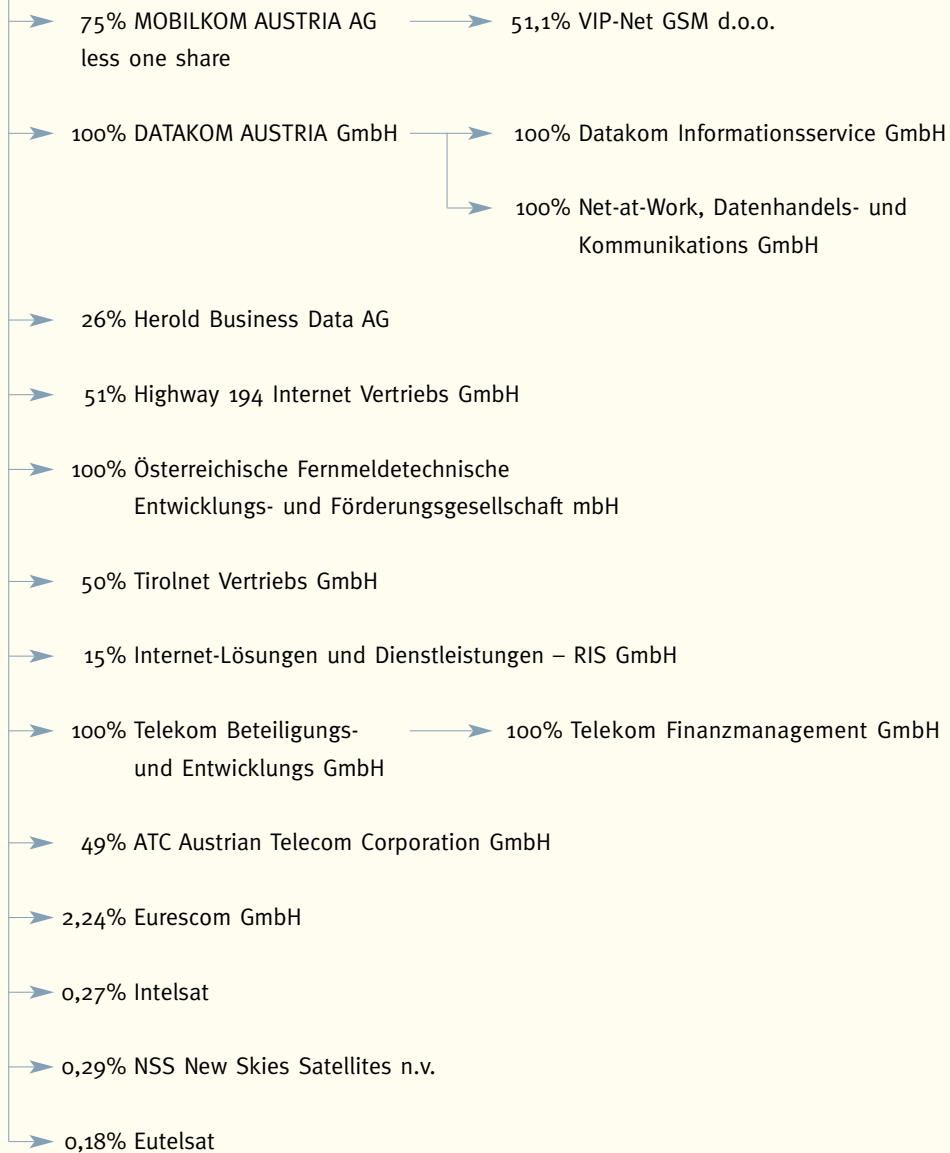


TELEKOM AUSTRIA
ANNUAL REPORT 1999

STRUCTURE OF TELEKOM AUSTRIA GROUP

TELEKOM AUSTRIA AG



TELEKOM AUSTRIA AT A GLANCE.

Reference Numbers (status as of year's end):		1999	1998
Total lines (in thousands)			
Main telephone access lines		3,201.6	3,570.1
ISDN basic access lines		247.0	152.2
ISDN multiple access lines		5.6	4.1
Internet customers (in thousands)		107.4	58.8
Mobile network customers (in thousands)			
Analog		205.9	200.3
Digital		2,210.1	1,280.6
Employees of the Group (full-time employees on a yearly average)		18,650	18,720

Financial Reference Numbers	1999	1998	1999	1998
	(billions of EUR)	(billions of EUR)	(billions of ATS)	(billions of ATS)
Turnover	3.72	3.39	51.2	46.6
EBITDA	1.48	1.79	20.3	24.6
EBIT	0.45	0.83	6.2	11.5
Result from ordinary business activities	0.25	0.62	3.5	8.5
Net income	0.23	0.45	3.2	6.3
Cash Flow from operating activities	1.32	1.40	18.1	19.3
Total capital expenditures	0.98	0.92	13.5	12.6
Fixed assets	6.79	6.91	93.4	95.1
Shareholders' equity	3.49	3.58	48.0	49.3
Net debt	2.58	3.26	35.5	44.8
Balance sheet total	8.46	8.21	116.4	113.0
EBITDA margin			39.6%	52.8%
EBIT margin			12.1%	24.6%
Net gearing			74.4%	90.9%
RoE (return on equity)			6.0%	12.0%
RoCE (return on capital employed)			6.6%	11.9%

All 1999 figures inclusive of VIP-Net

TELEKOM AUSTRIA
ANNUAL REPORT 1999

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TELEKOM AUSTRIA is the leading Austrian group of communications companies. With the diversity of our products, services, and resources, we provide tailor-made solutions for all users.

We provide and make accessible the best quality communications solutions. That is our business. Our services are state-of-the-art and meet our customers' individual needs.

OUR VISION

We provide unlimited communications for everyone – anytime, anywhere.

HIGHLIGHTS OF 1999.

January:

Approval of price reduction for TELEKOM AUSTRIA's leased line customers, providing them with savings of more than 50%.

February:

The world novelty in mobile communications: The VoiceButler translates e-mails into words read by a computer voice.

DATAKOM AUSTRIA commences a certification office for digital signatures – "a-sign."

MOBILKOM AUSTRIA is awarded 1800 MHz frequencies for the A-1 network (GSM) and thereby is the first Austrian network operator with a dual band network.

March:

TELEKOM AUSTRIA is the first Austrian network operator to introduce the 0810 service line, enabling businesses to offer their customers the possibility of reaching them over the phone at local rates.

The linking of the Austrian research network to the European consortium DANTE by DATAKOM AUSTRIA introduces research and development in Austria to the "High Speed Age."

May:

Together with the Salzburg Medical Council, DATAKOM AUSTRIA started the service "DaMe" which enables the electronic data exchange of patient information and laboratory reports.

July:

MOBILKOM AUSTRIA offers the opportunity of ordering tickets of the Austrian Federal Railway (ÖBB) with an A-1 cellular phone. MOBILKOM AUSTRIA is the first Austrian mobile telecommunications operator to take the step into mobile commerce, and is a European-wide pioneer in this area.

August:

CLIP calling line identification is activated across Austria. CLIR enables the caller to selectively suppress this function.

September:

TELEKOM AUSTRIA introduces new fixed-network rates. Customers profit from a marked reduction of the rates and a significant simplification of the rate structure.

October:

TELEKOM AUSTRIA commences another ISDN promotion, which results in tens of thousands of new customers by the end of the year.
TELEKOM AUSTRIA commences a partnership with LIBRO AG in the context of its Internet strategy.
As the first Austrian network operator, TELEKOM AUSTRIA introduces the 0820 service line.
MOBILKOM AUSTRIA places Xcite, the first youth package, on the market; it contains both a favorably priced youth rate as well as a special service package.

November:

The introduction of ADSL turns telephone lines into a data highway. TELEKOM AUSTRIA performs international pioneer work.
Austrian banks are for the first time able to deal in domestic and foreign securities via the Xetra network. This was made possible by a corporate network installed by DATAKOM AUSTRIA.

December:

As the first Austrian network operator, MOBILKOM AUSTRIA offers WAP services. With a WAP cellular telephone, our customers are able to access information in the Internet.

MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD.

Management Board during the 1999 Business Year:

GD Senator h.c. KR Ing. Werner Kasztler	Chief Executive Officer
GD Stv. Dr. Alberto Mazzaelli	Deputy Chief Executive Officer and Chief Financial Officer
Ing. Mag. Rudolf Fischer	Chief Technical Officer
Dr. Claudio Albanese	Chief Marketing Officer

After the preparation of the financial statements the management board was newly constituted.
It now consists of the following members:

Management Board:

GD Heinz Sundt	Chief Executive Officer
GD-Stv. Dr. Stefano Colombo	Deputy Chief Executive Officer and Chief Financial Officer
Ing. Mag. Rudolf Fischer	Chief Technical Officer
Dr. Heinz Brasic	Chief Marketing Officer

Supervisory Board during the 1999 Business Year:

Ing. Dr. Josef Sindelka	(Chairman of the Supervisory Board)
KR Dkfm. Dr. Erich Becker	(Deputy Chairman of the Supervisory Board) until Sep. 17, 1999
Ing. Oscare Cicchetti	until Sep. 17, 1999
Mag. Werner Muhm	until Sep. 17, 1999
Dr. Claus J. Raidl	until Sep. 17, 1999
Ing. Maurizio Stecco	until Sep. 17, 1999
Dr. Josef Taus	until Sep. 17, 1999
Gerhard Zeiler	
Dr. Günther Chaloupek	from Sep. 17, 1999
Mag. Dr. Stephan Koren	from Sep. 17, 1999
Dr. Massimo Masini	from Sep. 17, 1999
Dr. Giulia Nobili	from Sep. 17, 1999
Mag. Josef Stiegler	(Deputy Chairman of the Supervisory Board) from Sep. 17, 1999
DI Otto G. Zich	from Sep. 17, 1999
Robert Sulzbacher	
Hans Billeth	
Helmut Hospodar	
Ing. Karl-Heinz Muik	

INTRODUCTION OF THE CHIEF EXECUTIVE OFFICER.



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



Dr. Alberto Mazzarelli
Deputy Chief Executive Officer and
Chief Financial Officer



Ing. Mag. Rudolf Fischer
Chief Technical Officer



Dr. Claudio Albanese
Chief Marketing Officer

Ladies and Gentlemen,

Above all, the Austrian Telecommunications market in 1999 was marked by price reductions. On September 1, 1999, we introduced attractive new fixed network rates. Price will also play an important role in the future, but it will no longer be the sole differentiating criteria: to the customer, quality and service are the proverbial "last mile." It is TELEKOM AUSTRIA Group's strategy to offer the customer trend-setting innovation with customized rates and comprehensive service.

"From the only one to number one" was our motto for 1999. We have supplied impressive proof of this ambitious position: the digitalization of the Austrian telephone network was concluded with outlays of approximately ATS 41 billion, and we are therefore able to offer all customers the quality, advantages, and convenience of this modern network.

That for us is the technical basis for the introduction of innovative technologies. During the next few years, we will continue to invest in the build-up of our network. In November 1999, we commenced the introduction of ADSL. We were one of the first European telecom operators to install ADSL nation-wide and as a mass product for our residential customers – the enormous rush for our attractive internet packages confirmed our strategy.

The mobile communications and data communications divisions were highly successful in their tough competitive situations: both for new customer acquisitions as well as for the introduction of new services, we are in first place in the Austrian mobile telecommunications market. The business with value-added data services saw particularly strong growth. These services constitute an important basis for the development of the New Economy in Austrian business.

In the future, our role is that of the leading full-service communications provider. We will offer all communications forms, from classic telephony, to mobile communications and the Internet right up to the most modern corporate networks. TELEKOM AUSTRIA Group will set the standards. With dynamic and innovative partners, we will introduce new products and services for our customers to the market. Our challenge is the speed of introducing products to the market as well as quickly identifying trends.

Senator h.c. Ing. Werner Kasztler

Chief Executive Officer
TELEKOM AUSTRIA AG

Vienna, April 2000

INTRODUCTION OF THE CHAIRMAN OF THE SUPERVISORY BOARD.

Ladies and Gentlemen,

In its second full business year, TELEKOM AUSTRIA AG has continued the process of change previously commenced. 1999 was marked by increasing competition for all divisions of TELEKOM AUSTRIA Group of Companies. The number of alternative voice telephony providers in the fixed network quadrupled. As expected, voice telephony's market share in the fixed network dropped to 85 percent. The market penetration of mobile communications doubled, placing Austria at the European forefront. The trend continued of new providers concentrating first and foremost on the data communications market segment. With this background, a successful picture of TELEKOM AUSTRIA Group's development emerges. In the hotly contested mobile communications market, MOBILKOM AUSTRIA recorded the highest number of new customers. We were able to maintain DATAKOM AUSTRIA's market share at a constant level. The reduction of TELEKOM AUSTRIA's market share resulted from liberalization due to the Telecommunications Act. The regulatory authority made some important decisions for the development of competition, for example regarding unbundling and access to value-added services. The regulatory authority again found that TELEKOM AUSTRIA occupies a dominant position in the voice telephony and leased line markets, and, for the first time, determined MOBILKOM AUSTRIA's dominant position in the markets for mobile voice telephony and interconnection. With Telecom Italia, we have a reliable partner for mastering future challenges. 1999 was the first full year of the implementation of this partnership. The collaboration ranged from the dispatch of managers to TELEKOM AUSTRIA's organization, to specific strategic projects. In 1999, TELEKOM AUSTRIA Group took successful expansion steps in Austria and abroad. MOBILKOM AUSTRIA increased its share in the Croatian GSM operator VIP-Net from 30 percent to 51.1 percent. VIP-Net expanded very successfully in 1999: after only six months, it held a 50 percent market share.

