocation to retained earnings	-2,017,104
22. Profit carried forward	4,810,607
23. Consolidated retained earnings	8,571,701

**Consolidated Sub-Group Balance Sheet
as of December 31, 1998
Telekom Austria AG**

Assets	Dec 31, 1998 ATS 1,000	Dec 31, 1997 ATS 1,000
A. Fixed Assets		
I. Intangible Assets		
1. Licenses, industrial property rights and similar rights	4,270,495	4,238,227
2. Goodwill	8,229,457	8,903,359
3. Prepayments	264,674	127,083
	12,764,626	13,268,669
II. Property, plant and equipment		
1. Land and equivalent rights, and buildings including buildings on land owned by third parties	8,291,488	8,536,329
2. Technical facilities and machinery	68,526,036	68,988,829
3. Other facilities, plant and office equipment	1,662,798	1,776,075
4. Prepayments and construction in progress	3,503,115	4,963,242
	81,983,437	84,264,475
III. Financial assets		
1. Participating interests in associated enterprises	7,692	512
2. Long term loans to associated enterprises	87,959	0
3. Other participating interests	79,587	90,284
4. Securities and similar rights	132,738	107,305
5. Other long term loans	26,288	47,928
	334,264	246,029
	95,082,327	97,779,173
B. Current assets		
I. Inventory		
1. Raw materials and supplies	1,210,411	146,860
2. Finished goods and merchandize	548,217	1,387,075
3. Work in progress	2,887	0
4. Prepayments	3,776	3,788
	1,765,291	1,537,723
II. Receivables and other assets		
1. Trade accounts receivable	8,905,164	7,965,673
2. Receivables from group enterprises	4,511,411	396,072
3. Receivables from affiliated enterprises	100,368	14,756
4. Other receivables and assets	2,264,602	2,720,499
	15,781,545	11,097,000
III. Marketable securities and participating interests		
Other securities and participating interests	53,630	45,603
IV. Cash, cheques and bank accounts	24,958	33,234
	17,625,424	12,713,560
C. Prepaid expenses and deferred charges	289,277	305,893
	112,997,028	110,798,626

Shareholders' equity and liabilities	Dec. 31, 1998 ATS 1,000	Dec. 31, 1997 ATS 1,000
A. Shareholders' equity		
I. Capital stock	15,000,000	15,000,000
II. Additional paid-in capital	16,226,705	16,226,705
III. Reserves from retained earnings	5,946,621	3,929,517
IV. Minority Interest	3,527,849	3,207,939
V. Consolidated retained earnings/-deficit	8,571,701	7,610,607
	49,272,876	45,974,768
B. Accruals		
1. Accruals for severance payments	176,839	158,570
2. Accruals for pensions	145,181	122,652
3. Accruals for taxes	2,336,871	1,674,970
4. Other accruals	5,488,160	5,912,110
	8,147,051	7,868,302
C. Liabilities		
1. Bonds	7,216,672	8,915,904
2. Liabilities to banks	37,588,855	41,373,523
3. Advances received	6,110	1,105
4. Trade accounts payable	5,256,366	5,329,884
5. Liabilities toward group enterprises	3,555,746	12,361
6. Other liabilities	1,033,104	1,190,854
	54,656,853	56,823,631
D. Deferred income and accrued expenses	920,248	131,925
	112,997,028	110,798,626
Liabilities from guarantees as well as other contractual liabilities	2,462,584	0

Consolidated Sub-Group Statement of Cash-flows

	1998 ATS 1,000
Net income	6,260,766
Depreciation and amortization	13,158,755
Depreciation of financial assets	1,453
Allocation to accrual for anniversary bonus payments	41,820
Allocation to accrual for severance payments	18,269
Allocation to accrual for pensions	22,530
Change to the accrual for the social plan	-168,608
Book value of retired assets	848,660
Cash-flows-balance sheet	20,183,645
Income from the retirement of fixed assets	-50,176
Expenses from the retirement of fixed assets	638,258
Book value of retired fixed assets	-848,659
Result from the retirement of fixed assets	-260,577
Cash-flows from the result	19,923,068
Assets (decrease +, increase -)	
Inventory	-227,568
Trade accounts receivable	-939,491
Receivables from group enterprises	-1,761,464
Receivables from affiliated enterprises	-85,612
Other assets	219,655
Liabilities (decrease -, increase +)	
Provision for taxation	661,901
Other short-term accruals	-297,164
Trade accounts payable	-73,518
Liabilities to group enterprises	1,238,202
Liabilities to affiliated enterprises	0
Other liabilities	635,577
Changes in working capital	-629,482
Cash-flows from operating activities	19,293,586

