

GROUP MANAGEMENT REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS OF TELEKOM AUSTRIA AG
FOR THE 1999 BUSINESS YEAR.

GROUP MANAGEMENT REPORT OF TELEKOM AUSTRIA AG FOR THE 1999 BUSINESS YEAR.

1. General Remarks.

All of the Group's business is in a market with a great future. The telecommunications market is characterized by high growth and strong competition in all of its market segments. In Austria in 1999, there was a turnover of over ATS 55 billion in telecommunication services and products. This is expected to grow to ATS 80 billion within only two years. In 1999 in fixed network telephony, competitive pressure rose sharply, and the number of competitors grew fourfold. In mobile communications, licenses were held by to four carriers in 1999, of which one was not yet operational in that year. Liberalization in Austria took effect completely compared to the rest of the European telecommunications market. Conscious asymmetrical regulation has eased market access for alternative carriers in fixed network telephony. In the course of this market liberalization, the TELEKOM AUSTRIA Group has particular importance as a service provider for alternative telephone carriers and of the universal service according to the Telekommunikationsgesetz (Telecommunications Act - TKG). In 1999, it was observed that the loss of market share in fixed network telephony resulting from liberalization can be more than compensated by sharp growth in the area of future technologies, such as mobile communications, the Internet, broadband services, and data communications.

2. Business Development in 1999.

The overall Austrian voice telephony market in the fixed network reached a volume of ATS 29 billion in 1999. In this business area – as the domestic market share of 85% shows (voice based on minutes, December 1999) - the Group proved its competitiveness. The completion of digitalization and the rate reform that took place in September 1999 made a considerable contribution towards securing this leadership position. Concerning the rate reform, not only were the rates clearly lowered, but the rate structure was noticeably simplified.

In mobile communications, strong growth in subscribers was achieved through further development of the network, an innovative range of products, and extensive customer service. The true dynamics of this business were demonstrated in 1999 by the increased market penetration, which reached third place in a European-wide comparison, and was only surpassed by Norway and Finland, whose figures cannot be fully compared due to special geographic circumstances. In the course of 1999, market penetration in Austria rose from 28.5% (2.31 million subscribers) to 52.3% (4.25 million subscribers). In the business field of mobile communications, at the end of 1999 the Group was by far the market leader with 2,054,000 subscribers in the A1 network and 206,000 subscribers in the D network. Additional momentum for growth was achieved by acquiring a majority interest in VIP-Net GSM d.o.o., in Zagreb, which started operations in 1999.

In 1999, market leadership in data communication solutions and corporate networks was successfully maintained; altogether, a considerable growth in revenues was achieved. As opposed to 1998, corporate networks and international services, which carry most of the volume, each reached a growth of 50%. It is to be noted that in 1999 the promising field of value-added data services achieved an increase in revenues of almost 85% in comparison to the still lower level of corporate networks, for example. In 1999, the momentum from developing WAN (wide area network) further strengthened the market leader position. Through the protocol-oriented service DX FR (Dataswitch Frame Relay) almost 1,200 business customers were gained in 1999. This market in total is particularly attractive due to its stronger growth compared to the telecommunications market and the high added value that can be achieved for the Group.

Decisions by the Telekom Control Commission on questions of the existence of a dominant position of fixed network and mobile carriers were major events of 1999. In June 1999, it was determined that TELEKOM AUSTRIA AG holds a dominant position in fixed network voice telephony and leased lines; and in July 1999, the Commission also found a dominant position in the area of interconnection.

Concerning previous year's dominant question of network access, further decisions on unbundling and interconnection were issued. Importantly, a series of legal proceedings commenced in 1999 regarding TELEKOM AUSTRIA AG's abuse of its market dominance in diverse parts of the market, were stayed. Presently, further regulatory proceedings are pending that are partly awaiting the decision of the VfGH (constitutional court) or the VwGH (supreme administrative court). These cases primarily concern interconnection and unbundling, particularly on the topics of number portability, special services, and value-added services, as well as special regulations for network interconnection. Pending or threatened lawsuits are mainly connected to regulatory decisions.

The most urgent Group task lies in holding and securing the market positions reached thus far in the various business areas, against the increasing and aggressive competition. The biggest competitors in fixed network telephony, previously mainly gaining market shares with major clients, were able in 1999 to successfully establish themselves in the market for residential customers. Despite the strong growth already noted, competition in the mobile communications market was intensified from the beginning of 1999 by a third active network carrier.

3. Results

In the 1999 business year, the Group achieved an operating result of TATS 6,205,581 (previous year: TATS 11,456,736). The most important TELEKOM AUSTRIA Group companies contributed to the operating results as follows:

The Group financial results in 1999 were strongly marked by the liabilities to banks that were taken over from the federal budget on May 1, 1996 in connection with the spin-off of the former Post and Telekom Austria AG. In consolidated form, the negative interest result burdens the income statement with the amount of TATS 2,690,037 (previous year: TATS 2,971,349).

The results from ordinary business activities amounted to TATS 3,528,394 (previous year: TATS 8,521,558).

The net income for the past business year amounted to TATS 3,234,539 (previous year: TATS 6,260,765); following movement of reserves and a transfer to reserves from retained earnings, the consolidated net earnings amounted to TATS 5,752,421 (previous year: TATS 8,571,701).

4. Investments and Financial Status.

In 1999, additions to consolidated intangible assets and property, plant, and equipment amounted to TATS 13,556,962. TATS 249,508 of this amount was attributed to additions in the course of the initial consolidation of VIP-Net GSM d.o.o. on Jan. 1, 1999. The previous year's capital expenditure volume amounted to TATS 12,406,766. TELEKOM AUSTRIA AG's capital expenditures of TATS 8,616,281 were focused on fixed network telephony. Network digitalization was concluded at the end of 1999. Additionally, the development of the fiber optics network was continued according to plan.

In 1999, MOBILKOM AUSTRIA AG's overall capital expenditures, amounting to TATS 2,789,554, focused on the additional network expansion. After the initial allocation of capacities in the 1,800 Mhz frequency range in 1999, the main capital expenditure activity was directed at improving network quality in congested urban areas by the immediate use of these additional capacities. Furthermore, office and business complexes, street tunnels, and Vienna sub-

(thousands of ATS)	Turnover	Operating results	Operating margin In %
TELEKOM AUSTRIA AG	38,266,036	3,345,903	8.7
MOBILKOM AUSTRIA AG	16,501,288	2,939,675	17.8
DATAKOM AUSTRIA GMBH	3,847,412	325,506	8.5

way lines were equipped with repeater facilities. The focal point of capital expenditures in Vip-Net GSM d.o.o. was in network development.

In 1999, DATAKOM AUSTRIA GMBH made increased capital expenditures in the expansion of the data stream network, for technical equipment for Corporate Networks, and the expansion of the Dataswitch network for protocol-oriented services.

On Dec. 31, 1999, the Group's own consolidated equity ratio – calculated on the basis of business economics principles - amounted to 41.3%, compared to 43.6% in the previous year.

5. Research and Development.

The Group's participation in the European Union's various research and technology programs is an important success factor in competition. Within the framework of the IST (Information Society Technology) program comprising numerous projects, the development and application of new technologies was promoted. In this regard, the Group intensively participated in the AQUILA (Adaptive resource control quality-oriented standard in an IP-layered architecture) project. In addition, the research departments were involved in the work on a worldwide standard for Internet telephony in connection with the Transeuropean Networks for Telecommunications and ETSI (European Telecommunication Standardization Institute).

On the national level, in addition to research activity, new products such as ADSL, JAMES (Joint ATM Experiment on European Services) and digital signature were tested, and the necessary experience was gained for deployment in the market. ADSL was successfully introduced in 1999; market introduction of JAMES is planned for the first half of 2000.