In the second half of the year, TELEKOM AUSTRIA AG commenced a partnership with the LIBRO AG media retail chain. The focal points are common interests in the Internet area and the use of the branch network for the sale of terminal equipment.

The past year's development shows TELEKOM AUSTRIA's first successes as a universal provider in the Austrian telecommunications market. The Group succeeded as a technology leader in defending or even expanding its market position in all divisions.

The TELEKOM AUSTRIA Group of Companies proved its competitiveness and showed that it is prepared for the future. During the past year, we created an important basis for successful business development and also for the planned IPO.

In March 2000, after the end of the business year, the supervisory board was newly constituted. In the course of the new appointments, I was entrusted with the position of chairman of the supervisory board. I would like to thank my predecessor, Dr. Josef Sindelka, for his achievements for the Company.



Dr. Johannes Ditz
Chairman of the Supervisory Board
TELEKOM AUSTRIA AG

Vienna, April 2000

TELECOMMUNICATIONS IN AUSTRIA: A MARKET WITH A GREAT FUTURE.

High growth in future technologies and strong competition in all branches have made 1999 a very dynamic year in the Austrian telecommunications market.

More than ATS 55 billion was spent in Austria in 1999 for telecom services and products. This market will grow to ATS 80 billion within the next two years. The total Austrian market for information and communications technology was ATS 120 billion in 1999.

Liberalization and Competition

Twenty-seven telecommunications operators were active in the Austrian market in 1999, not counting Internet providers. In relative terms, the competitive pressures increased most in 1999 in the area of fixed network voice telephony. The number of active operators increased from six to twenty-three in that year. Four operators held licenses in the area of mobile communications; one of them was not yet engaged in active operations in 1999. There existed 56 licenses in the leased lines area in the past year. The number of Internet providers has not been recorded yet and is presently still subject to strong fluctuations. In the last quarter, the ten largest providers served 69 percent of Internet users.

As in other European countries, the liberalization of the telecommunications market was fully effective in Austria. This development was accelerated by the so-called "asymmetrical regulation" of the Telecommunications Act (TKG), which deliberately facilitates market access for alternative providers.

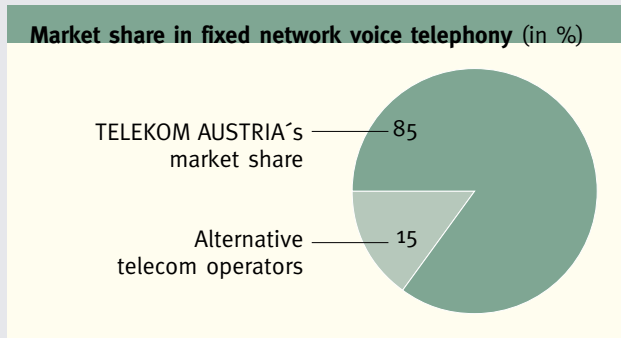
Leading in the Free Market

The TELEKOM AUSTRIA Group of Companies has maintained its leadership role in the liberalized Austrian market. TELEKOM AUSTRIA is the only full service provider for all customer groups with a high-capacity, nationwide network. The group has defended its market and technology leadership, and has even improved these in important areas. The loss of market share necessarily caused by liberalization especially in the traditional business of fixed network voice telephony was more than compensated for by the strong growth of TELEKOM AUSTRIA in the future technologies area, such as Internet, broadband services, data communications, and mobile telephony.

The alternative telecom operators using TELEKOM AUSTRIA's networks and services are also among the customers of TELEKOM AUSTRIA. In April of 1999, the first agreement regarding use of subscriber access lines (unbundling) was concluded with a private Austrian telecom provider.

Fixed Network: New Competitors, New Technologies.

The overall Austrian market for fixed network voice telephony amounted to approximately ATS 29 billion in 1999 (1998: approximately ATS 28 billion). TELEKOM AUSTRIA has proven its competitiveness with a market share of 85 percent (voice telephony on a minute basis, end of 1999). The introduction of a new rate system at the end of September 1999 has made a substantial contribution to securing this leadership position. Not only were the calling rates significantly lowered, but more importantly, the rate structure (two time zones, and in Austria now only two distance zones) was greatly simplified.

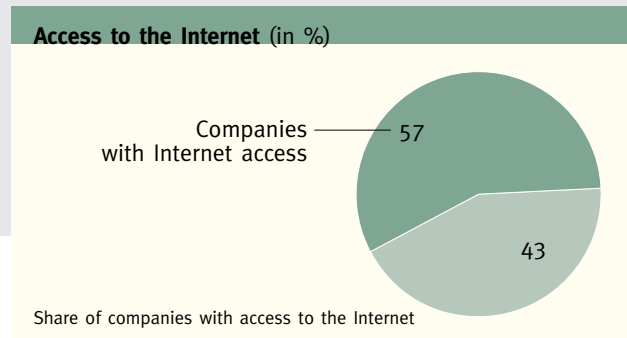
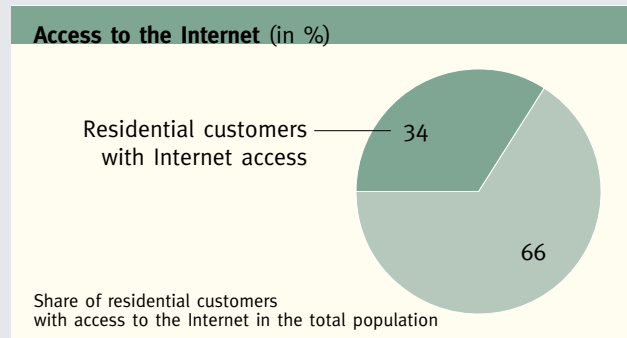
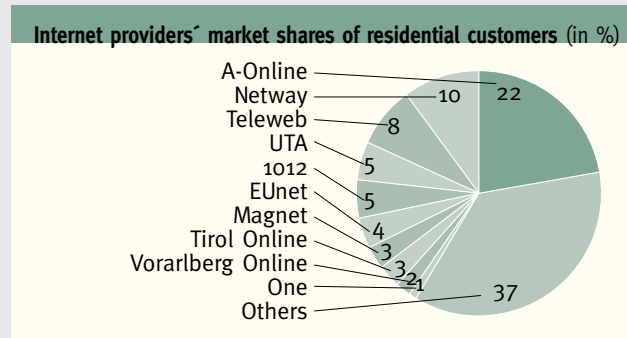


TELEKOM AUSTRIA was leading in 1999 in the introduction of new, trailblazing technologies for the future major uses of the fixed network. For example, since November 1999, TELEKOM AUSTRIA offers an Internet broadband product with ADSL technology under the brand A-Online Speed. TELEKOM AUSTRIA's residential and business customers are thus among the first in Europe to be able to profit from this technology.

Internet: An Enormous Potential Waits to Be Exploited.

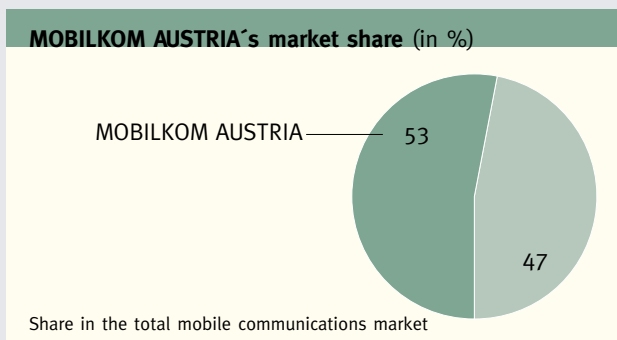
Already 34 percent of the Austrian population above 14 years of age had access to the Internet at the end of 1999. The Internet was actually used by 1.8 million Austrians, corresponding to 28 percent of those over 14 years. Fifty-seven percent of Austrian businesses had access to the Internet at the end of 1999. With its brand A-Online, TELEKOM AUSTRIA, by far the largest Austrian Internet provider, had a market share of 22 percent of residential users. The number of A-Online customers almost doubled in one year, with a total of 107,000 users. The homepage of A-Online recorded 17.3 million page visits and 46 million page impressions in 1999, and with that was the most-visited Austrian homepage, after the news providers.

The strongest growth periods in the Internet are expected in Austria as well as internationally in the coming years. TELEKOM AUSTRIA is in the best position to profit from this growth, thanks to a high-performance network, innovative Internet products, and competent business solutions e.g. for e-commerce.

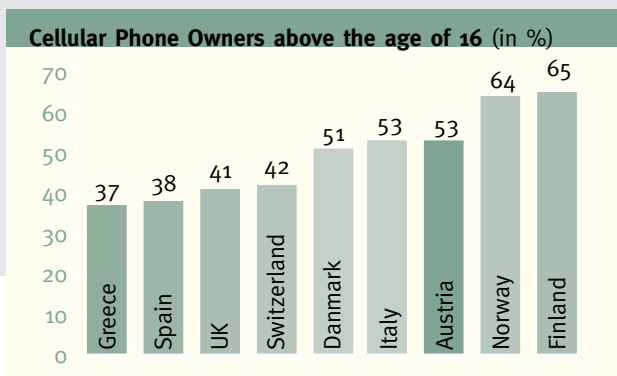


Mobile Communications: Boom Without End.

The total Austrian market for mobile communication including hardware and accessories amounted in 1999 to ATS 35 billion. Just the telecom turnover of mobile operators was ATS 23 billion. The market leader is the TELEKOM AUSTRIA Group of Companies with the group company MOBILKOM AUSTRIA and a market share of 53 percent.



This market's real dynamic force is shown by the speed in the increase of market penetration. At the beginning of 1999, 29 percent of all Austrians adults owned a cellular phone. At the end of the year this percentage had grown to 53.2 percent; this value is comparable to Italy and Denmark and constitutes a top position in Europe.



Only Norway and Finland have a greater penetration because of their special geographic situations. The increase of penetration by 24 percentage points is unsurpassed in all other European markets. For 2000, it is expected that the market penetration will climb to 70 percent.

At the end of 1999, a total of 4.3 million Austrians phoned with a "cell phone" (beginning of 1999: approximately 2.3 million). Of these, more than two million customers subscribed to the GSM network A 1 and approximately 200,000 to the D network of MOBILKOM AUSTRIA.

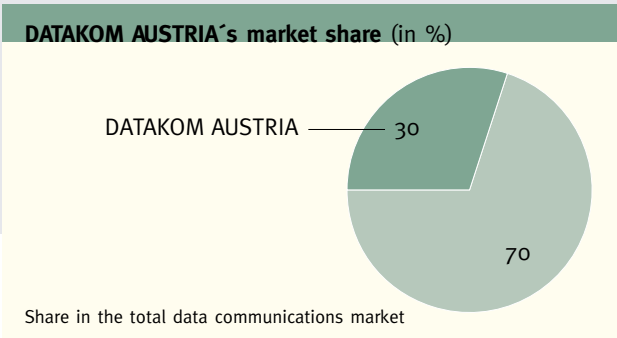
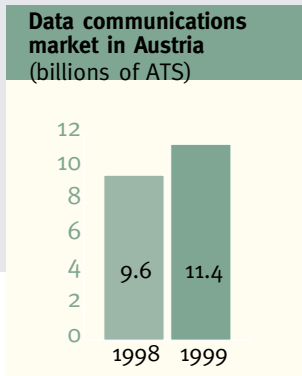
All three mobile network operators that were actively engaged in the market profited from the strong market growth; MOBILKOM AUSTRIA profited the most with an increase of 39.2 percent in the number of new subscribers.

The "teenager market" contributed significantly to market growth. Every second young person between the ages of twelve and seventeen owned a cellular phone at the end of the year (beginning of 1999: 28 percent). The share of this target group of the entire market is approximately 5 percent. Austria has not only one of the highest market penetration rates for cellular phones in Europe, but also prices that are among the lowest in Europe. Austria is therefore a functioning, fully-liberalized market. This constitutes the best precondition for the market's further development and increase in value, with, among other things, the introduction of new technologies (UMTS) and new services (e.g. mobile Internet access).