	1998 ATS 1,000
Capital expenditures (Capex)	-798,795
Capital expenditures for property, plant and equipment	-11,608,062
Capital expenditures for financial assets (participating interests)	-122,205
Net change in fixed assets' securities and loans	-26,121
Result from the retirement of fixed assets	260,577
Cash-flows from investment activities	-12,294,606
Assets (decrease +, increase -)	
Receivables from group enterprises	-48,692
Liabilities (decrease -, increase +)	
Bonds	-1,699,232
Liabilities to banks (short-term)	3,587,973
Liabilities to banks (long-term)	-7,372,641
Distributions to shareholders	-2,970,006
Third party contributions	7,350
Cash-flows from financing activities	-8,495,248
Depreciation of capitalized refundable input taxes	1,243,161
Receipts from the refund of input taxes 1998/1997	1,225,201
Receipts following years	-972,343
Cash-flows from VAT adjustment	1,496,019
Change in cash	-249

**Development of the Consolidated
Sub-Group Fixed Assets**

ATS 1,000	Acquisition/ production costs Jan 1, 1998	Additions	Dispositions
I. Intangible assets			
1. Licenses, industrial property rights and similar rights	4,956,230	661,204	81,902
2. Goodwill	10,021,705	0	0
3. Prepayments	127,083	137,591	0
	15,105,018	798,795	81,902
II. Property, plant and equipment			
1. Land and equivalent rights, and buildings including buildings on land owned by third parties	9,350,798	330,477	136,979
2. Technical facilities and machinery	85,233,966	7,569,388	2,534,822
3. Other facilities, plant and office equipment	2,664,961	936,208	398,025
4. Prepayments and construction in progress	4,963,242	2,771,988	4,183
	102,212,967	11,608,061	3,074,009
III. Financial Assets			
1. Participating interests in associated enterprises	512	7,180	0
2. Long term loans to associated enterprises	0	87,959	0
3. Other participating interests	90,312	23,520	34,217
4. Securities and similar rights	107,310	55,203	29,082
5. Other long term loans	54,596	3,546	26,769
	252,730	177,408	90,068
	117,570,715	12,584,264	3,245,979

Reclassifications	Acquisition/ production costs Dec 31, 1998	Depreciation (cumulative)	Book value Dec 31, 1998	Book value Dec 31, 1997	Depreciation during the busi- ness year 1998
1,566	5,537,098	1,266,603	4,270,495	4,238,227	627,192
0	10,021,705	1,792,248	8,229,457	8,903,359	673,902
0	264,674	0	264,674	127,083	0
1,566	15,823,477	3,058,851	12,764,626	13,268,669	1,301,094
42,004	9,586,300	1,294,812	8,291,488	8,536,329	482,981
4,341,272	94,609,804	26,083,768	68,526,036	68,988,829	10,722,424
-156,910	3,046,234	1,383,436	1,662,798	1,776,075	652,256
-4,227,932	3,503,115	0	3,503,115	4,963,242	0
-1,566	110,745,453	28,762,016	81,983,437	84,264,475	11,857,661
0	7,692	0	7,692	512	0
0	87,959	0	87,959	0	0
0	79,615	28	79,587	90,284	0
0	133,431	693	132,738	107,305	689
0	31,373	5,085	26,288	47,928	764
0	340,070	5,806	334,264	246,029	1,453
0	126,909,000	31,826,673	95,082,327	97,779,173	13,160,208

Notes to the Consolidated Financial Statements of the Telekom Austria Sub-Group

1 General Remarks

Telekom Austria AG was formed by the spin-off of the Postal Service and Postal Transport Divisions from the former Post und Telekom Austria AG, with retroactive effect, having regard to accounting, as of January 1, 1998.

The corporation is a fully consolidated group enterprise of the group of companies of Post and Telekom Austria AG. The present consolidated financial statements were prepared voluntarily.

2 Accounting and valuation principles

The consolidated financial statements were prepared having regard to generally accepted accounting principles, having regard to the general rule that, as much as possible, an accurate picture of the company's assets and the financial and earning position is to be presented.

The accounting and valuations were carried out in accordance with the accounting provisions of the "Handelsgesetzbuch" (Commercial Code) as amended by the "EU-Gesellschaftsrechtsänderungsgesetz 1996" (EU Corporate Law Amendment Act 1996).