The Group is a member of the "Forschungszentrum Telekommunikation Wien" (Vienna Research Center for Telecommunications) research project at the Vienna University of Technology; within this framework, it supports especially research of new technologies for the UMTS standard (Universal Mobile Telephone System).

5.1. Personnel.

In 1999, on a yearly average, the Group employed 19,347 personnel (13,796 civil servants, 5,550 salaried employees) compared to 19,425 in the previous year.

The rationalization necessary to reduce the number of personnel at TELEKOM AUSTRIA AG to a level corresponding to market requirements was carried out with continued momentum, using early retirement and severance pay models for employed civil servants.

The very positive business development in mobile communications and data communications led in 1999 to a strong increase in personnel in these areas of business.

In total, despite all the structurally required personnel reduction measures, Group employees are an important guarantee of the business success achieved in the past and planned for the future. In 1999, intensive training programs for personnel were particularly successful, enabling them to perform new tasks in the sales area.

6. Outlook

2000 will be marked particularly by the Group's initial public offer (IPO), which is planned for late autumn. The sale of an as yet undetermined share of the capital stock of TELEKOM AUSTRIA AG will be the largest IPO ever carried out in the Austrian economy. An international group of shareholders will put new demands on the Group's strategic and financial development. The Group is conscious of these new challenges and is intensively preparing itself for them.

The development of 1999 has already shown the Group's successful positioning as the only full-service provider in the Austrian telecommunications market. In fixed network telephony, competition will increase in the domestic market with the market entry of additional alternative operators. In mobile communications, the fourth licensee will commence its business operations in the first half of 2000. Expected economic growth of 2.8% and an inflation rate of 1.4% set 2000's general economic framework for the continuation of positive development in the telecommunications market.

Against this background, the Group has directed its strategy towards maximum customer orientation. A company organization that clearly focuses on the realities of the market will place the customer even more firmly in the center of company activities.

The Group is fully conscious of its responsibility as the leading Austrian telecommunications provider. Its most important goal is to continue to expand its range of innovative products and services at the highest quality standard. For this purpose, the Group continues to invest in network development to meet the requirements of its customers and of competitors using the network for their traffic. After the successful conclusion of digitalization in the past year, the focus will in future rest on providing new technologies.

It is expected that in 2000, the Republic of Austria will grant UMTS licenses. As the market leader in mobile communications, the TELEKOM AUSTRIA Group will acquire a UMTS license in order to be able to offer its customers further innovations and the latest technology.

The Group's strong market position in the Internet, which is shown by its status as Austria's leading Internet service provider, will be further developed by focussing the Internet activities. This will receive added impetus with the acquisition of a minority holding in Libro AG at the beginning of 2000.

Vienna, April 10, 2000

Senator h.c. KR

Ing. Werner Kasztler
Chief Executive Officer

Dr. Alberto Mazzarelli
Deputy CEO

Ing. Mag. Rudolf Fischer

Dr. Claudio Albanese

CONSOLIDATED INCOME STATEMENT FOR THE 1999 BUSINESS YEAR IN ATS.

	Notes	1999 ATS	1998 thousands of ATS
1. Turnover	12	51,221,293,920.11	46,585,098
2. Change in inventory and work in progress		12,962,618.55	2,888
3. Other capitalized own work		1,644,437,996.57	1,923,260
4. Other operating income	13	1,562,685,853.04	1,578,594
5. Cost of material and services purchased	14	-15,301,638,917.09	-8,359,265
6. Personnel expenses	15	-10,799,987,777.37	-9,581,340
7. Depreciation and amortization thereof extraordinary deprecation of fixed assets according to sec. 204 para. 2 HGB (Commercial Code): ATS 12,078,624.00; previous year: TATS 52,192	16	-14,101,852,605.11	-13,158,755
8. Other operating expenses	17	-8,032,320,423.04	-7,533,743
9. Subtotal from lines 1 to 8		6,205,580,665.66	11,456,737
10. Income from interests in other companies	18	14,312,455.56	24,258
11. Income from other securities and loans forming part of financial assets		8,343,271.75	9,596
12. Other interest and similar income thereof from group companies: ATS 0; previous year: TATS 258,547	19	500,750,590.67	331,710
13. Income from retirement of financial assets and current assets' securities		4,747,231.94	4,643
14. Expenses arising from financial assets and current assets' securities thereof write-offs: ATS 4,442.90; previous year: TATS 1,642	20	-7,515,633.44	-2,327
15. Expenses arising from interests in affiliated companies.	21	-7,036,916.10	0
16. Interest and similar expenses thereof from group companies: ATS 0; previous year: TATS 30,077	22	-3,190,787,811.59	-3,303,059
17. Subtotal from lines 10 to 16		-2,677,186,811.21	-2,935,179
18. Result from ordinary business activities		3,528,393,854.45	8,521,558
19. Taxes on income	23	-293,854,713.30	-2,260,793
20. Net income for the year		3,234,539,141.15	6,260,765
21. Minority interest	24	-226,765,773.00	-482,566
22. Allocation to retained earnings		-1,254,696,437.73	-2,017,105
23. Profit carried forward from last year		3,993,700,801.24	4,810,607
24. Currency exchange difference		5,643,460.10	0
25. Consolidated net earnings		5,752,421,191.76	8,571,701

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 1999 IN ATS.

ASSETS	Notes	Dec. 31, 1999 ATS	Dec. 31, 1998 TATS
A. Fixed Assets	5		
I. Intangible Assets			
1. Licenses, industrial property rights and similar rights		4,782,187,865.20	4,270,495
2. Goodwill		7,593,468,135.58	8,229,457
3. Prepayments		84,637,356.31	264,674
		12,460,293,357.09	12,764,626
II. Property, plant and equipment			
1. Land and equivalent rights, and buildings, including buildings on third party land		8,125,599,354.72	8,291,488
2. Technical facilities and machinery		68,145,998,452.35	68,526,036
3. Other facilities, plant and office equipment		1,899,522,386.11	1,662,798
4. Prepayments and construction in progress		2,556,836,801.60	3,503,115
		80,727,956,994.78	81,983,437
III. Financial assets			
1. Interests in group companies		9,000,000.00	0
2. Interests in associated companies		53,822,834.17	7,692
3. Long-term loans to associated companies		0.00	87,959
4. Other interests in companies		67,715,631.94	79,587
5. Securities and similar rights forming part of fixed assets		82,580,677.32	132,738
6. Other long-term loans		26,032,456.36	26,288
		239,151,599.79	334,264
		93,427,401,951.66	95,082,327
B. Current assets			
I. Inventory			
1. Raw materials and supplies		930,229,833.18	1,210,420
2. Finished goods and merchandize		1,178,293,749.57	548,217
3. Work in progress		15,840,280.55	2,878
4. Prepayments		0.00	3,776
		2,124,363,863.30	1,765,291
II. Receivables and other assets	6		
1. Trade accounts receivable		10,338,623,324.44	8,905,164
2. Receivables from group companies		1,974,086.30	4,511,411
3. Receivables from affiliated companies		9,162,580.35	100,368
4. Other receivables and assets		3,913,781,104.17	2,264,602
		14,263,541,095.26	15,781,545
III. Marketable securities and interests in other companies			
1. Other securities and assets		0.00	53,630
IV. Cash, cheques and bank accounts		5,780,361,871.23	24,958
		22,168,266,829.79	17,625,424
C. Prepaid expenses and deferred charges		788,742,079.29	289,278
		116,384,410,860.74	112,997,028