**Data Services and Corporate Networks:
a Strong Growth Market.**

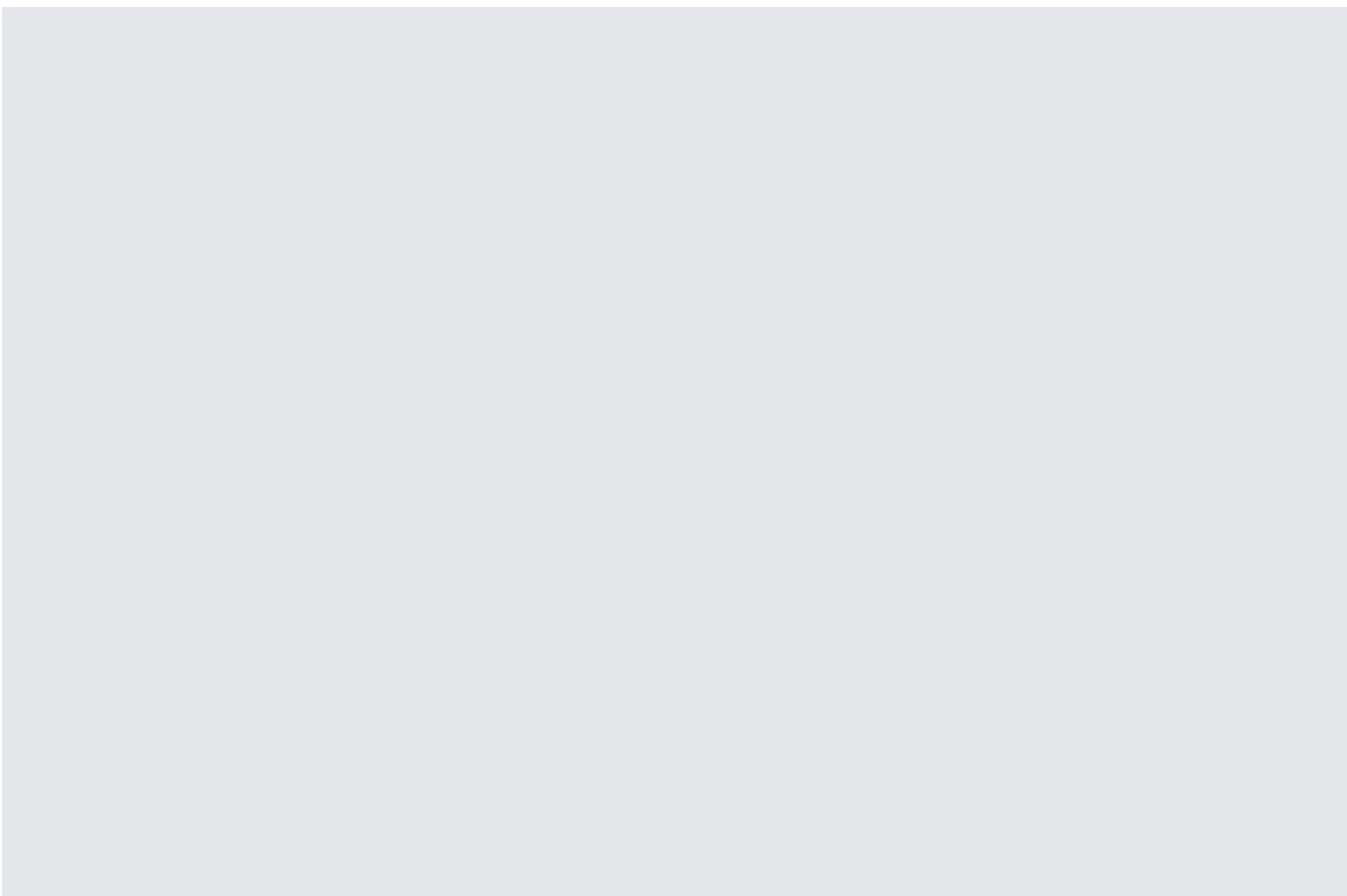
In 1999, the Austrian market for data communication solutions and corporate networks grew by approximately 20 percent to ATS 11.4 billion (1998: ATS 9.6 billion). The group company DATAKOM AUSTRIA has grown with the market and has maintained its 30 percent market share. In the international leased lines area, DATAKOM AUSTRIA's market share amounts to 98 percent, to 78 percent of protocol-oriented data services, and to 35 percent of overall solutions. The development of data services, corporate networks, and value-added data services makes a decisive contribution to the telecommunications infrastructure of Austria as a business location.

Not only the above-average growth of data communications in the overall telecom market makes this market attractive, but also the high creation of value in this technology and service-oriented business.



INCREASED VALUE BY INCREASED PERFORMANCE - TELEKOM AUSTRIA'S CONTRIBUTION TO MARKET DEVELOPMENT.

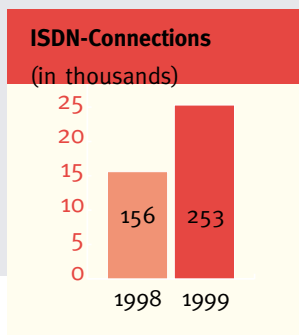
The attractiveness of a market is primarily determined by its potential for the creation of value. TELEKOM AUSTRIA counts on the massive development of future telecom technologies, on greater customer benefits with new features and services, as well as on customer loyalty, to make Austria one of Europe's most attractive telecom markets. And in order to assert itself as the undisputed market leader and full-service provider.



Mobile communications, the Internet, and competition in the fixed network have turned telecommunications into a "high interest" subject for large parts of the Austrian population. At the same time, in addition to large companies, many small and medium companies recognize the new opportunities for their businesses resulting from the use of telecommunications technologies, the Internet, and multimedia. TELEKOM AUSTRIA makes carefully directed use of this development using features pushing access to higher-value telecom services. TELEKOM AUSTRIA thereby secures market leadership in the attractive revenue growth areas.

Sixty Percent More ISDN Connections.

The very successful ISDN promotion at the end of 1998 was extended at the beginning of 1999. In the fourth quarter, an ISDN promotion, with several package deals, again took place. In this way, the number of ISDN connections increased by more than 60 percent to 253,000 (status end of 1999, in comparison to the end of 1998).



The strong increase of sales of ISDN terminal equipment, which was largely newly introduced to the market in 1999, is a welcome side effect of the newly sold connections.

More Speed in the Internet.

The market gave a very favorable reception to TELEKOM AUSTRIA products permitting fast access to the Internet. Shortly before the end of the year, TELEKOM AUSTRIA introduced two exceptionally successful all-inclusive packages to the market. A-Online Complete consisted of an ISDN basic connection plus unlimited Internet access. 24,000 registrations were received within a few weeks, the planned capacities were more than exhausted, and the package sold out.

With ADSL into the Broadband Future.

With A-Online Speed (POTS) and A-Online Speed plus (ISDN), TELEKOM AUSTRIA has assumed a pioneering role in Europe. These Internet packages are based on ADSL (Asymmetric Digital Subscriber Line) technology and offer a transmission rate of up to 512 kBit per second download – this is ten times faster than analog modems and four times faster than 128 kBit/s ISDN connections. In a first development phase, ADSL will be offered at major centers. Depending on market needs, the ADSL introduction will be completed in Austria by 2001. This positions TELEKOM AUSTRIA as a European front-runner. Thanks to its extremely fast Internet access, ADSL opens a multitude of possible new applications: video-on-demand, tele-learning, and video-conferencing in real time with TV quality, multimedia product presentations, etc. Moreover, TELEKOM AUSTRIA offers its customers very favorable ADSL rates compared to the European level.

Package Solutions for Residential Customers.

Not only technology, but above all, competent service enables increased value in the telecom business. In 1999, TELEKOM AUSTRIA commenced a number of programs focussed on increasing customer use. One example in the private customer business is the "Home + Phone" service packages. They include everything from consultation to planning, installation and maintenance from one source, and, since June 1, 1999, offer perfect and comfortable communications when moving into a new home.

Telephone Marketing Lines for Business Customers.

During the past year, TELEKOM AUSTRIA presented its business customers a much-increased bundle of services for telephone marketing.

The telephone marketing lines include products supporting customer contact and dialog marketing. In March, TELEKOM AUSTRIA introduced the "0810 Service Line" as the first Austrian network operator. This innovative service enables a business to offer its customers the possibility of reaching it over the phone "at local rates." A similar product was introduced – again for the first time in Austria – in October: the "0820 Service Line." This product and the "National Freeline" (0800, toll-free calls) are the successor products to "Service 660," and they enjoyed a lot of attention during the past business year.

The "International Freeline" provides companies with the opportunity of allowing toll-free calls for customers and interested parties from different countries the world over. This service package includes specific calling numbers in individual countries and regions. TELEKOM AUSTRIA offers "Global Freeline" to companies wishing to be available worldwide, using a uniform calling number with the prefix +800.

With the "Telebusiness Line 0900," companies are able to sell their services over the telephone on the basis of a time charge. "Voting line" provides an opportunity to use a special, interactive marketing instrument for calling up trends and opinions etc. among the Austrian population.

First Dual Band Mobile Phone Network in Austria.

Since February 1999, the more than two million customers of MOBILKOM AUSTRIA's A1 network (GSM) have been profiting from Austria's first dual band network. By providing GSM mobile communications both at the 900 MHz as well as the 1800 MHz frequencies, MOBILKOM AUSTRIA offers its customers an even better network capacity and quality, especially in urban centers.

New Supplementary Services for A1 Customers.

With a multitude of new supplementary services, MOBILKOM AUSTRIA has further developed the A1 network's position in 1999 as an attractive choice for comprehensive

mobile communications.

SMS retrieval and subscription services have been strongly expanded. With A1 InfoChannel, current information on train and plane schedules, news, movie programs, etc. appear on the display of the cellular phone via SMS.

Three Connections, One Number.

In July 1999, MOBILKOM AUSTRIA introduced a convergence product to the market. With A1 MultiRing, up to three connections – of fixed or mobile networks – can be used with a single A1 number. No calls are missed because all connections ring simultaneously.

Professional Mobile Communications.

To satisfy business customers' special requirements for mobile communications, in 1999 MOBILKOM AUSTRIA introduced additional specific corporate solutions to the market.

Since the beginning of April 1999, with A1 MobilOffice, hardware and software packages are available for mobile access to voice and data communications, fax, and the Internet.

Further examples are the A1 NetWork and A1 DirectLink packages, with which every employee cellular phone can be used as a favorably priced extension of the company's telephone system.

Mobile Internet.

Already in 1998, MOBILKOM AUSTRIA was the first network operator in Austria to offer its A1 customers full Internet access in Austria and internationally. A1 PocketNet is a virtual communications manager with which all A1 services can be activated, changed, and administered. Since 1999, the A1 DataGuard top-grade business solution allows employees of a business to have protected access to the internal computer network.

World Novelty VoiceButler: The Talking E-mail.

This technology developed by MOBILKOM AUSTRIA makes it possible for the first time in the world to have a computer read e-mails to the subscriber on a cellular phone. This function is also available for PocketNet Information services. The cellular phone "reads" news, weather information, or sports results to the customer.

The First Mobile Commerce Solution in Austria.

Since February 1999, A1 customers are able to access the entire ÖBB (Austrian Federal Railway) timetable with their cellular phones. In July, MOBILKOM AUSTRIA commenced mobile commerce in Austria and, with the ÖBBe-Ticket, it provides the opportunity of booking the ticket, showing it to the conductor as a virtual train ticket on a cellular phone display, and paying the fare with the A1 bill. 1,700 individual customers used this service in 1999.

Start for WAP, Head Start for A1.

Based on conventional GSM technology, the WAP standard allows Internet access with cellular phones without additional hardware. Since December 1999, MOBILKOM AUSTRIA as the first Austrian operator, has offered services based on the WAP standard (e.g. retrieval of WAP pages of newspapers, magazines etc.) to its customers. The development of WAP services is a focal point for 2000.

More Turnover With Less Cash.

By the end of 1999, more than 20,000 cash terminals, which allow cashless payment using debit cards and PIN codes, were installed in Austrian retail businesses. DATAKOM AUSTRIA provides nationwide installation and maintenance of this system. The cash terminals are either leased or purchased by the customer, and are connected to a DATAKOM AUSTRIA WAN (Wide Area network), over which the cash terminals are also serviced.

Tailor-made Corporate Networks and Network Outsourcing.

In the corporate networks area, DATAKOM AUSTRIA offers planning, installation, and management of company data, voice, and video communications networks. This includes the entire network structure from the backbone to the individual work stations and network terminal equipment. With the Corporate Networks Office packages, DATAKOM AUSTRIA has developed a full-service product for small and medium businesses. One of its advantages is the possibility of its simple and practically unlimited expansion. The Corporate Intranet Service organizes the network structure of DATAKOM AUSTRIA customers.

With Voice over IP, i.e. voice transmission via Internet protocol, DATAKOM AUSTRIA offers the integration of voice communications into corporate networks. The target groups consist of companies that already have an infrastructure for data communications, and want to also use this infrastructure for internal voice, fax, and video communications. This new telephony application can be used not only by corporate networks (CN) serviced by DATAKOM AUSTRIA, but may also be installed in any other CN.

Concert – Our Globalization Partner.

As a partner of Concert, one of the largest providers of global telecom services, the TELEKOM AUSTRIA Group of Companies offers its business customers access to a worldwide network of broadband data highways. DATAKOM AUSTRIA's subsidiary, Datakom Informations-service (DIS), is the only Austrian company in the Concert Association with 150 partners. The Concert Network is exclusively available to customers, for example to integrate international branches into an Austrian corporate network, to provide employees with worldwide access to e-mails and data on the company's server via the Internet, or to manage a global, private IP network.

More than 84 Percent Growth of Value-Added Data Services.

The value-added data services area includes all components required for effective and safe data exchange between companies in Austria and abroad, companies and government, governmental authorities, public entities, physicians, lawyers, accountants, and confidential databases. Thanks to new, competitive products, DATAKOM AUSTRIA in 1999 was able to increase this area's turnover by 84 percent.

Examples of products in this area:

DaMe is a service for physicians that was commenced in May 1999 together with the Salzburg Medical Council. DaMe is used for the safe retrieval and processing of patient data, doctors' reports, and laboratory results, as well as for accessing general medical information.

Finanz Online is an electronic data transfer system for the Austrian tax service and for accountants.

ERV ("Elektronischer Rechtsverkehr") is a system enabling law offices, banks, insurance companies, and government entities to electronically forward statements of claims and various other pleadings to Austrian courts, as well as to receive certain court decisions. Eighty percent of Austrian lawyers use this service. More than three million pleadings have already been submitted using the ERV.