The income statement was prepared in accordance with the total cost method. To improve the clarity of presentation, individual items in the balance sheet and the income statement have been summarized. The summarized items are shown in the Notes.

All figures are shown in thousands of Austrian Schillings (ATS, or ATS 1,000), unless otherwise stated. The balance sheet date of all fully consolidated enterprises is December 31.

The financial statements of all enterprises included in the partial consolidation have been prepared on the basis of unified accounting and valuation principles within the Group.

Fixed assets

The intangible assets are valued at acquisition cost, less regular amortization on a straight-line basis based on a useful life (depending on the term of the agreement concerned) between 4 and 30 years.

A period of 15 years has been chosen for the useful life of the license of Mobilkom AG (the right to operate the reserved telecommunications service in the digital cellular mobile radio range GSM).

A period of 15 years has been chosen for the useful life of goodwill, having regard to the provisions of sec. 203 para. 5 Commercial Code.

Property, plant and equipment are valued at acquisition cost or production cost less regular depreciation. The production costs of self-developed assets include in addition to direct costs also prorated overhead, but no social expenditures as defined by sec. 203 para. 3 Commercial Code, nor directly attributable interest on debt paid to third parties.

Regular depreciation is calculated on a straight-line basis based on the useful lives and depreciation rates, as follows:

	Useful life in years	Depreciation rate in %
buildings	20–50	2–5
technical facilities and above ground structures	4–20	5–25
tools, measuring instruments and monitoring devices	5–10	10–20
EDP equipment	3–10	10–33
Vehicle fleet	4–8	12.5–25
Social and office furnishings	10	10
Office equipment and other small machines	5	20

Low value assets (unit acquisition cost of less than 5,000 ATS) are depreciated completely in the year of acquisition. They are shown as additions and disposals in the Development of Fixed Assets. Furniture and fixtures in offices and customer service areas, as well as office equipment of Telekom Austria AG, were entered in the opening balance sheet of Post und Telekom Austria AG as of May 1, 1996, at a fixed value which remained unchanged during the business year.

Extraordinary depreciation in the amount of TATS 52,192 was taken from property, plant and equipment during the business year.

With the conclusion of three purchase agreement dated August 24, 1998, Telekom Austria AG sold digital switching facilities to Wilmington Trust Company, Delaware, at a purchase price of USD 175.3 million. These assets subsequently were leased back by Telekom Austria AG on the basis of three leasing agreements. Telekom Austria AG was granted the right to repurchase the leased assets at a contractually determined price after the expiry of ten years.

The transactions are shown in the financial statements in the form, that the resulting net cash value advantage in the amount of USD 7.7 million is shown under the deferred income and accrued expenses position, and will be dissolved over the term of 10 years pro rata temporis and shown as interest income. The total amount of unpaid leasing liabilities which were transferred to other corporations by agreements for the assumption of debts, respectively swap agreements, is shown as a contingent liability. The assets sold and leased back are continued to be shown and depreciated as fixed assets by reason of the continuing economic ownership.

Participating interests in associated corporations are valued in principle at cost, if they have neither been eliminated through full consolidation nor revalued according to the equity method. Interest-bearing long-term loans and other securities are valued at cost, non-interest-bearing long-term loans at net present value.

Extraordinary depreciation is taken if the market value is lower than the book value on the balance sheet date and the reduction in value is likely to be of a permanent nature. In the 1998 business year, no extraordinary depreciation regarding shares in associated enterprises and of participating interests was taken in the consolidated accounts.

Current assets

Inventories are valued at the lower of cost (production or acquisition cost) or market value.

Write-offs were necessitated in particular by lower stock market or market prices on the balance sheet date, obsolescence and excessively long inventory periods.

Services rendered, not yet chargeable, are reported at production cost. Production costs comprise direct material and direct labor costs, as well as prorated material and production overhead.

Receivables and other assets are reported at their nominal value, unless in case of foreseeable individual risk the lower attributable value is chosen. General credit risks are covered by a lump-sum allowance. Claims falling due at a later date are discounted, if necessary.

Receivables in foreign currencies are valued at the buying rate on the date of creation or on the balance sheet date, whichever is lower. Roaming receivables are valued at the making up rate of the special drawing rights or at the lower buying rate on the balance sheet date. Receivables in currencies participating in the European Monetary Union were valued at the fixed Euro conversion rates. Both exchange losses as well as exchange gains were allocated to results.

Marketable securities forming part of current assets are valued at the lower of cost or market price on the balance sheet date. In 1997, extraordinary depreciation in the amount of TATS 898 was taken.