SHAREHOLDERS' EQUITY AND LIABILITIES		Notes	Dec. 31, 1999 ATS	Dec. 31, 1998 TATS
A. Shareholders' equity		7		
I. Capital stock			15,000,000,000.00	15,000,000
II. Additional paid-in capital				
restricted			16,226,704,727.47	16,226,705
III. Reserves from retained earnings				
other reserves (unrestricted reserves)			7,201,318,023.11	5,946,622
IV. Adjustment due to currency exchange			-6,472,681.29	0
V. Minority interests			3,879,281,241.73	3,527,849
VI. Consolidated net earnings			5,752,421,191.76	8,571,701
thereof: group retained earnings: ATS 3,993,700,801.24; previous year: TATS 4,810,607				
			48,053,252,502.78	49,272,876
B. Accruals		8		
1. Accruals for severance payments			197,530,213.05	176,839
2. Accruals for pensions			142,431,239.00	145,182
3. Accruals for taxes			2,535,201,552.42	2,336,871
4. Other accruals			6,452,378,920.90	5,488,160
			9,327,541,925.37	8,147,052
C. Liabilities		9		
1. Bonds			7,212,197,379.17	7,216,672
2. Liabilities to banks			34,065,687,345.52	37,588,855
3. Advances received			2,362,407.00	6,110
4. Trade accounts payable			7,053,131,051.34	5,256,366
5. Liabilities toward group companies			821,917.20	3,555,746
6. Liabilities toward affiliated companies			3,915,779.01	0
7. Other liabilities			8,409,450,240.73	1,033,104
thereof from taxes: ATS 105,191,206.97; previous year: TATS 109,386 thereof incurred in the context of social security: ATS 69,879,974.48; previous year: TATS 58,574				
			56,747,566,119.97	54,656,852
D. Deferred income and accrued expenses			2,256,050,312.62	920,248
			116,384,410,860.74	112,997,028
Liabilities from guarantees as well as other contractual liabilities		10	15,081,380,001.49	2,462,584

CONSOLIDATED STATEMENT OF CASH FLOWS IN ATS.

(thousands of ATS, not part of the financial statements)	1999	1998
Net income	3,234,539	6,260,766
Depreciation and amortization	14,101,853	13,158,755
Depreciation of financial assets	28,566	1,453
Allocation to accrual for severance payments and pensions	17,940	40,799
Allocation to accrual for anniversary payments	23,072	41,820
Reversal of accrual for the social plan	848,958	-168,608
Book value of retired assets	452,153	848,659
Cash flow balance sheet	18,707,082	20,183,645
Income from the retirement of fixed assets	-45,859	-50,176
Expenses from the retirement of fixed assets	281,404	638,258
Book value of retired fixed assets	-452,153	-848,659
Result from the retirement of fixed assets	-216,608	-260,577
Cash flow from the result	18.490,474	19,923,068
Assets (decrease +, increase -)		
Inventory	-359,073	-227,568
Trade accounts receivable	-1,433,459	-939,491
Receivables from group companies	1,759,495	-1,761,464
Receivables from affiliated companies	91,205	-85,612
Other assets	-2,802,527	219,655
Liabilities (decrease -, increase +)		
Provision for taxation	198,331	661,901
Other short-term accruals	92,190	-297,164
Trade accounts payable	1,796,765	-73,518
Liabilities to group companies	-1,249,741	1,238,202
Liabilities to affiliated companies	3,916	0
Other liabilities	1,552,021	635,577
Change in working capital	-350,877	-629,482
Cash flow from operating activities	18,139,596	19,293,586

(thousands of ATS, not part of the financial statements)	1999	1998
Cash flow from operating activities	18,139,596	19,293,586
Capital expenditures for intangible assets	-1,149,244	-798,795
Capital expenditures for property, plant and equipment	-12,407,719	-11,608,062
Capital expenditures for financial assets (excluding securities)	-115,636	-122,205
Net change in fixed assets' securities and loans	50,153	-26,121
Result from the retirement of fixed assets	216,608	260,577
Cash flow from capital expenditure activities	-13,405,838	-12,294,606
Assets (decrease +, increase -)		
Receivables from group companies, finance & clearing	444,759	-3,597
Receivables from group companies, other	0	800
Liabilities (decrease -, increase +)		
Distribution to shareholders	-4,843,011	-2,970,006
Capital contribution	389,678	7,35
Other changes to shareholders' equity	-830	0
Bonds (short-term)	3,175,525	-550,232
Liabilities to bank (short-term)	-1,935,579	3,587,973
Liabilities from financing and clearing, due to third parties	7,026,533	0
Remaining long-term liabilities	-4,767,589	-8,521,641
Cash flow from financing activities	-510,514	-8,495,248
Depreciation of capitalized refundable input taxes	694,798	1,243,161
Receipts from the refund of input taxes	972,343	1,225,201
Receipts subsequent years	-188,612	-972,343
Cash flow from VAT adjustment	1,478,529	1,496,019
Change in cash and cash equivalents	5,701,774	-249

DEVELOPMENT OF THE CONSOLIDATED FIXED ASSETS.

(thousands of ATS)	Acquisition/ production costs Jan. 1, 1999	Additions	Additions due to initial consolidation
I. Intangible assets			
1. Licenses, industrial property rights and similar rights	5,537,097	788,969	230,900
2. Goodwill	10,021,705	37,819	7,169
3. Prepayments	264,674	84,387	0
	15,823,477	911,175	238,069
II. Property, plant and equipment			
1. Land and equivalent rights, and buildings, including buildings on third party land	9,586,300	374,442	0
2. Technical facilities and machinery	94,609,804	8,936,797	0
3. Other facilities, plant and office equipment	3,046,234	1,028,741	4,747
4. Prepayments and construction in progress	3,503,115	2,056,299	6,692
	110,745,453	12,396,280	11,439
III. Financial Assets			
1. Interests in group companies	0	9,000	0
2. Interests in associated companies	7,692	79,034	0
3. Long-term loans to associated companies	87,959	0	0
4. Other interests in companies	79,615	22,845	0
5. Securities and similar rights forming part of fixed assets	133,431	90,124	0
6. Other long-term loans	31,373	4,757	0
	340,070	205,760	0
	126,909,000	13,513,214	249,508

Disposals	Reclassifications	Acquisition/ production costs Dec. 31, 1999	Depreciation (cumulative)	Book value Dec. 31, 1999	Book value Dec. 31, 1998	Depreciation 1999
75,042	261,359	6,743,284	1,961,096	4,782,188	4,270,495	763,844
0	0	10,066,693	2,473,225	7,593,468	8,229,457	680,977
0	-264,423	84,637	0	84,637	264,674	0
75,042	-3,064	16,894,614	4,434,320	12,460,293	12,764,626	1,444,821
108,949	104,989	9,956,781	1,831,182	8,125,599	8,291,488	539,446
1,117,022	2,861,626	105,291,205	37,145,207	68,145,998	68,526,036	11,339,175
574,753	10,031	3,515,001	1,615,478	1,899,522	1,662,798	778,410
35,688	-2,973,581	2,556,837	0	2,556,837	3,503,115	0
1,836,412	3,064	121,319,824	40,591,867	80,727,957	81,983,437	12,657,032
0	0	9,000	0	9,000	0	0
5,328	0	81,398	27,575	53,823	7,692	27,575
87,959	0	0	0	0	87,959	0
34,716	0	67,744	28	67,716	79,587	0
140,965	0	82,590	9	82,581	132,738	4
5,179	0	30,951	4,919	26,032	26,288	986
274,147	0	271,683	32,531	239,152	334,264	28,566
2,185,602	0	138,486,120	45,058,718	93,427,402	95,082,327	14,130,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1999 BUSINESS YEAR.

1. General Remarks.

In 1998 TELEKOM AUSTRIA AG was established in the course of a series of restructuring processes through a spin-off of the Postal Service and Postal Transport Divisions from the former Post & Telekom Austria AG.