A-sign offers digital signatures for confidential and safe communication in the Internet, and thereby enables the secure processing of electronic business.

The datashop Is the Door to E-commerce.

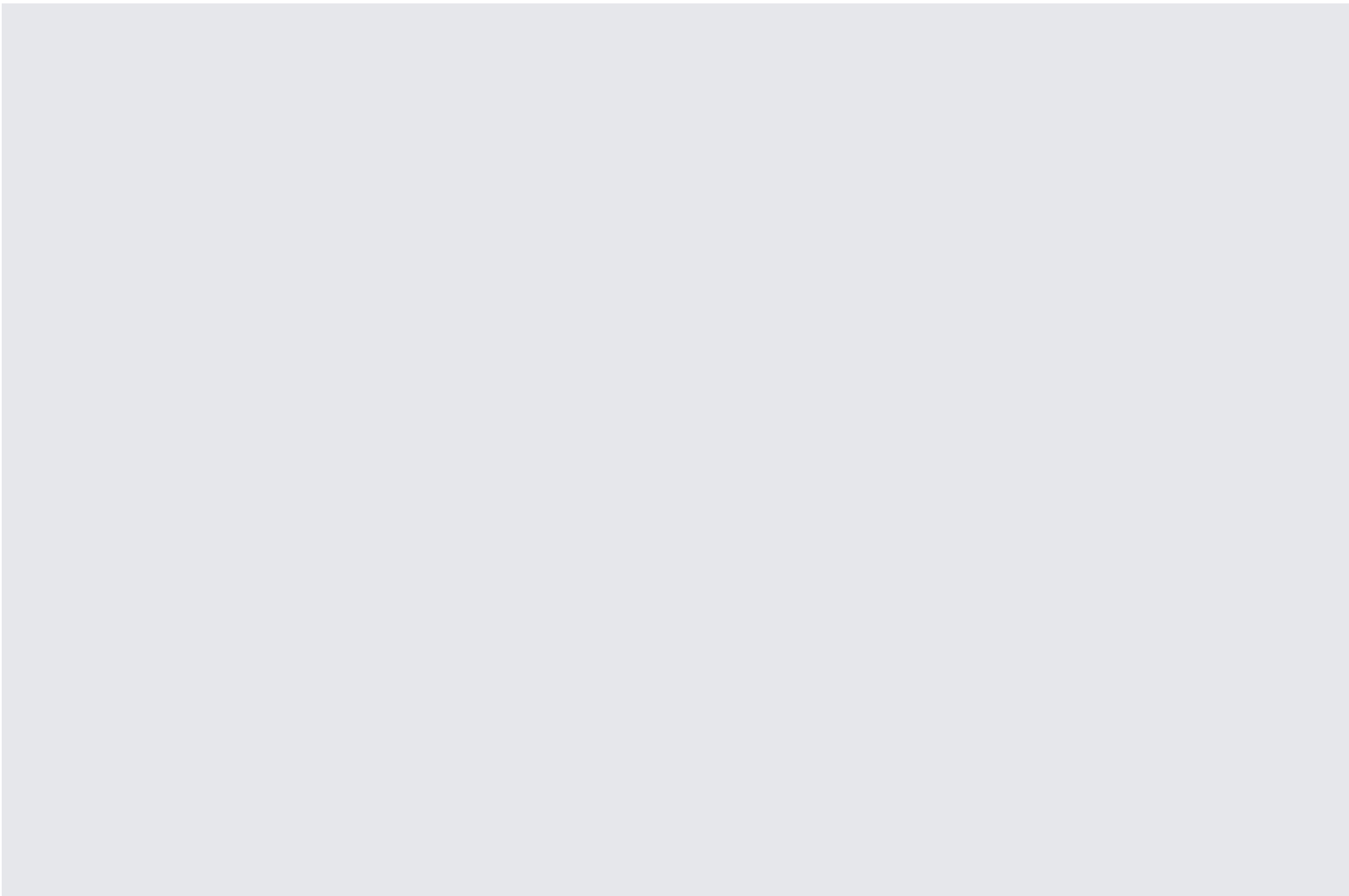
DATAKOM AUSTRIA developed the datashop building block system for a professional, quick, and favorably priced entry into e-commerce. An online-catalogue was put together with tested standard modules, and can be changed, adapted, or expanded directly via the web browser, if needed.

Important Role in International Traffic.

During the past year, TELEKOM AUSTRIA renegotiated the conditions for international telecommunications traffic with its respective partners. The result is improved international competitiveness, making TELEKOM AUSTRIA's network one of the most important hubs for traffic in Central and Eastern Europe.

In addition, TELEKOM AUSTRIA is striving for a similar central position in the IP connectivity area (voice and data transfer using Internet protocol). With the selection of new international providers and the creation of a new connectivity structure, TELEKOM AUSTRIA was able to lower costs also in this area. This is due in no small part to the good working relationship with Telecom Italia. In 1999, a line between Vienna and Milan with a capacity of 155 mBits was constructed. This line will be part of a pan-European network.

1999 BUSINESS DEVELOPMENT.

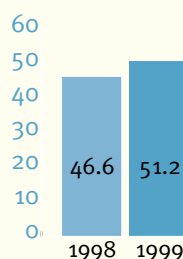


(billions of ATS)	1999	1998	Change
Turnover	51.2	46.6	9.9%
Change in inventory and own work capitalized	1.6	1.9	-15.8%
Other income	1.6	1.6	0.0%
Cost of material and services purchased	-15.3	-8.4	82.1%
Personnel expenses	-10.8	-9.6	12.5%
Depreciation	-14.1	-13.2	6.8%
Other expenses	-8	-7.5	6.7%
Operating result	6.2	11.4	-45.6%
Net financial result	-2.7	-2.9	-6.9%
Result from ordinary business activities	3.5	8.5	-58.8%
Taxes	-0.3	-2.2	-104.8%
Net income for the year	3.2	6.3	-49.2%
	1999	1998	Change
Operating cash flow	18.1	19.3	-6.2%
Capital expenditures for property, plant, and equipment	12.4	11.6	6.8%
Other capital expenditures	1.1	1.0	10.0%
Fixed assets	93.4	95.1	-1.8%
Current assets	23.0	17.9	28.2%
Total assets	116.4	113.0	3.0%
Shareholders' equity	48.1	49.3	-2.5%
Financial liabilities	41.3	44.8	-7.8%
Other liabilities and accruals	27.0	18.9	42.9%
Total capital	116.4	113.0	3.0%

TELEKOM AUSTRIA Group of Companies: Growth of Turnover Thanks to New Markets and Products.

TELEKOM AUSTRIA Group's business development shows the changes in the telecommunications sector, which strongly accelerated during the past year. While conventional voice telephony was influenced by intensified competition and recorded a decrease in turnover due to lower rates and loss of market share, dynamic growth continued both in mobile communications as well as in Internet products and data communications. In 1999, Group turnover increased by 9.9 percent to ATS 51.2 billion (1998: ATS 46.6 billion).

Group turnover
(billions of ATS)



Growth in All Business Areas.

There was growth in all three business divisions – fixed network, mobile communications, and data communications. In the fixed network business, this applied above all to the new segments, such as the Internet and value-added services, as well as interconnection proceeds. This development was contrasted by a decrease in revenue from voice telephony. The consolidated turnover from the fixed network business segment in 1999 increased by 4.1 percent to ATS 38.3 billion (1998: ATS 36.8 billion). The strongly growing mobile communications market enabled the TELEKOM AUSTRIA Group of Companies to record an increase in turnover in 1999 in this area of 35.2 percent to ATS 16.9 billion (1998: ATS 12.5 billion) despite significantly lower rates due to competition. In the data communications division, we were able to keep our excellent position. Turnover increased by 18.2 percent to ATS 3.9 billion (1998: ATS 3.3 billion).

Development of business segments (billions of ATS)

	Fixed network		Mobil-communications		Daten-communications		Consolidation and other		TELEKOM AUSTRIA Group	
	99	98	99	98	99	98	99	98	99	98
Turnover	38.3	36.8	16.9	12.5	3.9	3.3	-7.9	-6.0	51.2	46.6
Operating result	3.4	8.1	2.5	3.1	0.3	0.3	0.0	0.0	6.2	11.5
Capital expenditures	8.7	9.7	4.0	2.3	0.8	0.6	0.0	0.0	13.5	12.6
Employees*	15,749	16,714	2,054	1,247	847	759	0.0	0.0	18,650	18,720

* Full-time employees on an annual average

Turnover Analysis by Service Area.

Almost half the Group turnover was attained in 1999 with fixed network communications (voice telephony, ISDN, and Internet online rates). With ATS 26.0 billion, the turnover in this segment was equal to last year's level.

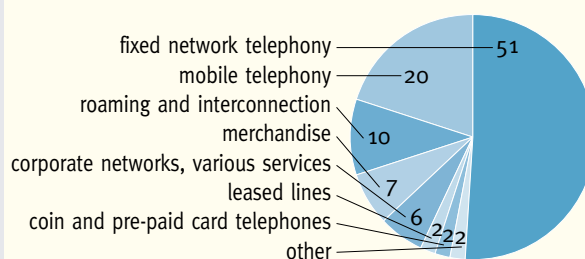
The turnover in mobile communications increased by 13.3 percent to ATS 10.2 billion (excluding roaming and inter-connection turnover as well as sales of terminal equipment). Its share of total turnover increased slightly from 19.3 percent to 19.9 percent.

Primarily, the strong growth of mobile communications and the larger number of market participants in the fixed network resulted in an increase in the revenue from inter-connection and roaming of 59.4 percent, to ATS 5.1 billion. In the merchandise business (terminal equipment, network components, and modems), a turnover of ATS 3.6 billion was achieved in 1999, the same amount as in the previous year.

The growth in the Internet business contributed, among other things, to a turnover increase of 73.7 percent to ATS 3.3 billion for corporate networks and various services such as Internet access. The turnover from leased lines, ATS 1.2 billion, remained at last year's level due to strong price pressures.

The turnover from coin phones and prepaid card phones amounted to ATS 1.1 billion in 1999, approximately 8.3 percent less than in the previous year.

Group turnover by business areas (in %)



Group Sales Revenue (billions of ATS)	1999	1998	Change
Fixed network telephony	26.0	26.0	0.0%
Mobile telephony	10.2	9.0	13.3%
Roaming and Interconnection	5.1	3.2	59.4%
Merchandise	3.6	3.6	0.0%
Corporate networks, various services	3.3	1.9	73.7%
Leased lines	1.2	1.2	0.0%
Coin phones, prepaid card phones	1.1	1.2	-8.3%
Other	1.4	0.7	100.0%
- Discounts and allowances	-0.7	-0.2	250.0%
Turnover	51.2	46.6	9.9%

Decline in the Group Result.

TELEKOM AUSTRIA Group's operating result in 1999 declined 45.6 percent to ATS 6.2 billion (1998: ATS 11.4 billion).

During the past year, TELEKOM AUSTRIA was exposed to increased competitive pressure in all divisions.

The strongest decline in the result occurred in the fixed network. The main reason for this development was intensive competition and the price reductions resulting therefrom. Simultaneously, costs arose from restructuring measures that were necessary to adjust TELEKOM AUSTRIA's organization to the changed overall conditions.

The decline in the mobile communications division's result is based above all on the start-up losses of VIP-Net in Croatia, which commenced its operations in July 1999. In Austria, due to rate reductions of up to 85 percent and to increased marketing expenses, the result remained slightly below the previous year's level.

The data communications division's operating result remained largely unchanged. The weaker development of income, in comparison to turnover, was caused by the high capital expenditures of the last few years and the higher depreciation resulting therefrom. Advance work, such as in the area of e-commerce, will result in revenues only in subsequent years.

Equity Interest in LIBRO AG.

In October, TELEKOM AUSTRIA concluded an agreement in principle for the acquisition of 25 percent plus one share in LIBRO AG, the largest Austrian media retail chain. It became legally effective with EU cartel law approval at the beginning of 2000.

Since November 1999, the shares of LIBRO AG are listed at the Vienna Stock Exchange. The company and the possibilities of the partnership with TELEKOM AUSTRIA were well received by the capital market.

At the center of this partnership lies a cooperation in the Internet area, primarily e-commerce and content, as well as the utilization of LIBRO's 259 branch stores in Austria as distribution points for TELEKOM AUSTRIA Group's products.

FIXED NETWORK: THE BUSINESS IS SHIFTING.

The fixed network division encompasses all operating activities of TELEKOM AUSTRIA AG and of the Highway 194 Internet distribution company. These include, in addition to fixed network telephony in the narrow sense, areas such as the Internet, carrier services, leased lines, etc.

For TELEKOM AUSTRIA AG, 1999 is the second year since the legal separation of postal and telecommunications activities within Post & Telekom Austria AG. During the past year, the transition that commenced with the liberalization of the sector on Jan. 1, 1998 accelerated both internally as well as externally.

Österreichische Industrieholding AG (ÖIAG) is the majority owner of TELEKOM AUSTRIA AG with 75 percent less one share. STET International N.V. (Telecom Italia Group) acquired the minority interest of 25 percent plus one share in 1998.

In connection with the planned reorganization of the legal relationship of Österreichische Industrieholding (ÖIAG) and Post und Telekombeteiligungsgesellschaft (PTBG), the draft of the new ÖIAG law, which is now available as a government proposal, foresees a merger of PTA into ÖIAG, retroactively as of December 31, 1999.