Prepaid expenses and financing commissions already accounted for in the opening balance sheet were activated in the prepaid expenses and deferred charges position; these items will be allocated to results over their respective terms.

Accruals and Provisions

The accruals for severance payments are set up to cover statutory and contractual employee claims. They are valued in accordance with actuarial principles, on the basis of the "entry age normal method" (Teilwertverfahren), with an imputed interest rate of 4% and a fluctuation discount of 3%.

The accruals for pensions to meet obligations to the former employees of Datakom Austria AG were calculated according to actuarial principles using an imputed interest rate of 6%, and the "individual level premium method" (Ansammlungsverfahren) for pension expectancies and the "entry age normal method" for supplement recipients.

3 List of participating Interests and consolidated Enterprises

List of Corporations in which Telekom Austria AG holds a participating Interest of at least 20%

Business Name and corporate Seat of the Corporation	Interest as of Dec 31, 1998 in %	Shareholders' Equity as of Dec 31, 1998* in ATS 1,000	Annual income/ loss in 1998* in ATS 1,000	Note on Consolidation
Telekom Austria AG				
Participating Interests in Sub-Group Enterprises				
Mobilkom Austria AG, Vienna	75.0%	14,109,995	1,958,752	Full consolidation
Datakom Austria GmbH, Vienna	100.0%	880,316	257,599	Full consolidation
Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft mbH, Vienna	100.0%	3,577	2,044	Non-consolidated in accordance with sec. 249 para. 2 Commercial Code
Radio Austria Audiotex GmbH	100.0%	5,870	2,144	Full consolidation
Highway 194 Internet Vertriebs GmbH, Vienna	51.0%	427	-14,573	Full consolidation
Datakom Informationsservice GmbH, Vienna	100.0%	8,980	12,720	Full consolidation
Participating Interests in associated Enterprises				
Herold Business Data AG, Mödling	26.0%	23,934	22,123	Included as an affiliated corporation
Tirolnet Vertriebsgesellschaft mbH, Innsbruck	50.0%	2,446	153	Non-consolidated in accordance with sec. 263 para. 2 Commercial Code
Mobilkom Austria AG				
Participating Interests in associated Enterprises				
Sinergy, Telecommunications Company Ltd, Ljubljana	45.0%	**	**	Non-consolidated in accordance with sec. 249 para. 2 Commercial Code
VIP-Net GSM d.o.o., Zagreb	30.0%	-18,270	-18,309	Non-consolidated in accordance with sec. 249 para. 2 Commercial Code

* respectively as at the end of the financial year in question.

**No results were available at the time of the preparation of the financial statements.

4 Fixed assets

Property, plant and equipment includes real property with a value of TATS 891,954.

Loans with a remaining term of up to one year amount to TATS 10,560.

5 Receivables and other Assets

ATS 1,000	Dec 31, 1998		Jan 1, 1998	
	up to 1 year	more than 1 year	up to 1 year	more than 1 year
Remaining term to maturity				
Trade accounts receivable	8,905,164	0	7,965,673	0
Receivables – group enterprises	4,511,411	0	395,272	800
Receivables – affiliated enterprises	100,368	0	14,756	0
Other receivables and assets	<u>2,092,805</u>	<u>171,797</u>	<u>2,719,799</u>	<u>700</u>
	15,609,748	171,797	11,095,500	1,500

As of year end, lump-sum valuation adjustments of trade accounts receivable in the amount of TATS 143,557 (January 1: TATS 181,969) were carried out within the Sub-Group.

The receivables due from Sub-Group enterprises and affiliate enterprises consist primarily of other receivables.

6 Shareholders' Equity

The development of shareholders' equity is as follows:

ATS 1,000	Capital stock	Additional paid-in capital	Net result	Reserves from retained earnings	Minority interests	Total
Jan 1, 1998	15,000,000	16,226,705	7,610,607	3,929,517	3,207,939	45,974,768
Distribution for the 1997 business year	0	0	-2,800,000	0	-170,007	-2,970,007
Annual income 1998	0	0	5,778,198	0	482,567	6,260,765
Minority interests from capital consolidation	0	0	0	0	7,350	7,350
Transfer to reserves from retained earnings	0	0	-2,017,104	2,017,104	0	0
Dec 31, 1998	15,000,000	16,226,705	8,571,701	5,946,621	3,527,849	49,272,876

Telekom Austria AG has a capital stock of ATS 15,000,000,000 consisting of 1,500,000 bearer shares with a par value of ATS 10,000.00 each. Following the sale of 25% and one share to STET International Netherlands NV, Amsterdam, the capital stock is held by the following shareholders:

ATS 1,000	Capital stock
Post und Telekom Austria AG, Vienna	11,249,990
STET International Netherlands NV, Amsterdam, Netherlands	3,750,010
	15,000,000

The Sub-Group's reserves from retained earnings include the annual results of the fully consolidated subsidiaries and the consolidation impact on results. Untaxed reserves shown in the individual financial statements are included after deduction of deferred taxes in the reserves from retained earnings.