Radio Austria Audiotex GmbH, which had been 100%-owned by TELEKOM AUSTRIA AG, merged with the parent company retroactively as of January 1, 1999 by means of universal succession, utilizing the then-existing preferential taxation provision of sec. 14 para. 4 PTSG.

In 1999 the corporation was a fully consolidated group company of the group of companies of Post & Telekom Austria AG (PTA) Group. The ÖIAG Law 2000 – which is soon to be passed – concerning the merger of PTA and Post und Telekombeteiligungsgesellschaft (PTBG) with the ÖIAG as the surviving corporation provides that retroactively as of Jan. 1, 1999 Post und Telekom Austria AG will no longer be subject to the obligation of preparing consolidated financial statements according to sec. 244 para. 1 HGB (Commercial Code). Therefore, PTA decided already in advance that no 1999 consolidated financial statements are to be prepared, or will be prepared at a later time, should the law not be passed as expected. Therefore, the present consolidated financial statements constitute mandatory consolidated financial statements pursuant to sec. 244 para. 1 HGB (Commercial Code).

The comparison figures from the year 1998 relate to the voluntarily prepared, unpublished sub-group financial statements of TELEKOM AUSTRIA AG.

2. Accounting and Valuation Principles.

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

The accounting and valuation were carried out in accordance with the accounting provisions of the HGB (Commercial Code) as amended by the EU Corporate Law Amendment Act of 1996.

All figures are shown in thousands of Austrian Schillings (TATS).

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

2.1. Fixed Assets.

The intangible assets are valued at acquisition cost, less regular amortization on a straight-line basis based on a useful life between 4 and 30 years. Transmission line rights are amortized over the duration of the contracts. A period of 15 years has been chosen for the useful life of the license of MOBILKOM AUSTRIA AG (the right to operate the reserved telecommunications service in the digital cellular mobile radio range GSM). The GSM license valid for Croatia will be amortized over the term of validity of this licence (10 years).

In the individual financial statements, a period of 15 years has been chosen for the useful life of goodwill, having regard to the provisions of sec. 203 para. 5 HGB (Commercial Code).

Property, plant and equipment are valued at acquisition cost or production cost less regular depreciation. In addition to direct costs the production costs of self-developed assets also include prorated overhead costs, but no social expenditures as defined by sec. 203 para. 3 HGB (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	10–50	2–10
Technical facilities and above-ground structures	4–20	5–25
Tools, measuring instruments and monitoring devices	5–10	10–20
EDP equipment	4–10	10–25
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 TATS 5) are depreciated completely in the year of acquisition. They are shown as additions and disposals in the Development of Fixed Assets. Selected areas of the Group are excepted from this principle, for which areas, for the purpose of securing assets, the book value disposal is only recorded when the asset leaves the Group. 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 & Telekom Austria AG as of May 1, 1996, at a fixed value which remained unchanged during the business year.

Extraordinary depreciation amounting to TATS 12,079 (1998: TATS 52,192) was taken from property, plant and equipment during the business year.

As in 1998, Cross Border Leasing agreements were again concluded in the 1999 business year. In 1999 switching facilities and technical facilities for the GSM radio network were sold to several US trust companies for a total purchase price of US\$ 869.8 million. These assets were subsequently leased back.

The lessee was granted the right of buying back the leased assets at a contractually fixed price after the expiry of approximately 10 respectively 13 years.

In the Financial Statements as of Dec. 31, 1999, the Cross Border Leases transacted in 1998 and 1999 are shown as follows:

1. The resulting net cash value advantage in the amount of US\$ 74.4 million (of which US\$ 7.7 million is from 1998) is shown under the deferred income and accrued expenses position, and will be dissolved over a term of approximately 10 respectively 13 years pro rata temporis and shown as interest income, amounting to ATS 39.6 million in 1999 (1998: ATS 3.4 million).
2. The total amount of unpaid leasing liabilities is shown as a contingent liability, amounting to ATS 13,633.3 million.
3. Due to the continuing economic ownership, the assets sold and leased back continue to be shown and depreciated as fixed assets.

Interests in other 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 1999 business year, no extraordinary depreciation regarding shares in associated companies and of interests in other companies was taken in the consolidated financial statements. In the area of securities belonging to financial fixed assets, extraordinary depreciation was taken in the amount of TATS 4.

2.2. 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, limited usability 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 reasonable portions of 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. Claims against states participating in the monetary union are valued at the fixed Euro exchange rates.

Prepaid expenses and financing commissions already accounted for in the opening balance sheet on May 1, 1996 were capitalized in the prepaid expenses and deferred charges position; these items will be allocated to results over their respective terms. Furthermore this position shows an accrual for capitalized deferred taxes in the amount of ATS 76,310, which is calculated based on the adjustment of the foreign annual financial statement of VIP-Net GSM - included for the first time in the 1999 group financial statement - to the Austrian accounting provisions (HB II).

2.3. 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 employees were calculated according to actuarial principles using an imputed interest rate of 6%.

Accruals for obligations similar to severance payments are set up for anniversary bonuses.

Other accruals are set up in the amount of the anticipated utilization. They take into account all foreseeable risks and all liabilities, the amount of which cannot be ascertained yet.

2.4. Liabilities.

Liabilities are valued at the amount repayable, with regard to the principle of conservatism. Foreign currency denominated liabilities are valued at the selling rate (the mean exchange rate for financial liabilities) on the balance sheet date, or at book value, whichever is higher. Roaming liabilities are valued at the settling price of the special drawing rights, or at the higher selling rate on the balance sheet date. Liabilities to countries participating in the monetary union are valued at the fixed Euro exchange rates.

3. Consolidated Companies and Principles of Consolidation.

3.1. List of Interests in other Companies; Consolidated Companies.

Name and Offices of the Corporation (thousands of ATS)	Group capital share as of Dec. 31 1999 %	Shareholders' Equity as of Dec. 31, 1999	Annual income loss in 1999
Group Companies	Parent company		
TELEKOM AUSTRIA AG, Vienna		41,070,210	2,469,588
MOBILKOM AUSTRIA AG, Vienna	74.99	14,991,812	1,941,817
DATAKOM AUSTRIA GmbH, Vienna	100.0	1,038,577	238,261
Datakom Informationsservice GmbH, Vienna	100.0	17,617	10,637
Highway 194 Internet Vertriebs GmbH, Vienna	51.0	7,307	6,880
Telekom Beteiligungs- und Entwicklungs GmbH, Vienna	100.0	6,667	6,186
Telekom Finanzmanagement GmbH, Vienna	100.0	6,754	6,254
VIP-Net GSM d.o.o., Zagreb	51.1	260,937	-535,119
Non-Consolidated Group Companies (sec. 249 para. 2 HGB)			
Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft mbH, Vienna	100.0	5,400	1,823
Net-at-Work Datenhandels- und KommunikationsgmbH, Wels	100.0	1,053	-3,575
Associated Companies included "at equity"			
Herold Business Data AG, Mödling	26.0	86,113	75,144
Associated, not included Companies (sec. 263 para. 2 HGB)			
ATC Austrian Telecom Corporation GmbH, Vienna	49.0	482	6
Tirolnet Vertriebsgesellschaft mbH, Innsbruck	50.0	2,401	-131

The balance sheet date of all the enterprises included in these Group Financial Statements as of Dec. 31, 1999 is December 31, 1999.

In the past business year, VIP-Net GSM d.o.o., Zagreb (Jan. 1, 1999), as well as Telekom Beteiligungs- und Entwicklungs GmbH, Vienna (date of its incorporation) were initially included in the consolidation. The latter

corporation was incorporated in 1999 and acquired 100% of the shares of Telekom Finanzmanagement GmbH, Vienna.