Massive shifts within the market segments are behind the increase in the fixed network division's total turnover of 4.1 percent. Voice telephony turnover, including ISDN and Internet rates, remained unchanged. Other areas saw

triple-digit growth rates: Internet provider business turnover and that from online fees more than quadrupled, turnover from value-added services more than tripled. The intensification of competition contributed to the strong gain in interconnection proceeds. Directory assistance services turnover also developed very dynamically.

The EBIT of the fixed network division declined by 58 percent to ATS 3.4 billion (1998: ATS 8.1 billion).

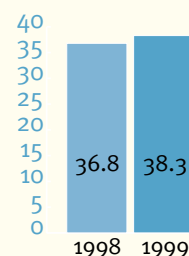
The capital expenditure volume during the past year amounted to ATS 8.7 billion,

80 percent of which went into network infrastructure.

The Austrian network's digitalization was completed in 1999. Since the seventies, TELEKOM AUSTRIA has invested approximately ATS 41 billion in digitalization.

During the past year, the development of ISDN, the preparatory work for the ADSL introduction in November, the continuation of the ATM roll out (infrastructure for integrated broadband communications), and the creation of additional dial-in ports in TELEKOM AUSTRIA's broadband network in order to create capacity for the strongly growing Internet use were additional focal points of capital expenditure.

Umsatz Festnetz/Internet
(billions of ATS)



Personnel.

On an annual average, 15,749 personnel were employed in the fixed network division. The decline of 5.8 percent was primarily caused by personnel restructuring measures.

Fixed network (billions of ATS)	1999	1998	Change
Turnover	38.3	36.8	4.1%
Operating result	3.4	8.1	-58.0%
Capital expenditures	8.7	9.7	-10.3%
Employees (full-time employees on an annual average)	15,749	16,714	-5.8%

Fewer Telephone Connections, More ISDN and Internet Customers.

In 1999, the number of connected channels in the fixed network of TELEKOM AUSTRIA declined by approximately 3.4 percent. This is attributable to the market entry of new competitors. At year's end, TELEKOM AUSTRIA's market share in the **fixed network business** amounted to 85 percent (voice telephony, in minutes, end of 1999).

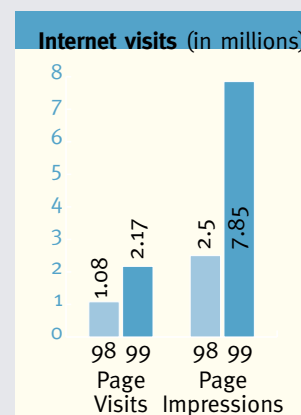
The introduction of a new rate model which was approved by the regulatory agency at the end of June, and which became effective on September 1, was of significance for an improvement of competitiveness in the fixed network telephony area. Despite a minor increase in the basic charge, **the new rate model** in total provides TELEKOM AUSTRIA customers with clear simplifications and savings:

- Simplification: there are only two time zones, and two domestic zones
- Reduction of domestic rates by up to 44 percent
- Reduction of international rates by up to 40 percent
- Lowering of the rates for calls between fixed network and mobile network by up to 17 percent.

The marketing of **ISDN** was very successful, with an increase in ISDN connections of approximately 60 percent to approximately 253,000.

We were able to win a very large number of new customers with Internet-related products.

As an **Internet provider**, TELEKOM AUSTRIA almost doubled the number of its A-Online customers, from approximately 59,000 at the end of 1998 to approximately 107,000 by the end of 1999. The dynamic development in this sector also becomes apparent by comparing the visits to the A-Online web site.



Fixed network (in thousands)	1999	1998	1997	1996
Main telephone lines	3,201.6	3,570.1	3,725.8	3,779.0
ISDN - access lines				
basic access lines	247.0	152.2	83.1	40.6
multiple access lines	5.6	4.1	2.6	1.4
Connected channels	3,862.4	3,996.6	3,969.4	3,901.6
Degree of digitalization	100%	92%	82%	72%
Internet customers	107.4	58.8	36.1	31.2

(without Internet service provider customers)

At the end of November 1999, TELEKOM AUSTRIA introduced the first **ADSL products** in the market. This technology enables broadband high-speed Internet access using the conventional telephone lines of TELEKOM AUSTRIA's fixed network. With the planned nationwide expansion of ADSL, TELEKOM AUSTRIA is situated in the European forefront. In the last few weeks of the previous year, we were able to gain more than 2,000 ADSL customers.

The **value-added services** business also developed very dynamically. The expansion of the range of products enables TELEKOM AUSTRIA customers to use these services even more efficiently. A number of new products, such as National Freeline, Global Freeline, Service Line 0810, and Service Line 0820 were introduced in 1999.

The Austria-wide network of 29,000 **public coin and prepaid card phones** is operated by TELEKOM AUSTRIA as part of its obligations as a universal service provider.

These facilities will also in the future constitute an important part of the telecommunications infrastructure. In 1999, 14.6 million calls were made monthly using public phones. The **telegram service** of TELEKOM AUSTRIA underwent a relaunch in 1999. Basically, a special messenger delivers domestic telegrams within six hours, during post office opening hours. At the sender's request, the telegram can be delivered the next working day at the more favorable postal letter rate. The rates were lowered for telegrams to other European countries as well as for de luxe telegrams. TELEKOM AUSTRIA has provided for the toll-free dispatch of telegrams using 0800 service numbers and over the Internet.

New service features were also introduced in the past year for the digital telephone network. **Calling line identification** (CLIP) has been activated since the end of August 1999; with suitable phones, the number of the caller can be seen on the display. CLIR allows the caller to selectively suppress this function.

As a new, free supplementary service, TELEKOM AUSTRIA offers its customers the possibility of carrying on **three-**

way conversations, which previously has only been possible with ISDN connections or telephone systems. The three-way conversation can also be held between the digital fixed network and the mobile communications network. **SecurityLine**, a transmission network for security tasks, is an additional new product of 1999. Using a simple telephone connection and the appropriate alarm and signaling facilities, SecurityLine can be used for security alarms in case of break-in (hold-up, fire, catastrophe, personal alarm), control and monitoring systems, as well as alarm transmissions to police and fire department emergency services.

The installation of **multi-point video conferences** is a new service for business customers. In this regard, TELEKOM AUSTRIA enables the interconnection of several video conference systems at different locations, and the exchange of video, sound, and data among all participants.

In the **satellite communications** area, TELEKOM AUSTRIA managed to firm up its market position despite tough competition. Gains were recorded in particular in the audio/video area as well as in data transmission for business customers. Great efforts were made toward the development of new products for multi media services. The possible applications range from quick Internet or Intranet access to streaming applications for tele-teaching and business TV.

Leased lines constitute an important basis for all TELEKOM AUSTRIA Group data services. At the end of 1999, TELEKOM AUSTRIA customers used 92,000 leased lines with transmission speeds of up to 155 mBit/s. TELEKOM AUSTRIA's leased line network is distinguished by extremely high failure reliability.

Carrier Services: New Customers, Cost Decreases in International Business.

The carrier services area includes the use of our line infrastructure by other telecom providers (fixed and mobile networks). The revenue in this business area arises through interconnection fees. In international business, the interconnection fees are contractually agreed; the regulatory authority determines domestic interconnection fees.

In 1999, market liberalization in the fixed network and the

strong growth of mobile communications, data communications, and the Internet have led to an extraordinarily strong increase in the use of Telekom Austria's infrastructure by other telecom operators.

TELEKOM AUSTRIA was able to conclude interconnection agreements with all 22 alternative fixed network operators in **Austria**, 17 of which commenced business during the past year. This is an important success in our effort to put the cooperation primarily on a contractual basis and to reduce regulatory and legal proceedings to a minimum. In September 1999, TELEKOM AUSTRIA submitted a new standard interconnection offer. It was expanded with

numerous new features, such as operator access-dial, supplementary services, and interconnection at lower network levels.

In **international business**, both the forwarding of international incoming traffic as well as the forwarding of calls from the Austrian network to international networks (outgoing traffic) remained at the past year's levels.

In international business, the lowering of interconnection fees in the area of outgoing traffic was of the highest priority during the past year. Savings in the amount of ATS 50 million were realized through renegotiating the conditions in the international interconnection business.

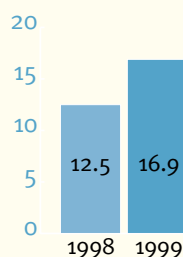
MOBILE COMMUNICATIONS: TURNOVER GROWTH DESPITE LOWER RATES.

The mobile communications division encompasses all of the operating activities of MOBILKOM AUSTRIA AG and its majority-owned subsidiary, VIP-Net Croatia.

The Group company MOBILKOM AUSTRIA AG is the market leader in Austria. It is responsible for all mobile communications services within the TELEKOM AUSTRIA Group. With the digital A1 network (GSM), the analog D network, and the paging network Call me, MOBILKOM AUSTRIA is the only Austrian full-service provider for mobile communications.

In 1996, MOBILKOM AUSTRIA was spun off from Post & Telekom Austria AG. Since 1997, 75 percent less one share in MOBILKOM AUSTRIA has been owned by TELEKOM AUSTRIA AG, 25 percent plus 1 share has been in the ownership of STET Mobile Holding N.V., a 49%-subsidiary of Telecom Italia Mobile (Telecom Italia Group).

Mobile communications turnover (billions of ATS)



This division's turnover increased by 35.2 percent to ATS 16.9 billion (1998: ATS 12.5 billion); ATS 16.5 billion thereof are allocated to MOBILKOM AUSTRIA AG. Due to rate decreases of up to 85 percent, the turnover in Austria increased – in comparison to the growth in

the number of customers of 54.7 percent – by approximately 30 percent. The prepaid business with the B-free brand developed particularly successfully. In this area, MOBILKOM AUSTRIA managed to almost double sales proceeds compared to the previous year.

The increasing trend toward marketing with the help of terminal equipment led to a correspondingly strong increase in merchandise proceeds from terminal equipment, which, on the other hand, however, was reflected in the cost of material.

The operating result declined by 19.4 percent to ATS 2.5 billion (1998: ATS 3.1 billion), in particular due to start-up losses in Croatia and significantly higher marketing expenses. The operating result of MOBILKOM AUSTRIA AG is ATS 2.9 billion, slightly below the previous year's level (1998: ATS 3.1 billion).

Capital expenditures in the mobile communications division increased by 73.9 percent to ATS 4 billion.

MOBILKOM AUSTRIA invested approximately ATS 2 billion in network expansion, approximately ATS 0.8 billion went into the EDP, and plant and equipment areas.

Personnel.

At an annual average, 2,054 personnel were employed in the mobile communications division, which is 64.7 percent more than the previous year. The number of MOBILKOM AUSTRIA's employees increased by 26.7 percent to 1,580. The new employees strengthen primarily the customer care capacities.

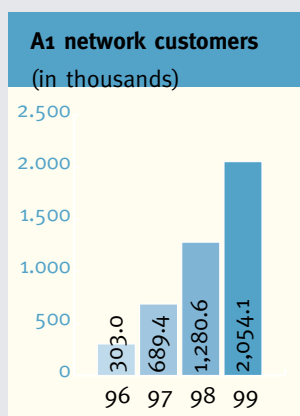
Mobile communications division* (billions of ATS)

	1999	1998	Change
Turnover	16.9	12.5	35.2%
Operating result	2.5	3.1	-19.4%
Capital expenditures	4.0	2.3	73.9%
Employees (full-time employees on an annual average)	2,054	1,247	64.7%

VIP-Net fully consolidated for the first time in 1999

A1 Mobile Network: 60 Percent More Customers.

In the previous year, MOBILKOM AUSTRIA again succeeded in asserting its undisputed market leadership in Austria's



main market, with a market share of approximately 53 percent (with reference to the number of customers as of the end of 1999).

In the new customer segment, MOBILKOM AUSTRIA, with 40 percent of the total net additions (balance from customer gains and losses), recorded the largest number of new customer acquisiti-

ons and therefore grew more strongly than any competitor. Successful network expansion, a very innovative range of products, as well as comprehensive customer service were the basis of this positive development.

At the end of 1999, more than 2 million customers used the A1 GSM network, and more than 200,000 customers the D network. The total customer increase was 50 percent, and even 60 percent in the strategically decisive GSM network. In 1999, the A1 network reached a population coverage of 97 percent; this means that 97 percent of the Austrian population is able to phone at their residences and workplaces with an A1 network cellular phone.

Mobile network	1999	1998	1997	1996
Customers in the mobile networks (in thousands)				
Analog mobile network D	205.9	200.3	250.3	260.5
Digital mobile network A1	2,054.1	1,280.6	689.4	303.0
Digital mobile network VIP-Net, Croatia	156.0	–	–	–
BTS Stations in Austria				
Makro cells	2,693	2,230	1,791	1,078
Mikro cells	640	427	305	60
Mobile penetration				
Austria	53.2%	28.5%	14.0%	–
Croatia	9.1%	–	–	–

First Austrian Dual Band Network.

In addition to MOBILKOM AUSTRIA's existing two mobile telecommunications licenses for the analog D network and the digital GSM network in the 900 Mhz frequency range, the company was awarded a third license for a GSM network in the 1800 MHz frequency range. As the first mobile network operator, MOBILKOM AUSTRIA was able in 1999 to offer its Austrian customers the advantage of using both frequency ranges.

Roaming: More Agreements, More Revenue.