The minority interests are as follows:

ATS 1,000	Dec 31, 1998	Jan 1, 1998
STET MOBILE HOLDING NV, Amsterdam, Netherlands	3,527,640	3,207,939
Österreichischer Rundfunk (ORF)	209	0
	3,527,849	3,207,939

STET MOBILE HOLDING NV, Amsterdam, since the purchase of 25% of the stock of Mobilkom Austria AG, holds an interest in the capital stock of the Telekom Austria AG Sub-Group. In the 1998 business year, the shares of STET changed, by the payment of dividends for the previous business year in the amount of TATS 170,007 on the one hand, and by the share in the annual result of Mobilkom Austria AG in the amount of TATS 489,708 on the other hand.

Since the incorporation of Highway 194 Internet Vertriebs GmbH, the ORF holds an interest in the capital of the Sub-Group in the amount of TATS 7,350 (49%). By reason of the negative annual result of Highway, the minority interests from the capital consolidation decreased by TATS 7,141.

The consolidated profit was adjusted to the profit of Telekom Austria AG by the allocation to reserves from retained earnings in the amount of TATS 2,017,104.

7 Accruals

The accruals for taxes of the Telekom Sub-Group concern deferred taxes in the amount of TATS 749,490 (January 1, 1998 TATS 839,102).

Other accruals consist of the following:

ATS 1,000	Dec 31, 1998	Jan 1, 1998
Social benefits in connection with personnel restructuring	1,941,115	2,278,380
Anniversary bonuses	925,507	883,687
Discounts to major customers	852,854	570,596
Restructuring expenses	708,026	810,426
Open vacation entitlements	590,024	565,206
Other items less than TATS 500,000	470,634	803,815
	5,488,160	5,912,110

In the 1997 business year, the accrual set up for restructuring measures in the context of the opening balance sheet of Post und Telekom Austria AG as of May 1, 1996, was concretized by the measures of the social plan, and is now continued in this amount as an individual accrual. Accruals are formed for the costs of the actual utilization by the respective employees, including all collateral costs.

8 Liabilities

ATS 1,000	Dec 31, 1998			Jan 1, 1998		
	up to 1 year	more than 1 and up to 5 years	more than 5 years	up to 1 year	more than 1 and up to 5 years	more than 5 years
Remaining term to maturity						
Bonds	210,672	4,931,000	2,075,000	760,904	5,780,000	2,375,000
Liabilities to banks	5,667,422	15,813,695	16,107,738	2,079,449	17,144,952	22,149,122
Prepayments received	6,110	0	0	1,105	0	0
Trade accounts payable	5,253,229	3,137	0	5,329,884	0	0
Accounts payable – Sub-Group enterprises	3,555,746	0	0	12,361	0	0
Other liabilities	572,858	430,436	29,810	701,100	436,977	52,777
	15,266,037	21,178,268	18,212,548	8,884,803	23,361,929	24,576,899

Other liabilities include:

ATS 1,000	Dec 31, 1998			Jan 1, 1998		
	up to 1 year	more than 1 and up to 5 years	more than 5 years	up to 1 year	more than 1 and up to 5 years	more than 5 years
Remaining term to maturity						
Other liabilities						
thereof: taxes	109,386	0	0	204,589	0	0
thereof: incurred in the context of social security	53,808	4,766	0	54,632	0	0
thereof: other	409,664	425,670	29,810	441,879	436,977	52,777
	572,858	430,436	29,810	701,100	436,977	52,777

9 Liabilities from Guarantees as well as other contractual Liabilities

ATS 1,000	Dec 31, 1998	Jan 1, 1998
Liabilities from Guarantees	332,631	0
Other contractual Liabilities (us-Leases)	2,129,953	0