In the year under review, two group and two associated enterprises, whose influence on the overall financial status of the Group is of secondary importance (also in total), were not consolidated.

3.2. Principles of Consolidation.

The consolidation of capital takes place on the basis of the book value method according to sec. 245 para. 1 no. 1 HGB (Commercial Code). Thereby, the book values of the interests in the group companies are set off against the pro rata equity of the subsidiaries at the time of acquisition or initial inclusion in the consolidation. The differences resulting therefrom, if an allocation to the individual assets or liabilities is not possible, are shown as goodwill, or as passive differences, respectively. Goodwill is depreciated in accordance with the attributable useful life. In the context of the initial consolidation of the reporting year, active differences were reflected in the balance sheet in the amount of approximately ATS 33.5 million as goodwill (exclusively for VIP-Net GSM).

In the context of debt consolidation, long-term loans, trade accounts receivable and other receivables are set off against the corresponding liabilities and accruals. All expenses and income within the Group are eliminated in the context of the expense and income consolidation. In case of the self-production of facilities within the Group, the turnover allocated to same is regrouped as own work capitalized.

It was not necessary to eliminate intercompany profits in the 1999 business year.

Capital consolidation for corporations consolidated "at equity" take place on the basis of the book value method according to sec. 264 para. 1 no. 1 HGB (Commercial Code) by analogy to capital consolidation with group enterprises. In connection with the capital consolidation of the business year, a special situation resulted inasmuch as, by reason of the capitalization of the entire purchase price for shares in Herold Business Data AG foreseeably to be paid,

which in large part depends on future results, a capital difference of approximately ATS 51.1 million was capitalized and the depreciation for 1998 and 1999 (useful life of five years) allocated to results. The balance of the share in the result for 1999 from this equity interest amounted to minus ATS 7.0 million. This item is shown at Expenses from Interests in Associated Companies.

Contrary to the accounting and valuation principles applied to the individual financial statements, the untaxed reserves were included in the consolidated financial statement in the reserves from retained earnings.

4. Currency Exchange.

The financial statements of the fully consolidated foreign subsidiary is converted according to the modified balance sheet date exchange rate procedure. The items in the balance sheet, with the exception of the shareholders' equity positions (historic exchange rate), are converted at the mean foreign exchange rate on the balance sheet date. The income statement is converted using average yearly exchange rates. Differences resulting from the currency exchange in the assets and debts positions compared to the exchange of the previous year (or initial consolidation) as well as exchange differences between balance sheet and income statement are not allocated to results.

5. Fixed Assets.

Property, plant and equipment includes real property with a value of TATS 891,185 (Dec. 31, 1998: TATS 891,952).

Loans with a remaining term of up to one year amount to TATS 532 (Dec. 31, 1998: TATS 5,531).

6. Receivables and Other Assets.

(thousands of ATS)	Dec. 31, 1999		Dec. 31, 1998	
	Remaining term to maturity up to 1 year	Remaining term to maturity more than 1 year	Remaining term to maturity up to 1 year	Remaining term to maturity more than 1 year
Trade accounts receivable	10,336,623	0	8,905,164	0
Receivables from group companies	1,974	0	4,511,411	0
Receivables from affiliated companies	9,163	0	100,368	0
Other receivables and assets	3,733,371	180,410	2,092,805	171,797
	14,083,131	180,410	15,609,748	171,797

As of year end, lump-sum valuation adjustments of trade accounts receivable in the amount of TATS 89,617 (Dec. 31, 1998: TATS 143,557) were carried out within the Group. The receivables due from Group companies exclusively concern the Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft mbH, which was not consolidated in the Group financial statements due to immateriality. The receivables due from affiliated companies consist primarily of other receivables.

7. Shareholders' Equity.

Development of the Consolidated Shareholders' Equity				Adjustment
(thousands of ATS)	Capital stock	Additional paid-in capital	Reserves from retained earnings	due to currency exchange
Jan. 1, 1999	15,000,000	16,226,705	5,946,622	0
Distributions for 1998	0	0	0	0
Annual income 1999	0	0	0	0
Exchange difference from the income statement	0	0	0	0
Minority interests from capital consolidation	0	0	0	0
Transfer to reserves from retained earnings	0	0	1,254,696	0
Result of currency exchange	0	0	0	-6,473
Dec. 31, 1999	15,000,000	16,226,705	7,201,318	-6,473

TELEKOM AUSTRIA AG has a capital stock of ATS 15,000,000,000 consisting of 150,000,000 bearer shares with a par value of ATS 100.00 each. On Dec. 31, 1999, the following shareholders had a share in the capital stock:

(thousands of ATS)	Capital stock
Post & Telekom Austria AG, Vienna	11,249,996
STET International N.V. Amsterdam, Netherlands	3,750,004
	15,000,000

The consolidated net earnings were adjusted amounting to the net earnings in the financial statements of TELEKOM AUSTRIA AG by a transfer to reserves from retained earnings in the amount of TATS 1,254,696.

Minority interests	Consolidated net earnings	Total
3,527,849	8,571,700	49,272,876
-265,011	-4,578.000	-4,843,011
226,766	3,007,773	3,234,539
0	5,643	5,643
389,678	0	389,678
0	-1,254,696	0
0	0	-6,473
3.879,282	5,752,420	48,053,252

8. Accruals.

The accruals for taxes on Dec. 31, 1999 concern mainly corporation tax, taxes on wages, and municipal taxes. An accrual amounting to TATS 562,173 was set up for deferred taxes (Dec. 31, 1998: TATS 749,490).

Other accruals consist of the following:

(thousands of ATS)	Dec. 31, 1999	Dec. 31, 1998
Social benefits /restructuring expenses	2,614,177	2,649,141
Anniversary bonuses	944,246	925,507
Open vacation entitlements	659,989	590,024
Discounts to major customers	658,920	852,854
Open incoming invoices	955,141	147,828
Other items less than TATS 500,000	619,906	322,806
	6,452,379	5,488,160

An accrual was formed with respect to the the social plan for the costs of the actual utilization by the respective employees, including all collateral costs.

9. Liabilities

(thousands of ATS)	Dec. 31, 1999		
	up to 1 year	from 1 to 5 years	Remaining term to maturity more than 5 years
Bonds	3,386,197	3,826,000	0
Liabilities to banks	3,731,843	22,693,201	7,640,643
Prepayments received	2,363	0	0
Trade accounts payable	7,048,900	4,228	3
Accounts payable toward group companies	822	0	0
Accounts payable toward affiliated companies	3,916	0	0
Other liabilities	7,981,512	420,445	7,493
<i>thereof from taxes</i>	105,191	0	0
<i>thereof incurred in the context of social security</i>	62,531	7,349	0
Other	7,813,790	413,096	7,493
	22,155,553	26,943,874	7,648,139

(thousands of ATS)	Dec. 31, 1998		
	up to 1 year	from 1 to 5 years	Remaining term to maturity more than 5 years
Bonds	210,672	4,931,000	2,075,000
Liabilities to banks	5,667,422	15,813,695	16,107,738
Prepayments received	6,110	0	0
Trade accounts payable	5,253,229	3,137	0
Accounts payable – group companies	3,555,746	0	0
Accounts payable – affiliated companies	0	0	0
Other liabilities	572,858	430,436	29,810
<i>thereof from taxes</i>	109,386	0	0
<i>thereof incurred in the context of social security</i>	53,808	4,766	0
Other	409,664	425,670	29,810
	15,266,037	21,178,268	18,212,548

**10. Liabilities from Guarantees as well as
Other Contractual Liabilities.**

(thousands of ATS)	Dec. 31, 1999	Dec. 31, 1998
Liabilities from guarantees	1,448,072	332,631
Other contractual liabilities, US Cross Border Lease	13,633,308	2,129,953
	15,081,380	2,462,584