By the end of the previous year, MOBILKOM AUSTRIA had roaming agreements with 157 network operators from 77 countries. This enables the A1 customers to phone in the corresponding foreign networks on the one hand, and, on the other hand, it leads to higher roaming revenue for MOBILKOM AUSTRIA from the customers of other network operators using the A1 network during a stay in Austria.

New Rates, New Services.

In April 1999, MOBILKOM AUSTRIA lowered A1 network rates for business and leisure customers, and in June 1999, the new A1 DestiNation rate was introduced. With A1 DestiNation, MOBILKOM AUSTRIA customers pay only ATS 0.80 per minute for calls to the fixed network in an area code region that can be freely chosen.

Two months later, the A1 and D network business rates were lowered. Now, the rate of one schilling applies to calls to the fixed network, Austria-wide, around the clock. With the beginning of the second quarter of 1999, MOBILKOM AUSTRIA commenced the customer loyalty program "mobilpoints." Points are credited for registration and connected time.

In the course of 1999, MOBILKOM AUSTRIA introduced a multitude of new services for residential and business customers: information services on an SMS basis, conver-

gence products between mobile and fixed networks (Multi-Ring, NetWork, and DirectLink) as well as between mobile network and the Internet (Voice Butler, DataGuard), and Austria's first mobile commerce product (ÖBBe-Ticket/Austrian Federal Railways).

With products like Xcite, a special youth package, or A1 QuickStart, a mobile telephone with a credit included for call charges that is activated immediately upon purchase, MOBILKOM AUSTRIA was able to display innovation in important market segments (youth target group, cellular phone as a present).

Steps into the Future of Mobile Internet Communication.

The most important growth segments in the immediate future include mobile Internet access. MOBILKOM AUSTRIA has taken important steps in this area in 1999.

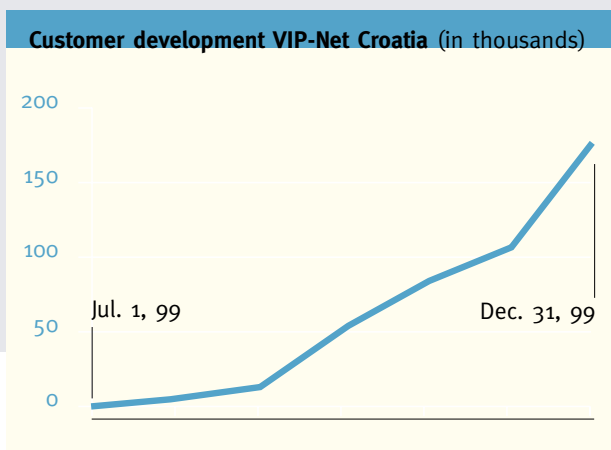
As the first Austrian mobile operator, MOBILKOM AUSTRIA commenced operations of a WAP service at the end of 1999 enabling access to specially formatted web sites directly via a suitable GSM cellular phone.

The speed at which large data quantities can be transferred "wireless" is decisive for the success of mobile Internet access. Since the new UMTS technology for broadband mobile communications will be available only in about two years and requires the construction of entirely new networks, already in the fall of 1999, MOBILKOM AUSTRIA conducted the first GPRS trials. This technology enables data transmission rates, on the existing GSM network, on the order of magnitude of fixed network ISDN connections.

International Activities of MOBILKOM AUSTRIA AG.

In September 1998, in connection with the call for bids for the second GSM license in Croatia, the decision was made in favor of the VIP-Net Croatia consortium, of which MOBILKOM AUSTRIA was consortium leader with a 30 percent share. In 1999, MOBILKOM AUSTRIA AG's share in VIP-Net was increased to 51.1 percent. VIP-Net commenced operations on July 1, 1999, and was already able by the end of December 1999 to acquire more than 155,000

customers, corresponding to a market share of more than 50 percent, with a population coverage of 87 percent. A further step in the direction of internationalization was taken in November 1999. On November 16, 1999, the decision was announced regarding the granting of a GSM 1800 mobile telephony license for the Principality of Liechtenstein to MOBILKOM AUSTRIA AG. Mobilkom Liechtenstein AG, a wholly owned subsidiary of MOBILKOM AUSTRIA AG, was incorporated at the beginning of 2000, and will commence operations in 2000.



DATA COMMUNICATIONS: 19 PERCENT TURNOVER INCREASE.

The data communications division encompasses all activities of DATAKOM AUSTRIA GmbH as well as of Datakom Informationsservice GmbH (DIS).

DATAKOM AUSTRIA GmbH, the leading Austrian provider of data communications solutions, originated in May 1996 as a result of the merger of the data service divisions of PTA and Radio Austria AG. In January 1998, the company was provided with a new corporate structure. The products range from the installation of network infrastructure to active network management and comprehensive database and information services, e-commerce applications, EDI services, and service and consultation.

The data communications division managed to increase the turnover in 1999 by 18.2 percent to ATS 3.9 billion. DATAKOM AUSTRIA was able to fully profit from market growth and secured its position as the leading provider in its markets. The value-added data services area grew particularly strongly, with almost double the turnover. Due to a multitude of new business components, such as e-commerce solutions, digital signature, etc., a significant contribution from this business to turnover is expected during the next few years.

The EBIT of the data communications business division at ATS 0.3 billion remained unchanged at the previous year's level.

1999 was marked by a number of important developments, including a-sign (**digital signature**), the European Business Register (EBR) and the health care project DaMe (medical data transfer). DATAKOM AUSTRIA also

introduced **numerous new products**, such as, among others, the EDI manager, as well as Internet connections to a land parcel database, and to the Company Register. Additional services were expanded such as Finanz Online and electronic legal communication with

the courts (ERV). The largest projects in 1999 were Österreichische Post AG's new corporate network, as well as numerous corporate networks of large Austrian businesses, including leading Austrian insurance companies and commercial companies.

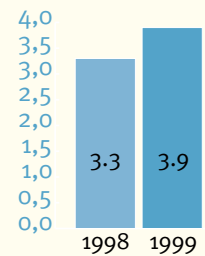
The DATAKOM AUSTRIA's services constitute an important basis for the development of **e-commerce** in the Austrian market. DATAKOM AUSTRIA develops, installs, and services the required high-performance and expandable infrastructure, both in the business-to-customer as well as in the business-to-business area. As the Austrian certification office for digital signatures, DATAKOM AUSTRIA has created a significant basis for the use of the Internet in business transactions.

Personnel.

The number of employees was situated at 847 on a yearly average, 11.6 percent higher than the previous year. Personnel resources were strengthened primarily with highly-qualified IT and network specialists.

The **certification** of seven employees as CCIES (Cisco Certified Internetworking Experts) not only provides DATAKOM AUSTRIA with a decisive know-how lead in the Internet net-

Data Communications turnover (billions of ATS)



Data communications division (billions of ATS)	1999	1998	Change
Turnover	3.9	3.3	18.2%
Operating result	0.3	0.3	0.0%
Capital expenditures	0.8	0.6	33.3%
Employees (full-time employees on an annual average)	847	759	11.6%

work technology area, but also with a "Gold Certified partner" status and thus the best and most comprehensive support from the leading provider of this technology worldwide.

PARTNERSHIP WITH TELECOM ITALIA.

Beyond the corporate relationship, a strategic partnership exists between Telecom Italia and TELEKOM AUSTRIA with the main goal of increasing the corporate value of TELEKOM AUSTRIA AG. This strategic partnership became legally effective on Dec. 22, 1998 – a cooperation agreement defines partner projects.

In 1999, joint teams of Telecom Italia and TELEKOM AUSTRIA commenced approximately 40 such partner projects. The project tasks range from marketing and sales to networks, financing, and accounting to new services such as value-added services, the Internet, and convergence of fixed network and mobile communications. Eight of these projects

were already successfully completed in 1999; the remaining projects are scheduled to be completed during the current year or at the beginning of 2001.

Telecom Italia contributes its international know-how to the cooperation. This includes continuous benchmarking with the experiences of Telecom Italia in Italy and in international business.

In the future, the greatest possible use is also to be made of the strategic and operational cooperation with Telecom Italia in the course of the adjustment of the TELEKOM AUSTRIA Group strategy to changes in the telecommunications market.

OVERALL REGULATORY CONDITIONS.

The intensive competition and experiences after the first steps in liberalization since the opening of the telecommunications sector during the past year brought a whole number of further regulations, both in the fixed network, as well as in the mobile communications area. The practice of the regulatory authority shows a tendency toward favoring competition, so that Austria is considered one of the countries in the EU with the greatest degree of market opening.

Legal Foundation.

The legal foundation for regulation is set out in the Telecommunications Act of 1997. The Telekom Control GmbH, which is 100 percent owned by the Republic of Austria, and Telekom Control Commission have been given jurisdiction to carry out the regulatory tasks. The Commission decides central regulation issues, such as the granting of licenses, the conditions for interconnection, the determination of a dominant market position, the approval of rate provisions and business conditions, issues of the universal service fund, etc. The Commission is independent and not subject to orders in connection with the exercise of its functions. It is supported by the expert services of Telekom Control GmbH.

Unbundling.

In July, the regulatory authority decided important issues related to unbundling. The decree governs the overall technical and commercial conditions for the access by alternative network operators to subscriber access lines in

TELEKOM AUSTRIA's network. Among other things, the fee for letting, the technical conditions for physical access, and the collocation provisions were settled. The regulatory authority further decided that all services that can be operated pursuant to the technical rules of TELEKOM AUSTRIA, may also be offered by alternative operators via the unbundled lines. Therefore, services with high bit rates may also use the subscriber access lines.

Universal Service.

In June, the Federal Minister of Science and Transport enacted the Universal Service Regulation. It essentially sets the goals for the quality of the universal service to be provided. Pursuant to law, the statutorily required universal service (voice telephone service, emergency calls, public pay telephones, directories) is to be provided by TELEKOM AUSTRIA until August 2002. The regulation imposes high standards of quality and ongoing reporting obligations and therefore will cause TELEKOM AUSTRIA considerable additional expense, the financing of which is still open.

Value-Added Services.

In the fall, the regulatory authority decided in the matter of access to value-added numbers by other network operators. The decrees govern, among other issues, mutual access to these services among network operators, the compensation to be paid therefor (including provisions for invoicing and collection from the end customer), as well as fees for the set-up of other operators' calling numbers in one's own network.

Interconnection.

At the end of September, TELEKOM AUSTRIA submitted a new standard interconnection offer. This had become necessary primarily because the validity of the fees then in force was limited to the end of 1999, and in order to comply with legal non-discrimination requirements toward competitors. After several months' negotiations, six alter-

native network operators finally applied for a Telekom Control Commission order. The essential item in dispute was the amount of the fees to be paid. The regulatory authority decided the matter on March 27, 2000, and ordered foremost a lowering of interconnection fees, with retroactive effect to January 1, 2000.

Pre-selection and Number Portability.

Some disputed items also concern carrier pre-selection and number portability. TELEKOM AUSTRIA completed an offer for carrier pre-selection on time and added it to the standard interconnection offer. Since November 1999, a legal dispute in this matter has been pending in which both the extent of services as well as the fee for pre-setting with the customer were at issue. This case was concluded in March 2000; the regulatory authority determined the extent of carrier pre-selection as well as the fee to be paid to TELEKOM AUSTRIA by an alternative operator for carrying out the pre-setting. With regard to number portability, an offer was prepared in the context of a separate agreement, to realize portability for alternative operators and their customers. The fees and operational-administrative procedures in the course of porting had to be clarified, among other things. A partial decision was made on March 27, 2000, and determined among other matters the compensation for the costs of the porting procedure.

MOBILKOM AUSTRIA AG's Dominant Market Position.

In the mobile communications area, the regulatory authority last year determined MOBILKOM AUSTRIA's dominant market position in the voice telephony and interconnection markets, and determined – for the first time in Europe in case of a mobile network operator – the amount of interconnection fees (for the termination of calls in the mobile network) on a cost-oriented basis. Austria therefore has the lowest interconnection fees in the EU in the mobile communications area.

Austria's First Dual Band Network.

In February 1999, the regulator allocated 1800 MHz frequencies to MOBILKOM AUSTRIA for particularly burdened areas. With A1, MOBILKOM AUSTRIA is therefore able to provide Austria's first dual band network, resulting in yet better quality for the customers.

Amendment of the Telecommunications Act.

The Telecommunications Act (TKG) is due to be amended in 2000 and 2001. Already in 1999 TELEKOM AUSTRIA commenced repositioning itself with respect to this TKG amendment. From TELEKOM AUSTRIA's point of view, the important issues are the reduction of asymmetrical regulation that leads to a significant limitation of entrepreneurial freedom, the issue of appeals against decisions of the regulatory authority, as well as the fair award of UMTS frequencies.

Active Participant in the Transformation Process Within the EU.

Presently, the European Commission is also preparing a new set of rules with the aim of completely redesigning the statutory regulatory framework, taking into account the progress of telecommunications sector liberalization. This new framework is to apply commencing in 2003. TELEKOM AUSTRIA actively participates in this process. For example, a representative office in Brussels was opened in November 1999, with the aim of accelerating the information exchange with other European telecommunications companies and EU institutions.

SALES:
PRESENCE IN ALL MARKET SEGMENTS.

The adjustment of the sales structure to ever-changing market conditions in the telecom business is part of the great challenges facing the TELEKOM AUSTRIA Group of Companies. In 1999, steps were taken in every important area strengthening the presence of the TELEKOM AUSTRIA Group of Companies with its customers and its sales partners. A new customer classification model was introduced as an essential basis for efficient and target group specific customer care with the aim of improving customer retention.