10 Other financial Commitments

ATS 1,000	Dec 31, 1998	Jan 1, 1998
Purchase commitments for capital expenditures	2,980,028	3,632,020
Commitments arising from the utilization of off-balance-sheet property, plant and equipment ... in the next business year	562,457	530,320
... in the next five business years (statistical extrapolation)	2,812,285	2,651,600

11 Turnover

ATS 1,000	Jan 1 – Dec 31, 1998
Voice Telephony	25,988,325
Mobile Telephony	9,026,786
Merchandise	3,575,268
Roaming and Interconnection	3,160,864
Text/Data Services	1,906,038
Leased Lines	1,215,552
Coin and pre-paid Card Telephony	1,199,713
Other	667,115
	<u>46,739,661</u>
- Revenue Curtailment	-154,563
Turnover of the Sub-Group	<u>46,585,098</u>

12 Other operating Income

ATS 1,000	Jan 1 – Dec 31, 1998
Income from the disposition of non-financial fixed assets	45,626
Income from the reversal of accruals remaining	281,252
	<u>1,251,715</u>
	<u>1,578,593</u>

13 Cost of Material and other Services purchased

ATS 1,000	Jan 1 – Dec 31, 1998
Cost of materials	2,608,766
Cost of services purchased	<u>5,750,499</u>
	8,359,265

14 Personnel Expenses

Personnel expenses include the following:

ATS 1,000	Jan 1 – Dec 31, 1998
Wages	35
Salaries	7,475,213
Expenses for severance payments	48,383
Expenses for pensions	44,070
Expenses for statutory social contributions, and payroll-related taxes and mandatory contributions	2,000,376
Other expenses for social benefits	<u>13,263</u>
	9,581,340

Average number of personnel in the business year:

	Jan 1 – Dec 31, 1998
Civil servants with tenure	14,932
Salaried employees	4,492
Worker	<u>1</u>
Total	19,425
Number of equivalent full-time-employees	18,720

ATS 1,000	Jan 1 – Dec 31, 1998
Remuneration of members of the Management Board	5,722
Remuneration of members of the Supervisory Board	<u>1,179</u>
	6,901

15 Expenses for Severance Payments and Pension

Expenses for severance payments and pensions are allocated as follows:

ATS 1,000	Jan 1 – Dec 31, 1998
Members of Management Board	245
Managerial employees	4,464
Other employees	95,621
	100,330

16 Amortization and Depreciation

The fixed assets of Telekom Austria AG as well as of Mobilkom Austria AG include input taxes, which have been depreciated in the business year in the amount of TATS 1,243,161. The refund of input tax according to sec. 12 paragraphs 10 and 11 "Umsatzsteuergesetz" (Turnover Tax Act) is charged against the depreciation in the same amount.

Extraordinary depreciation in the amount of TATS 52,192 was required.

The details of the depreciation can be found in the "Development of Fixed Assets" printed before the Notes.

17 Other operating expenses

ATS 1,000	Jan 1 – Dec 31, 1998
Other taxes relating to operations	147,171
Other items	7,386,572
	7,533,743

18 Income from participating Interests

Of the income from participating interests, TATS 17,134 are allocated to distributions of international satellite organizations, in which participating interests are held.

19 Other Interest and similar Income

Other interest and similar income results essentially from the short-term investment of excess liquidity.

20 Expenses arising from financial Assets and current assets' Securities

The expenses arising from financial assets and current assets' securities contain write-offs in the amount of TATS 1,453.

21 Interest and similar Expenses

Interest and similar expenses result essentially from interest for bonds and the liabilities toward banks.

22 Taxes on Income

	Jan 1– Dec 31, 1998
ATS 1,000	
Taxes on income	2,363,455
Deferred taxes	<u>-102,662</u>
	2,260,793

Taxes on income regard essentially corporation tax expenses for the 1998 business year.

23 Members of the Management Board and the Supervisory Board

Management Board

Ing Dr jur Josef Sindelka	(Chief Executive Officer) until October 31, 1998
Dr Johannes Ditz	until October 31, 1998
Gerhard Martinek	until July 23, 1998
DI Dr Walther Richter	until October 19, 1998
Senator h.c. KR Ing Werner Kasztler	(Chief Executive Officer) since November 1, 1998
Dr Alberto Mazzarelli	since December 22, 1998
Ing Mag Rudolf Fischer	since November 1, 1998
Dr Claudio Albanese	since December 22, 1998