11. Other Financial Commitments.

(thousands of ATS)	Dec. 31, 1999	Dec. 31, 1998
Purchase commitments for capital expenditures	2,596,467	2,980,028
Commitments arising from the utilization of off-balance sheet property, plant and equipment		
In the next business year	754,539	562,457
In the next five business years	3,597,408	2,812,285

12. Turnover.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Voice telephony	25,992,414	25,988,325
Mobile telephony	10,161,449	9,026,786
Roaming and interconnection	5,131,226	3,160,864
Merchandise	3,619,992	3,575,268
Company networks, various services	3,270,116	1,906,038
Leased lines	1,178,501	1,215,552
Coin and pre-paid card telephony	1,102,469	1,199,713
Other	1,424,486	667,115
	51,880,653	46,739,661
Discounts and allowances	-659,359	-154,563
	51,221,294	46,585,098

13. Other Operating Income.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Income from the disposal of non-financial fixed assets	41,138	45,626
Income from the reversal of accruals	194,905	281,252
Remaining	1,326,643	1,251,716
	1,562,686	1,578,594

14. Cost of Material and Services Purchased.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Cost of materials	5,356,647	2,608,766
Costs of services purchased	9,944,992	5,750,499
	15,301,639	8,359,265

15. Personnel.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Wages	98	36
Salaries	8,480,367	7,475,213
Expenses for severance payments	52,343	48,383
Expenses for pensions	19,660	44,070
Expenses for statutory social contributions, and payroll-related taxes and mandatory contributions	2,159,056	2,000,376
Other expenses for social benefits	88,464	13,263
	10,799,988	9,581,340

Average number of employees in the business year:

	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Civil servants with tenure	13,796	14,932
Salaried employees	5,550	4,492
Worker	1	1
	19,347	19,425

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Remuneration of members of the Management Board	26,326	5,722
Remuneration of former members of the Management Board	1,180	0
Remuneration of members of the Supervisory Board	250	1,179
	27,756	6,901

The remuneration of Management Board members can only be compared to a limited extent, as the current Management Board was only appointed at the end of 1998.

The expenses for severance payments and pension are allocated as follows:

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Members of the Management Board	1,791	245
Managerial employees	2,465	4,464
Other employees	67,747	95,621
	72,003	100,330

16. Depreciation and Amortization.

The fixed assets of TELEKOM AUSTRIA AG as well as of MOBILKOM AUSTRIA AG include input taxes, which were depreciated in the business year in the amount of TATS 694,798 (1998: TATS 1,243,161). The refund of input tax according to sec. 12 para. 10 and para. 11 UstG (Turnover Tax Act) is charged against the depreciation in the same amount.

Extraordinary depreciation in the amount of TATS 12,079 (1998: TATS 52,192) was required.

The details of the depreciation can be found in the "Development of Consolidated Fixed Assets".

17. Other Operating Expenses.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Other taxes relating to operations	561,741	147,171
Other items	7,470,579	7,386,572
	8,032,320	7,533,743

18. Income from Interests in Other Companies.

Of the income from interests in other companies, TATS 14,312 (1998: TATS 17,134) are allocated to distributions from international satellite organizations, in which 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.

In 1999, no write-offs are contained in the expenses arising from financial assets and current assets' securities.

21. Expenses Arising from Interests in Affiliated Companies.

This position only shows the impact on results of valuation changes of the interest in Herold Business Data AG, Mödling.

22. Interest and Similar Expenses.

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

23. Taxes on Income.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
Current taxes	-545,287	-2,363,455
Deferred taxes	251,432	102,662
	-293,855	-2,260,793

In the position Taxes on Income, credits arising from the assessment in previous years amounting to TATS 428,767 have been offset.

24. Minority Interests.

(thousands of ATS)	Jan. 1 – Dec. 31, 1999	Jan. 1 – Dec. 31, 1998
In profits	-488,845	-489,707
In losses	262,079	7,141
	-226,766	-482,566

Members of the Management Board and the Supervisory Board.

Management Board:	
Senator h.c. KR Ing. Werner Kasztler	(Chief Executive Officer)
Dr. Alberto Mazzarelli	(Deputy CEO)
Ing. Mag. Rudolf Fischer	
Dr. Claudio Albanese	
Syndicate Partner	
PTA	(represented by Ing. Dr. Josef Sindelka)
Telecom Italia	(represented by Ing. Maurizio Stecco)
Supervisory Board:	
Ing. Dr. Josef Sindelka	(Chairman of the Supervisory Board)
KR Dkfm. Dr. Erich Becker	(Deputy Chairman of the Supervisory Board) until 17.9.1999
Ing. Oscare Cicchetti	until 17.9.1999
Mag. Werner Muhm	until 17.9.1999
Dr. Claus J. Raidl	until 17.9.1999
Ing. Maurizio Stecco	until 17.9.1999
Dr. Josef Taus	until 17.9.1999
Gerhard Zeiler	
Dr. Günther Chaloupek	from 17.9.1999
Mag. Dr. Stephan Koren	from 17.9.1999
Dr. Massimo Masini	from 17.9.1999
Dr. Giulia Nobili	from 17.9.1999
Mag. Josef Stiegler	(Deputy Chairman of the Supervisory Board) from 17.9.1999
DI Otto G. Zich	from 17.9.1999
Robert Sulzbacher	
Hans Billeth	
Helmut Hospodar	
Ing. Karl-Heinz Muik	

Vienna, April 10, 2000

The Management Board

Senator h.c. KR

Ing. Werner Kasztler, CEO

Dr. Alberto Mazzarelli, Deputy CEO

Ing. Mag. Rudolf Fischer

Dr. Claudio Albanese

AUDITORS' OPINION.

The auditors issued following unqualified auditors' opinion according to sec. 274 para. 1 HGB (Commercial Code) on the consolidated financial statements for the fiscal year ended December 31, 1999 of TELEKOM AUSTRIA AG, Vienna, Austria.

"As a result of our due audit, we certify that the consolidated financial statements comply with the legal provisions. The consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial position and performance, in conformity with generally accepted accounting principles. The management report corresponds with the consolidated financial statements."

Vienna, April 10, 2000

Grant Thornton – Jonasch & Platzer

Wirtschaftsprüfungs- und Steuerberatungs-OHG

Univ.-Doz. Dr. Walter Platzer
Wirtschaftsprüfer und Steuerberater
by proxy Mag. Karl Newertal
Steuerberater

KPMG Austria

Wirtschaftsprüfungs- und Steuerberatungs-GmbH

DDr. Martin Wagner
Mag. Dr. Johann Perthold
Wirtschaftsprüfer und Steuerberater

REPORT OF THE SUPERVISORY BOARD.

The Supervisory Board held seven meetings in the course of the business year. It was informed by the Board of Management in writing and orally concerning the economic and financial position of the company, the business policy, the investment program and the development of the course of business. Special attention was paid to the continuation of the efforts to enter into strategic alliances, to the restructuring of the Group, and to the strategic orientation in order to maintain competitiveness.

The Management Board presented the annual financial statements of TELEKOM AUSTRIA AG and the consolidated financial statements as of December 31, 1999 to the Supervisory Board. The annual financial statement of TELEKOM AUSTRIA AG and the consolidated financial statement of Telekom Austria Group were audited by KPMG Austria Wirtschaftsprüfungs- und Steuerberatungs-GmbH and Grant Thornton - Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG and provided with the auditors' unqualified opinion. The management report is consistent with the annual financial statements and the consolidated financial statements.

The Supervisory Board approves the 1999 annual financial statements in accordance with sec. 125 para. 2 AktG (Stock Corporation Act).