Broad Sales Basis for Residential Customers.

In direct sales, the TELEKOM AUSTRIA Group of Companies uses an interlocking system of direct marketing (catalogs, mailings) and 78 shops owned by the Group (Telekom and Mobilkom Shops). Primarily in rural areas, even the service technicians, as competent advisors, hold an important position in terminal equipment sales.

For indirect sales, there exist cooperation and distribution agreements with all 2,300 post offices and 2,700 electrical appliance retailers.

In 1999, MOBILKOM AUSTRIA realized a shop-in-shop concept at 170 retailers. The sales staff of the TELEKOM AUSTRIA Group of Companies managed 2,000 outlets monthly, and thereby guaranteed a high-grade and up-to-date presence of its products.

Already in 1999, customers made extensive use of the possibility of ordering TELEKOM AUSTRIA's products and services online. Customer and product-specific web sites and the A-Online portal serve primarily customer loyalty, in addition to sales.

Entirely new sales opportunities result from the use of innovative technologies. For example, with a combination of ADSL broadband accesses with DWDM technology, new services in video broadcasting can be offered to TELEKOM AUSTRIA customers.

Nationwide Service to Small Companies.

Tens of thousands of small companies and the ever increasing number of tele-commuters – for all of these, the uncomplicated and professional access to telecom services will be vital for the future. TELEKOM AUSTRIA's nationwide sales and technical infrastructure provides these "small" customers in all of Austria with opportunities for competent on location consultation.

The seven TELEKOM AUSTRIA Business Centers are available for these customer groups, supplementing the residential customer sales network.

Teamwork and Partner Programs for Key Account Customers.

The organization and management of corporate networks; the installation of call center applications; the integration of voice, data, and mobile communications; and the creation of e-commerce platforms are examples for which competence from all areas of TELEKOM AUSTRIA Business Group is needed. Joint teams of TELEKOM AUSTRIA and DATAKOM AUSTRIA work on the marketing of corporate network solutions. Since 1999, DATAKOM AUSTRIA is using a new sales information system, supporting sales and management in connection with customer care and the ongoing optimization of custom solutions.

For key account management in the area of mobile communications, MOBILKOM AUSTRIA established the "Golden Partner" program. In 1999, 35 Golden Partner companies with 45 shops ensured that effective support was provided to key account management in all Austrian regions. The success of these sales activities can be seen in marketing data: according to a study of IDC Österreich, 80 percent of all medium-sized businesses were MOBILKOM AUSTRIA customers at the end of 1999.

TELEKOM AUSTRIA intensified its efforts for an the optimal servicing of its key accounts, amongst other things through so-called "operator models". These are overall solutions provided by the entire Group which always bring our customers the latest practical technology at any time. Since March 1, 1999, TELEKOM AUSTRIA offers customer-specific rebate models for business customers. Regulatory approval was required for this measure. TELEKOM AUSTRIA can now fix the price in the business customer segment, and thereby holds an important instrument for customer loyalty.

CUSTOMER CARE, CUSTOMER LOYALTY,
AND MARKET RESEARCH.

Customer Care: Expansion at All Levels.

The TELEKOM AUSTRIA Group of Companies has taken further measures in all divisions for the additional improvement of customer care.

The most important activities with the goals of consistent customer orientation, efficient care, and, last but not least, customer loyalty, include:

- Creation of a new Customer Information Center
- Strong expansion of call center capacities
- New billing system for mobile communications
- Customer loyalty programs such as "mobilpoints" for frequent mobile network users, or the new rebate system for fixed network business customers
- Creation of customer and product-specific interactive platforms in the Internet
- Extensive employee training in the customer care, sales, and service areas.

The demand for capacities in call centers has seen an extraordinary rise in 1999. Every day, an average of 125,000 callers have contacted TELEKOM AUSTRIA, MOBILKOM AUSTRIA, and DATAKOM AUSTRIA call centers seeking information, ordering products or calling for services. Directory assistance and the existing call center have been merged at the new TELEKOM AUSTRIA Customer Information Center. This created the basis for a single interface with the customer.

DATAKOM AUSTRIA in 1999 also integrated existing special units in a single call center. A single point of contact is now available to customers for technical support, problem solving such as forgotten passwords, billing questions, etc. Thanks to nationwide call distribution and intelligent excess call management, waiting times for DATAKOM AUSTRIA customers can be kept at a minimum even during peak hours.

New, versatile services also require intelligent solutions for billing. Simultaneously with the rate change in September 1999, TELEKOM AUSTRIA organized its bill more clearly.

MOBILKOM AUSTRIA implemented a completely new billing system. It is used to bill all services used by the customer via a cellular phone, with a single bill. In this way, the basis of mobile commerce solutions such as ÖBBe-Ticket (ordering railway tickets with a mobile telephone, paying with MOBILKOM AUSTRIA's billing system) was created.

Customer Orientation and Technical Quality Show Results.

Customer surveys prove a very high degree of satisfaction. In decisive categories such as "network reliability," "speech quality," and "simplicity of use" fixed network customers always give TELEKOM AUSTRIA the best marks (1.4 to 1.6 on a scale of 1 to 5, with 1 being the highest mark).

93 percent of all malfunctions were cleared within two days, and 83 percent of all customers were "very satisfied" with the handling, 88 percent also were "very satisfied" with the competence and appearance of the service technician. 94 percent of all customers were "very satisfied" or "satisfied" with the installation of their phone connections.

Customer satisfaction with the installation of ISDN connections and with its quality is similarly high. In the business customer area, 91 percent were "very satisfied/satisfied" with their ISDN connection.

MOBILKOM AUSTRIA's A1 mobile network is regarded by the Austrian population as leading in the categories "most modern technology," "best reception and speech quality," and "good customer service." This is also reflected in network preference. When asked for which mobile network they would most likely decide at the time (new customers, changing customers), 50 percent of those surveyed chose A1. The two competitors each reached 20 percent, 10 percent of the surveyed group was undecided.

NETWORKS: CAPITAL INVESTMENTS FOR THE DIGITAL AGE.

In 1999, the TELEKOM AUSTRIA Group of Companies invested ATS 9.1 billion into infrastructure expansion. Of this amount, 78 percent was allocated to the fixed network and 22 percent to the mobile communications network.

Capital expenditure focal points in 1999 consisted of:

- Completion of digitalization of fixed network exchanges in Austria
- Capital expenditures for Internet infrastructure
- Expansion of optical fiber line capacities
- Expansion of the mobile communications network.

Fixed Network: Massive Equipment Buildup for the Digital Future.

The ongoing network development provides the basis for access to the multimedia world via a telephone connection. The numerous new services in the OES (Austrian electronic telephone system) and IN (Intelligent Network), such as calling line identification / restriction or number portability, which are being or have been realized in the course of competition or because of regulatory orders, constitute new challenges.

The services mentioned, just as IP, leased lines, etc. require a stable and high-performance transmission technology. Therefore, during the past business year we introduced new SDH / ACCESS facilities (microwave and line-bound network) with the appropriate management systems. 1999 brought the completion of the digitalization of all exchanges in Austria. The one-hundred percent digitalization enables the expansion of the range of services, allows TELEKOM AUSTRIA more flexibility with rates, and leads to savings since expensive maintenance is no longer required. By the end of 1999, 90 percent of exchanges were equipped with optical fiber cables. At that time, therefore, a total of 11,900 cable kilometers was available in the long distance network and approximately 2,800 cable kilometers in the local networks.

TELEKOM AUSTRIA in 1999 expanded the ATM network significantly, to provide the infrastructure for customer networks on the one hand, and, on the other hand, to enable innovative services in the broadband area (Internet). The decision to offer nationwide high speed Internet access with ADSL technology in Austria has accelerated the expansion of the ATM network. Already in 1999, we commenced the installation of additional ATM nodes; by the end of the current year, nationwide ATM-availability for ADSL will have been realized at regional and district levels as well. The strongly increased number of telecom providers in Austria resulted in higher demand for interconnection and switching infrastructure. We carried out preparatory work for the creation of the interconnection points at lower network levels ordered by the regulatory authority. Moreover, we tested the technical prerequisites for the connection of a larger number of additional network operators. The enormous increase in the number of subscribers in the IP and data network reflects the rapid spread of the Internet. The 2 mBit/s accesses to the dial-in nodes were increased from 5,000 to 20,000. Further, the number of locations for link-up of dedicated lines and dial-in locations also increased. With the introduction of ADSL, the basis for a broadband IP network was created together with the existing infrastructure of Highway 194. With the conversion of all connections of the dial-in locations to ATM, the precondition for the service quality of VPN (Virtual Private Networks) and larger bandwidths in the access area were also created. The strong demand for the Internet and ADSL also affected the development of the international network. Besides the implementation of the second international exchange in Linz, the focal point during the past year consisted of the expansion of international IP connectivity. For this purpose, the IP network was connected with the Seabone-Backbone network of Telecom Italia, and our own international router was implemented in order to improve international performance.

Mobile Network: 676 New Stations Commenced Operations.

The MOBILKOM AUSTRIA's network expansion was driven by the sharply increased number of subscribers and by further technological developments. With the award of the 1800 Mhz frequencies by the regulatory authority, we were able to increase capacities by adapting existing broadcast facilities.

The encouraging development of customer numbers also leads to increased network use and requires appropriate network expansion to satisfy these requirements. The planned expansion of macro and micro stations was pushed ahead in accordance with the network development plan. In the future, the focus of attention will be shifted from mere geographic coverage, in the direction of "indoor coverage" (reception within buildings) in order to further increase the quality for mobile communications customers. In the course of 1999, 462 macro stations and 213 micro stations were brought on line. A total of 3,333 transmitter stations were in operation at the end of 1999.

In the course of qualitative network development, 84 highway tunnels were equipped with repeater facilities by the end of the year. 210 km kilometers of tunnels are now already equipped with transmission facilities for the A1 and D networks. In addition, 103 office and store complexes were furnished with repeater facilities. As of the end of 1999, a total of 205 GSM 1800 radio transmission stations were in operation in Vienna and the surrounding area, Salzburg, Graz, and the Rhine Valley. Since year's end, A1 customers are able to telephone in the Vienna subway lines within the "Gürtel" road.

COMMUNICATIONS: IMAGE PROMOTION WITH SPONSORING AND EVENTS.

Investments in sports, cultural, and social sponsoring are an important tool for TELEKOM AUSTRIA Group of Companies for the promotion of its business image and brand publicity.

In 1999, the Group engaged in a broad spectrum of sponsorship activities.

In sports sponsoring, TELEKOM AUSTRIA has chosen skiing. For four years now a partnership has existed with the ÖSV womens' team, presently the most successful female alpine team. The 1999 cross-country skiing world championships in Ramsau were equipped with a mobile press center with state-of-the-art telecommunications facilities, just as all world cup ski races at Austrian locations.

Furthermore, TELEKOM AUSTRIA commits itself in connection with beach soccer competitions and the Austrian Freestyle Pro Team.

For the A1 network, MOBILKOM AUSTRIA concentrates sports sponsoring on motor sports. The mobile network brand is the name sponsor of the A1 Ring at Spielberg, one of the most beautiful Formula 1 race courses in the world. Europe's largest outdoor motor sport leisure facility is the A1 Speed World in Bruck an der Leitha. In addition, talented young Austrian drivers are promoted.

In line with its image, the MOBILKOM AUSTRIA brand B-Free (prepaid card) stands in the foreground with beach volleyball and with its partnership with the ÖSV Snowboard Team.

TELEKOM AUSTRIA takes responsibility for young athletes in the context of a collaboration with the Champions Club of the Österreichische Sporthilfe (Austrian Athletes' Assistance).

We also have various activities in the area of cultural sponsorship. For example, in 1999 TELEKOM AUSTRIA for the first time acted as general sponsor of the "Ingeborg Bachmann Competition," one of the most highly regarded German-language literature competitions. In the fall of 1999, TELEKOM AUSTRIA was a partner of the now legendary "Linzer Klangwolke" music festival. DATAKOM AUSTRIA supported the construction of the museum building for the Essl collection, Austria's new museum for contemporary art. MOBILKOM AUSTRIA was the exclusive sponsor of the State Opera project "Wiener Kinderoper" (children's opera).

The reputation and importance of Ars Electronica in Linz reach far beyond the borders of Austria. At the Cyberarts 99 exhibition, DATAKOM AUSTRIA presented prize-winning works of Ars Electronica. And TELEKOM AUSTRIA supplies the Ars Electronica Center with a central resource of the information age: bandwidth. In addition, art projects are jointly developed and new technologies regarding their ability are tested.

MOBILKOM AUSTRIA also is involved in two trend-setting projects in the scientific area. COST is a European research initiative, in the context of which more than 2,000 scientists have been working on the further development of mobile communications for over ten years. In April 1999, a workshop with the themes "Wireless Flexible Communications" and "Intelligent Antennas" was held in Vienna, with MOBILKOM AUSTRIA as the main sponsor. The company profits from direct access to the newest research findings. For the two large Austrian charity drives "Licht ins Dunkel" and "Nachbar in Not," TELEKOM AUSTRIA makes the call center available for the acceptance of donations by telephone. More than 200,000 donors used these call centers in 1999.

PERSONNEL: CHANGE MANAGERS SUPPORT THE COMPANY'S TRANSITION.

The challenge in telecommunications is the shift of capacities from traditional areas to growth segments such as the Internet and mobile communications. Rapid technological progress and the openness of the sector require the reorientation of personnel from technical sector to customer care and sales.