Supervisory Board

KR Dkfm Karl Hollweger	(Chairman of the Supervisory Board) until October 31, 1998
Ing Dr jur Josef Sindelka	(Chairman of the Supervisory Board) since November 1, 1998
KR Dkfm Dr Erich Becker	(Deputy Chairman of the Supervisory Board)
Prof DI Dr Ernst Bonek	until July 23, 1998
Ing Oscare Cicchetti	since December 22, 1998
Dkfm Helmuth Hamminger	until July 23, 1998
DI Dr Günther Hillebrand	until July 23, 1998
Dr Peter Kamp	until July 23, 1998
KR Kurt Kaun	until July 23, 1998
Mag Werner Muhm	
Dr Claus J. Raidl	
Dr Günther Scholz	until July 23, 1998
Ing Maurizio Stecco	since December 22, 1998
Dr Josef Taus	
Gerhard Zeiler	
Hans Billeth	
Hans Georg Dörfler	until July 23, 1998
Franz Hnatusko	until July 23, 1998
Helmut Hospodar	since July 23, 1998
Ing Karl-Heinz Muik	
Herbert Podany	until July 23, 1998
Robert Sulzbacher	since December 22, 1998
Robert Wurm	until July 23, 1998

Vienna, April 29, 1999

The Management Board

Senator h.c. KR Ing Werner Kasztler
Chief Executive Officer

Dr Alberto Mazzarelli
Deputy CEO

Ing Mag Rudolf Fischer
Chief Technical Officer

Dr Claudio Albanese
Chief Marketing Officer

Auditors' Opinion

In the course of our audit we did not discover facts which would result in a qualified opinion.

Therefore, we render the following unqualified opinion according to Article 274 section 1 HGB (Austrian Commercial Code) on the financial statements for the fiscal year ended December 31, 1998 of Telekom Austria AG, Vienna, Austria.

“As the result of our due audit we can certify that the accounting records and the consolidated financial statements comply with the legal regulations. The consolidated financial statements give a true and fair view of the Company's and group's assets, the liabilities, financial position and earning position in conformity with generally accepted accounting principles. The management report corresponds with the consolidated financial statements.”

Vienna, April 29, 1999

KPMG Austria
Wirtschaftsprüfungs-Gesellschaft mbH

Grant Thornton – Jonasch & Platzer
Wirtschaftsprüfungs- und Steuerberatungs-оHG

DDr Martin Wagner Mag Dr Johann Perthold
Beeidete Wirtschaftsprüfer und Steuerberater

Univ Doz Dr Walter Platzer ppa Mag Josef Töglhofer
Beeidete Wirtschaftsprüfer und Steuerberater

Report of the Supervisory Board

The Supervisory Board constituted itself and took up its work at the meeting on July 23, 1998. At the Supervisory Board meetings, it was informed by the Management Board in writing and orally concerning the economic and financial position of the enterprise, the business policy and the development of the course of business. Particular attention was paid to the implemented restructuring measures, the course of the search for a strategic partner for Telekom Austria AG, as well as the strategic orientation of the Sub-Group and the security of its competitiveness.

The Supervisory Board respectively its committees passed, among others, the following resolutions:

- Approval of the pro forma annual financial statements of Telekom Austria AG regarding the 1997 business year
- Appointment of the Management Board of Telekom Austria AG
- Passing rules of procedure for the Supervisory Board and the Management Board

The Supervisory Board was presented the annual financial statements of Telekom Austria AG and of the Telekom Austria Sub-Group as of Dec 31, 1998 by the Management Board. The annual financial statements of Telekom Austria AG and the consolidated financial statements were audited and certified without reservation by KPMG Austria Wirtschaftsprüfungsgesellschaft mbH and Grant Thornton – Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-ONG. The management report is consistent with the annual financial statements and the consolidated financial statements.

The Supervisory Board approves the 1998 annual financial statements, which are approved thereby in accordance with sec. 125 para. 2 "Aktiengesetz" (Stock Corporation Act).

Further, the Supervisory Board approves consolidated financial statement and the Sub-Group's management report prepared in accordance with sec. 244 Commercial Code.

The Supervisory Board recommends to the shareholders' meeting to approve the annual financial statements as of December 31, 1998 submitted by the Management Board and to approve the actions taken by the Management Board members. It agrees with the proposal of the Management Board to effect a distribution in the amount of TATS 4,578,000 and to carry forward the remaining profit to new account.