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

The Supervisory Board agrees with the proposal of the Management Board to effect a distribution amounting to ATS 1,934,000,000.00 of the retained earnings of ATS 5,752,421,191.76 and to carry forward the remaining profit of ATS 3,818,421,191.76 to new account.

The Supervisory Board proposes pursuant to sec. 270 para. 1 Commercial Code to appoint KPMG Austria Wirtschaftsprüfungs- und Steuerberatungs-GmbH and Grant Thornton - Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG as auditors and group auditors for the business year 2000.

Vienna,
May 2000

Dr. Johannes Ditz
Chairman of the Supervisory Board

CONSOLIDATED INCOME STATEMENT FOR THE 1999 BUSINESS YEAR IN EURO.

	1999 EUR	1998 TEUR
1. Turnover	3,722,396,598.92	3,385,471
2. Change in inventory and work in progress	942,030.23	210
3. Other capitalized own work	119,505,969.82	139,769
4. Other operating income	113,564,809.85	114,721
5. Cost of material and services purchased	-1,112,013,467.52	-607,491
6. Personnel expenses	-784,865,720.76	-696,303
7. Depreciation and amortization thereof extraordinary deprecation of fixed assets according to sec. 204 para. 2 HGB (Commercial Code): EUR 877,787.84; previous year: TEUR 3,792	-1,024,821,595.83	-956,284
8. Other operating expenses	-583,731,490.09	-547,498
9. Subtotal from lines 1 to 8	450,977,134.63	832,594
10. Income from interests in other companies	1,040,126.71	1,763
11. Income from other securities and loans forming part of financial assets	606,329.20	697
12. Other interest and similar income thereof from group companies: EUR 0; previous year: TEUR 18,789	36,390,964.64	24,106
13. Income from retirement of financial assets and current assets' securities	344,994.80	337
14. Expenses arising from financial assets and current assets' securities thereof write-offs: EUR 322.88; previous year: TEUR 119	-546,182.38	-169
15. Expenses arising from interests in affiliated companies	-511,392.64	0
16. Interest and similar expenses thereof from group companies: EUR 0; previous year: TEUR 2,186	-231,883,593.50	-240,043
17. Subtotal from lines 10 to 16	-194,558,753.17	-213,308
18. Result from ordinary business activities	256,418,381.46	619,286
19. Taxes on income	-21,355,254.85	-164,298
20. Net income for the year	235,063,126.61	454,988
21. Minority interest	-16,479,711.42	-35,069
22. Allocation to retained earnings	-91,182,346.15	-146,589
23. Profit carried forward from last year	290,233,556.04	349,600
24. Currency exchange difference	410,126.24	0
25. Consolidated net earnings	418,044,751.33	622,930

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1999 IN EURO.

ASSETS	Dec. 31, 1999 EUR	Dec. 31, 1998 TEUR
A. Fixed Assets		
I. Intangible Assets		
1. Licenses, industrial property rights and similar rights	347,535,145.69	310,349
2. Goodwill	551,838,850.58	598,058
3. Prepayments	6,150,836.56	19,235
	905,524,832.82	927,642
II. Property, plant and equipment		
1. Land and equivalent rights, and buildings, including buildings on third party land	590,510,334.42	602,566
2. Technical facilities and machinery	4,952,362,844.73	4,979,981
3. Other facilities, plant and office equipment	138,043,675.36	120,840
4. Prepayments and construction in progress	185,812,576.88	254,581
	5,866,729,431.39	5,957,969
III. Financial assets		
1. Interests in group companies	654,055.51	0
2. Interests in associated companies	3,911,457.90	559
3. Long-term loans to associated companies	0.00	6,392
4. Other interests in companies	4,921,086.89	5,784
5. Securities and similar rights forming part of fixed assets	6,001,371.87	9,646
6. Other long-term loans	1,891,852.38	1,910
	17,379,824.55	24,292
	6,789,634,088.77	6,909,902
B. Current assets		
I. Inventory		
1. Raw materials and supplies	67,602,438.40	87,965
2. Finished goods and merchandize	85,629,946.26	39,840
3. Work in progress	1,151,158.08	209
4. Prepayments	0.00	274
	154,383,542.75	128,289
II. Receivables and other assets		
1. Trade accounts receivable	751,337,058.38	647,164
2. Receivables from group companies	143,462.45	327,857
3. Receivables from affiliated companies	665,870.68	7,294
4. Other receivables and assets	284,425,565.15	164,575
	1,036,571,956.66	1,146,890
III. Marketable securities and interests in other companies		
1. Other securities and assets	0.00	3,897
IV. Cash, cheques and bank accounts	420,075,279.70	1,814
	1,611,030,779.11	1,280,889
C. Prepaid expenses and deferred charges	57,320,122.33	21,023
	8,457,984,990.21	8,211,814

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1999 EUR	Dec. 31, 1998 TEUR
A. Shareholders' equity		
I. Capital stock	1,090,092,512.52	1,090,093
II. Additional paid-in capital		
restricted	1,179,240,621.75	1,179,241
III. Reserves from retained earnings		
other reserves (unrestricted reserves)	523,340,190.48	432,158
IV. Adjustment due to currency exchange	-470,388.09	0
V. Minority interests	281,918,362.37	256,379
VI. Consolidated net earnings	418,044,751.33	622,930
thereof: group retained earnings: EUR 290,233,556.04 ; previous year: TEUR 349,600		
	3,492,166,050.36	3,580,800
B. Accruals		
1. Accruals for severance payments	14,355,080.42	12,851
2. Accruals for pensions	10,350,881.81	10,551
3. Accruals for taxes	184,240,282.00	169,827
4. Other accruals	468,912,663.31	398,840
	677,858,907.54	592,069
C. Liabilities		
1. Bonds	524,130,824.12	524,456
2. Liabilities to banks	2,475,650,047.28	2,731,689
3. Advances received	171,682.81	444
4. Trade accounts payable	512,571,023.26	381,995
5. Liabilities toward group companies	59,731.05	258,406
6. Liabilities toward affiliated companies	284,570.76	0
7. Other liabilities	611,138,582.79	75,079
thereof from taxes: EUR 7,644,543.14; previous year: TEUR 7,949 thereof incurred in the context of social security: EUR 5,078,375.80; previous year: TEUR 4,257		
	4,124,006,462.07	3,972,068
D. Deferred income and accrued expenses	163,953,570.24	66,877
	8,457,984,990.21	8,211,814
Liabilities from guarantees as well as other contractual liabilities	1,096,006,627.87	178,963

CONSOLIDATED STATEMENT OF CASH FLOWS IN EURO.