For this business transformation, seven TELEKOM AUSTRIA employees in the regions were trained to be change managers. They will accompany and moderate the required adjustment and transitional processes. Approximately 10,000 personnel of TELEKOM AUSTRIA participated in training and development programs during 1999. Workshops at which employees acquire customer care personnel qualifications with the necessary expertise and social competence constitute one focal point of these efforts.

In June of 1999, a plan of social measures became effective at TELEKOM AUSTRIA, providing personnel with civil servant status with the opportunity of choosing early retirement as a measure of personnel restructuring. Since this point in time, a binding early retirement agreement has been concluded with 729 persons. During the past year, this agreement has become effective for 172 employees.

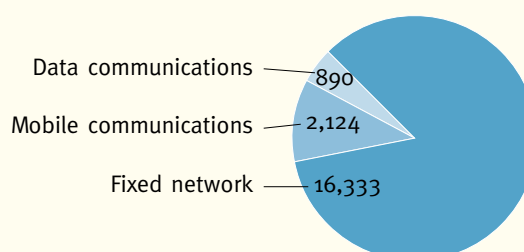
Solid Training for Future Personnel.

The company, as the largest instructor in the Austrian telecommunications market, offers solid occupational training for young, committed people and thereby provides them with the opportunity for a career in the telecommunications sector. For new employees, there are many practical training and development programs corresponding to the requirements of the company.

TELEKOM AUSTRIA trains apprentices to become "Communications Technicians for EDP, Telecommunications, and Sales." This occupation includes the operation, sale, and maintenance of modern, high-capacity telephone systems as well as data transmission and mobile communication systems. The program's focal point is microcomputer technology with application of higher-level programming languages. This apprenticeship vocation is equally open to young men and women, and offers the basis for secure employment and job advancement within the Group. The duration of the apprenticeship is three and a half years; 345 apprentices were trained in 1999.

Another focal point of our personnel policy in 1999 was the start of a trainee program. It provides university graduates with an opportunity of 12 months of training. Through a carefully directed deployment in various divisions, the trainees apply their theoretical knowledge in actual practice and learn to assume management functions within the Group. During the past year, 18 trainees worked in individual Group companies.

Personnel by Divisions (in 1999)



Persons on an annual average	Fixed network	Mobile communications	Data communications	TELEKOM AUSTRIA Group
Personnel 1999				
Civil servants	12,840	516	440	13,796
Workers, Salaried Employees, Apprentices	3,493	1,608	450	5,551
Total	16,333	2,124	890	19,347
Personnel 1998				
Civil Servants	13,938	511	483	14,932
Workers, Salaried Employees, Apprentices	3,422	766	305	4,493
Total	17,360	1,277	788	19,425

RESEARCH AND DEVELOPMENT: TRACKING THE FUTURE.

Dynamic markets, the convergence of telecommunications, media, and information technology, and ever faster innovation cycles: Thanks to intensive research and development together with Austrian and international partners, the products of the TELEKOM AUSTRIA Group of Companies are always state of the art.

Applying Technologies.

TELEKOM AUSTRIA cooperates with various initiatives organized at the federal and provincial levels to promote the spread of modern information and communications technologies (ICT).

For example, TELEKOM AUSTRIA supported the establishment of two competence centers occupied with the themes "Computer-Assisted Video Processing" and knowledge management. In the context of the governmental K-plus initiative, TELEKOM AUSTRIA and MOBILKOM AUSTRIA are partners of the FTW (Research Center for Telecommunications Vienna), a competence center set up by the federal government.

In this regard, MOBILKOM AUSTRIA and TELEKOM AUSTRIA participate in several projects:

UMTS - The Third generation of Mobile Communications:

MOBILKOM AUSTRIA collaborates in the development of new applications for UMTS – such as in the tourism area. Communication Networks and Services: TELEKOM AUSTRIA and MOBILKOM AUSTRIA jointly research the future architecture of networks as well as the effects of ICT on the services of tomorrow.

Pioneer on the Information Highway: the TELEKOM AUSTRIA Group is very quickly introducing ADSL on a nationwide basis. It contributes at the FTW to the work on the further development of digital subscriber line technology, in order to optimize its future deployment in TELEKOM AUSTRIA's network.

TELEKOM AUSTRIA proves its technological leadership with its special commitment at European and international levels in the context of the IST (Information Society Technologies), TEN-Telecom as well as COST (in the fixed network and mobile communications area) support programs. Further, in the context of EURESCOM (European Institute for Research and Strategic Studies in Telecommunications), TELEKOM AUSTRIA works on the convergence of networks.

Assessing Developments.

The Economic Research Institute, in cooperation with the Academy of Science, annually conducts a Delphi study for MOBILKOM AUSTRIA, in order to analyze future developments in the information technology area as well as their chances and risks, and, on the basis thereof, to prepare political and business recommendations.

UMTS (Universal Mobile Telecommunications System) will revolutionize mobile communication and create a mass market. In order to be prepared for this challenge, MOBILKOM AUSTRIA supports the UMTS Forum, a non-profit organization with 170 members from 30 countries. Since 1996, the UMTS Forum has worked on raising awareness regarding the unique possibilities of this new standard and its introduction and development.

The Smart Card Turns the Cellular Phone into an Assistant.

As the only Austrian network operator, MOBILKOM AUSTRIA has joined the SCOOP (Smart card exploitation on mobile platform) European research project. The newly developed smart card systems are far more powerful than conventional SIM cards. They enable services such as mobile e-commerce, and the development of the cellular phone into a payment transaction terminal and personal assistant.

Internet Telephony.

In the context of the International Telecommunications Union (ITU) and the Internet Engineering Task Force (IETF), basic standards are being created for multimedia communications also including voice telephony over the Internet protocol (Voice over IP). The ETSI (European Telecommunications Standardization Institute) project Tiphon dealing with the specification of an overall system for Voice over IP, such as for example the merger of IP address and telephone number and global number portability, builds on these basic standards. In the EU project TTT-Services (Tiphon TEN Telecom), as well as in the EU project Aquila (IST Project), the standards are being tested with regard to their applicability. In 1999, the test network was prepared for operations in 2000, with the participation of a consortium of 16 network operators, including TELEKOM AUSTRIA. In this connection, DATAKOM AUSTRIA acts as the certification office for the digital signature in order to identify the participants as authentic. With its research in the area of "Internet voice telephony," TELEKOM AUSTRIA improves its chances of profitably organizing its transition from a pure telecom network operator to a multi service provider. One of the field tests carried out in 1999 at the Austrian level already points toward voice-data convergence of technology, services, and markets: using a so-called "web call," the viewer of an Internet page is able to call the author of the page with a mouse click, to obtain further oral information on a subject.

Security with Standardization.

Research and development are closely connected to standardization. Standards and technical specifications guarantee the compatibility among products as well as their required safety and quality. TELEKOM AUSTRIA actively participates in standardization work in international bodies such as the International Telecommunication Union (ITU), European Telecommunications Standardization Institute (ETSI), ATM Forum, IETF (Internet Engineering Task Force), ADSL Forum, UMTS Forum, etc.

Security for E-commerce.

DATAKOM AUSTRIA has offered e-commerce solutions since the middle of 1999. In the business-to-consumer area for example, work and shopping flows are being individually developed. Using HTML, XML, Java, and C++, links to existing web applications or to merchandise business systems are realized. The digital signature (a-sign) will protect customers from possible attacks in the Internet as well as ensure data integrity and authenticity.

Satellite Communications.

In order to be able to test future positioning in the market for satellite-supported distributive services and Internet accesses, TELEKOM AUSTRIA, in the course of "LISSY" project pilot operations, is testing a hardware platform permitting both bi-directional video, audio, telephone, and data communication, as well as direct reception via satellite. The combination of "LISSY" systems with technologies for digital TV such as DVB/MPEG2 enable distributed applications for multimedia data transmission that may be trend-setting, especially with heterogeneous corporate networks. Further, the SIMPLE project (Satellite Interactive Multimedia Platform for Low-cost Earth stations) offers the opportunity of obtaining contents on request, auto-on-demand or auto-update. Since July 1999, this software system for interactive multicast Web -surfing, developed for ESA (European Space Agency), is being evaluated at schools in pilot tests for the transfer of digitized instruction videos from TELEKOM AUSTRIA.

LOOKING TOWARD THE FUTURE.

In the year 2000 the TELEKOM AUSTRIA Group of Companies, as the leading Austrian telecommunications provider, will further expand its range of innovative products and services at the highest level.

For this purpose, the Group is investing in technical infrastructure in order to do justice to the requirements of its customers and other telecommunications providers using the TELEKOM AUSTRIA network. After the successful completion of digitalization during the past year, the focal point will rest in future on the provision of new technologies.

Due to the entry of additional alternative operators in the domestic market, competition will further intensify in fixed network telephony.

In mobile communications, the fourth licensee will commence operations during the course of 2000.

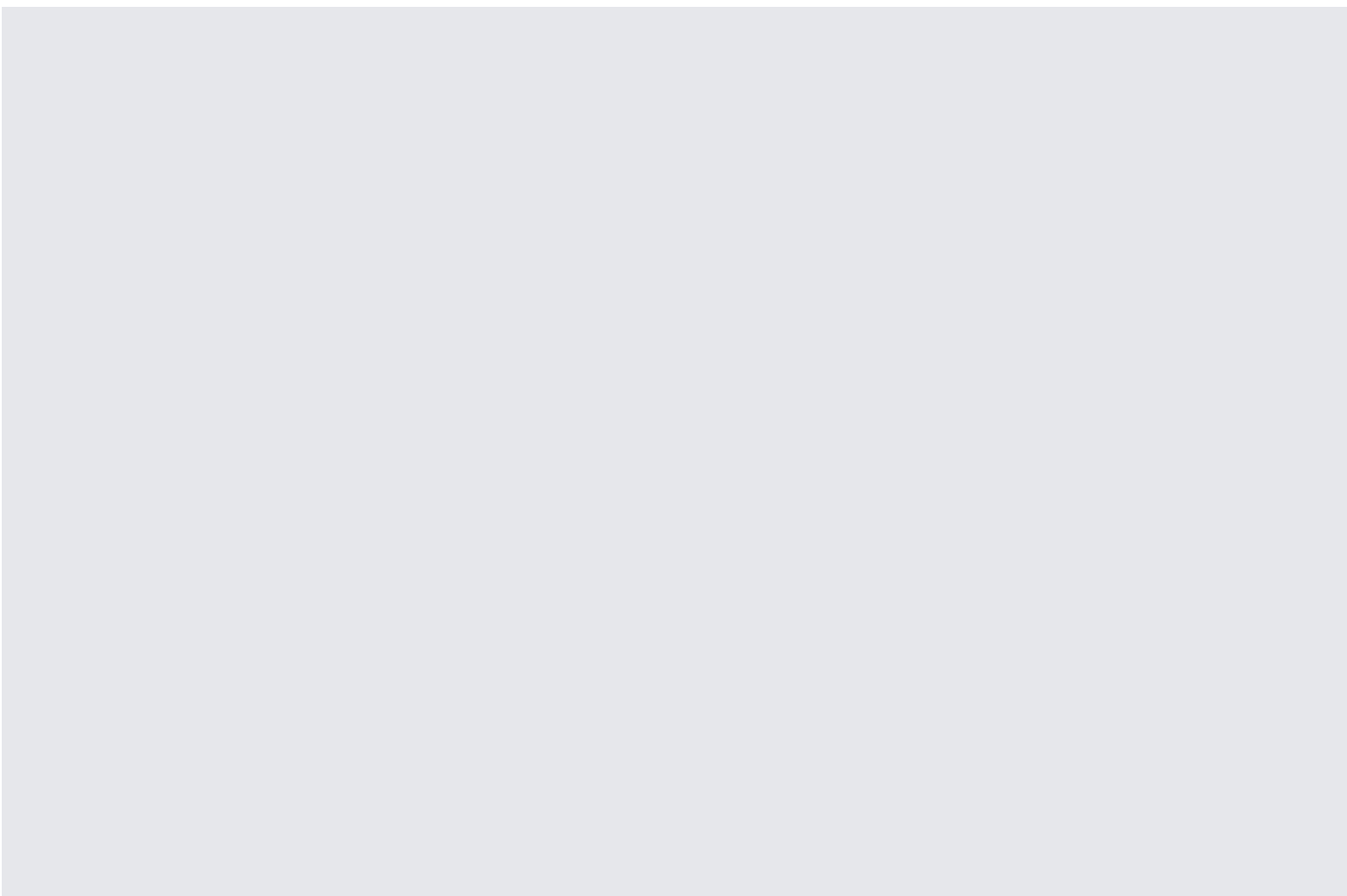
The award of licenses by the Republic of Austria for the next generation of mobile communications (UMTS) is

expected in the course of 2000. MOBILKOM AUSTRIA AG is striving for a UMTS license in order to also be able to offer innovative services in the context of the third mobile communications generation.

In the Internet business, the TELEKOM AUSTRIA Group of Companies will expand its leading position with strategic partnerships, cooperations, and new product packages.

The Group's strategy is directed toward increased customer orientation, as well as toward flexibility and productivity gains.

Internationalization will be continued with a sense of proportion and with a focus on the Central European area. Turnover and earnings development continue to be influenced by a price war afflicting the whole market. Among other factors, the constantly increasing share of higher-value telecom services from broadband Internet access to value-added data services will have a positive effect.



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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