9 June, 1999 Ing Dr Josef Sindelka
Chairman of the Supervisory Board

Published by Telekom Austria Aktiengesellschaft

**For further information
please contact:** Telekom Austria AG
Generaldirektion
Postgasse 8
A-1011 Vienna, Austria

You can reach the projectteam "Annual Report" at:
e-mail: info.geschaeftsbericht@pta.at

<http://www.telekom.at>

English translation MAG. CHRISTIAN MALBURG, LL. B.
MMAG. SABINE FEHRINGER, LL. M.
Rechtsanwälte
Rahlgasse 1
A-1060 Vienna, Austria

Lithos and printing Agens-Werk Geyer + Reisser
Druck- und Verlagsgesellschaft mbH
Arbeitergasse 1–7
A-1050 Vienna, Austria

This annual report is available in
English and German. In case
of discrepancies, the German
version is binding.

The financial Data of Telekom Austria at a Glance

Financing	1998 ATS millions
Cash-flow from the result	19,923
Cash-flow from operating activities	19,294
Cash-flow from investment activities	-12,295
Cash-flow from financing activities	-8,495
Cash-flow from VAT adjustment	1,496
Change in cash	0
Capital expenditure (Capex)	12,407

Reference numbers	Dec 31, 1998 in %	Jan 1, 1998 in %
Fixed assets/Total assets	84.1	88.2
Debt/Total capital	56.4	58.5
Equity/Total assets	43.6	41.5
Shareholders' equity + long-term debt/ Fixed assets	95.6	98.4
Working capital ratio	81.0	89.3
Capital employed (ATS millions)	96,263	98,823

Reference numbers	1998
Cash-flow/Investments	1.6
Result from ordinary business activities on sales (in %)	24.6
EBIT/Average Total Capital (in %)	10.2
Result from ordinary business activities/ Average Shareholders' equity (in %)	17.9
Investments/Depreciation (in %)	94.3
ROI (Return on Investment) (in %)	10.2
EBIT (ATS millions)	11,483
EBITD (ATS millions)	24,642
ROCE (in %)	11.9
ROE (in %)	13.6

The financial Data of Telekom Austria at a Glance¹⁾

Assets and capital	Change 1998		Dec 31, 1998		Jan 1, 1998	
	ATS millions	in %	ATS millions	in %	ATS millions	in %
Fixed assets	-2,697	-2.8	95,082	84.1	97,779	88.2
Intangible fixed assets	-504	-3.8	12,765	11.3	13,269	12.0
Property, plant and equipment	-2,281	-2.7	81,983	72.6	84,264	76.1
Financial assets	88	35.9	334	0.3	246	0.2
Current assets, prepaid expenses and accrued and deferred items	4,895	37.6	17,915	15.9	13,019	11.8
Inventory	228	14.8	1,765	1.6	1,538	1.4
Receivables	4,685	42.2	15,782	14.0	11,097	10.0
Liquid funds and current assets' securities	0	-0.3	79	0.1	79	0.1
Prepaid expenses and deferred charges	-17	-5.4	289	0.3	306	0.3
Long-term current assets	172	-	172	0.2	0	0.0
Short-term current assets	4,723	36.3	17,743	15.7	13,019	11.8
Shareholders' equity	3,298	7.2	49,273	43.6	45,975	41.5
Debt capital	-1,100	-1.7	63,724	56.4	64,824	58.5
Accruals	279	3.5	8,147	7.2	7,868	7.1
Financial liabilities	-5,484	-10.9	44,806	39.7	50,289	45.4
Trade accounts payable	-74	-1.4	5,256	4.7	5,330	4.8
Other liabilities, and deferred income and accrued expense	4,179	312.7	5,515	4.9	1,336	1.2
Long-term debt capital	-8,634	-17.2	41,609	36.8	50,243	45.3
Short-term debt capital	7,534	51.7	22,115	19.6	14,581	13.2
Balance sheet total	2,198	2.0	112,997	100.0	110,799	100.0

Earning position	1998	
	ATS millions	in %
Turnover	46,585	93.0
Change in inventory and other capitalized own work	1,926	3.8
Other operating income	1,579	3.2
Operating performance	50,090	100.0
Cost of materials	8,359	16.7
Personnel expenses	9,581	19.1
Depreciation and amortization	13,159	26.3
Other operating expenses	7,534	15.0
Operating expenses	-38,633	-77.1
Operating result	11,457	22.9
Result from participating interests and securities	27	0.1
Result from Interest	-2,962	-5.9
Financial result	-2,935	-5.9
Result from ordinary business activities	8,522	17.0
Taxes	-2,261	-4.5
Group's net income for the year	6,261	12.5

¹⁾ By reason of the use of automated calculation aides, calculation differences may occur in connection with the addition of rounded amounts and percentages