(thousands of EUR)	1999	1998
Net income	235,063	454,988
Depreciation and amortization	1,024,822	956,284
Depreciation of financial assets	2,076	106
Allocation to accrual for severance payments and pensions	1,304	2,965
Allocation to accrual for anniversary payments	1,677	3,039
Reversal of accrual for the social plan	61,696	-12,253
Book value of retired assets	32,859	61,674
Cash flow balance sheet	1,359,497	1,466,803
Income from the retirement of fixed assets	-3,333	-3,646
Expenses from the retirement of fixed assets	20,450	46,384
Book value of retired fixed assets	-32,859	-61,674
Result from the retirement of fixed assets	-15,742	-18,937
Cash flow from the result	1.343,755	1.447,866
Assets (decrease +, increase -)		
Inventory	-26,095	-16,538
Trade accounts receivable	-104,174	-68,275
Receivables from group companies	127,867	-128,011
Receivables from affiliated companies	6,628	-6,222
Other assets	-203,668	15,963
Liabilities (decrease -, increase +)		
Provision for taxation	14,413	48,102
Other short-term accruals	6,700	-21,596
Trade accounts payable	130,576	-5,343
Liabilities to group companies	-90,822	89,984
Liabilities to affiliated companies	285	0
Other liabilities	112,790	46,189
Change in working capital	-25,499	-45,746
Cash flow from operating activities	1.318,256	1,402,120

(thousands of EUR)	1999	1998
Cash flow from operating activities	1,318,256	1,402,120
Capital expenditures for intangible assets	-83,519	-58,051
Capital expenditures for property, plant and equipment	-901,704	-843,591
Capital expenditures for financial assets (excluding securities)	-8,404	-8,881
Net change in fixed assets' securities and loans	3,645	-1,898
Result from the retirement of fixed assets	15,742	18,937
Cash flow from capital expenditure activities	-974,240	-893,484
Assets (decrease +, increase -)		
Receivables from group companies, finance & clearing	32,322	-3,597
Receivables from group companies, other	0	58
Liabilities (decrease -, increase +)		
Distribution to shareholders	-351,955	-215,839
Capital contribution	28,319	534
Other changes to shareholders' equity	-60	0
Bonds (short-term)	230,774	-39,987
Liabilities to bank (short-term)	-140,664	260,748
Liabilities from financing and clearing, due to third parties	510,638	0
Remaining long-term liabilities	-346,474	-619,292
Cash flow from financing activities	-37,100	-617,374
Depreciation of capitalized refundable input taxes	50,493	90,344
Receipts from the refund of input taxes	70,663	89,039
Receipts subsequent years	-13,707	-70,663
Cash flow from VAT adjustment	107,449	108,720
Change in cash and cash equivalents	414,364	-18

TELECOMMUNICATIONS GLOSSARY.

A1: Designation for MOBILKOM AUSTRIA's GSM network.

ADSL (Asymmetric Digital Subscriber Line): Digital transmission method permitting data transmission rates of up to 8 mBit/s to the customer and up to 700 kBit/s from the customer, using standard telephone cables.

Analog Terminal Equipment: Terminal equipment designed for analog transmission of voice or other information, such as facsimile machine, answering machine, or modem.

ATM (Asynchronous Transfer Modus): Modern communication technology for the transmission of voice, data, and multimedia, with a uniform network technology (bandwidth from 64 kBit/s up to the gBit/s range). Combines the advantages of connection-oriented switching with the advantages of packet-oriented switching.

Backbone: Main connections of a network, consisting as a rule of several network nodes connected to each other by transmission paths.

Broadband Service: Network accesses for the customer with high data transmission rate.

Calling Number Porting: Enables the ultimate customer to keep the existing calling number in case of a change of network operator or location within the same area code.

Carrier Preselection: Network operator pre-dial, or pre-programmed network selection.

Carrier Services: Marketing of network services to national and international carriers (network operators) and resellers.

CLIP (Calling Line Identification Presentation): Display of the calling party's telephone number.

CLIR (Calling Line Identification Restriction): Restriction of the display of the calling party's number at the party called.

Collocation: The joint accommodation of technical facilities in certain premises.

Convergence: The growing together of computer technology, electronic media, and telecommunications.

Corporate IP Voice Integration: Solution for Internet and Intranet telephony in corporate networks.

Corporate Network: International and/or national data, video, and voice communications network of a company, networking different locations.

COST (European Cooperation in the Field of Scientific and Technical Research): European research initiative.

DANTE (Delivery of Advanced Networks to Europe Ltd.): Company incorporated in 1993 with the aim of organizing the provision of European-wide Internet connectivity for Europe's research facilities.

Dial-In-Ports: Dial-in port in digital switching technology

Digital Signature: Code assigned to a text in connection with transmission of data, certifying author, text (content), and date of creation with the aid of encryption procedures, such as a-sign.

Digital Voice Transmission: In digital transmission in the telecommunications network, analog voice signals are transformed into a digital impulse current of 64 kBit/s. This results in a better voice quality and a lower failure susceptibility.

D-Network: MOBILKOM AUSTRIA's analog mobile communication network.

Dual Mode: Mobile communications technology enabling the integration of different communication systems in a single telephone (e.g. GSM 900 and GSM 1800).

DWDM (Dense Wavelength Division Multiplexing): Use of several wavelengths for the transmission of optical signals via optical fiber.

EDI (Electronic Data Interchange): Internationally standardized data exchange in order to exchange information/data without newly registering it.

Electronic Commerce (e-commerce): Designation for electronic exchange of data and goods in the Internet.

GPRS (General Packet Radio Service): Data carrier service based on GSM. GPRS permits data transmission rates between 56 and 114 kBit/s.

GSM (Global System for Mobile Communications): internationally standardized, European-wide digital radio network enabling both telephone-quality voice transmission as well as data transmission.

IN (Intelligent Networks): Communications network providing for a separation of call control and services support.

Interface: Defined link between equipment, programs, or individual data processing areas.

IP (Internet Protocol): Transmission protocol for packet-oriented networks.

IP-Address: Unequivocal address assigned to a computer (host) in the Internet which unequivocally identifies it.

ISDN (Integrated Services Digital Network): Digital telecommunications network enabling simultaneous voice and data transmission with one subscriber's line (bandwidth from 64 kBit/s to 2 mBit/s).

Leased Lines: Dedicated transmission way between two pieces of terminal data equipment that is permanently ready for use.

Macro cells: Mobile communication transmission stations with a coverage area of several kilometers.

Micro Cells: Mobile communication transmission stations with a coverage area of a few hundred meters. Micro cells are used primarily in cities and for the coverage of buildings.

Modem: Data transmission facility converting digital data into analog signals for transmission over an analog network.

OES: Austrian electronic telephone system.

Origination: Transmission of a call from the calling ultimate customer to the interconnection point with the network of the alternative operator.

Page Impressions: Number of impressions of any user at an HTML page, independently of how many different elements (graphics etc.) are contained therein.

Page Visits: Number of visitors to a WWW site. Defines the advertising carrier contact.

Portability: Transferability of subscribers' numbers

POTS (Plain Old Telephony Service): Conventional analog telephone connection.

Roaming: A performance feature of cellular radio communication networks which ensures the availability of activated mobile telephones regardless of location in third party mobile telephone networks.

Router: Equipment used for connecting physically different networks using the same transmission protocol. They forward e.g. data packets from LANs to the Internet and determine optimal transmission paths.

Seabone: Telecom Italia's backbone network.

SIM (Subscriber Identity Module): Chip card for GSM telephones used to identify the subscriber.

SMS (Short Message Service): Feature for use in mobile communications for the transmission of short alphanumeric data.

Streaming Applications: Reproduction of videos or sound from the network without buffer memory.

Terminal Equipment: Equipment for operation at a communication network or telecommunication system, such as telephone, facsimile machine, ISDN PC, etc.

Termination: Delivery (termination) of a call from the interconnection point to the ultimate customer called.

UMTS (Universal Mobile Telecommunications System): New, worldwide uniform mobile communications standard integrating various continental mobile communications standards. The most important performance criteria are greater capacities and larger data quantities also enabling the use of mobile multimedia equipment.

Value-added Data Services: Simplifies and accelerates the internal and external news and information exchange through the use of partially standardized and/or customized data communication solutions.

Value-added Services: Services going beyond the usual telecommunications network services, or changing existing services.

VoIP (Voice over IP): Voice communication via IP networks.

VPN (Virtual Private Network): Closed logical data network building on the structure of one or several other networks, but acting as an independent, separate network.

WAN (Wide Area Network): Wide area network, in contrast to a LAN (Local Area Network)

WAP (Wireless Application Protocol): Using a micro browser, special Web sites from the Internet are transmitted to the cellular phone.

Web Call: (Internet telephony connection): Set-up of a telephone call connection on a multimedia PC via the Internet.

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