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Independent auditors' report

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Telekom Austria Aktiengesellschaft ("Telekom Austria") as of December 31, 2000 and 1999, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for each of the years in the three year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telekom Austria as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

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

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Vienna
March 30, 2001

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

ASSETS	December 31,	December 31,
	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents.....	17,715	380,102
Short-term investments.....	5,962	42,305
Accounts receivable, net of allowances of €72,168 and €61,423 as of December 31, 2000 and 1999.....	493,817	613,667
Receivables due from related parties.....	107,141	110,246
Inventories.....	74,776	79,689
Deferred tax assets.....	1,742	21,809
Prepaid expenses.....	16,531	18,270
Tax refunds.....	108,503	188,171
Other current assets.....	165,000	53,076
TOTAL CURRENT ASSETS.....	991,187	1,507,335
Property, plant and equipment, net.....	5,069,507	5,411,125
Intangible assets at cost.....	262,438	23,661
Less accumulated amortization.....	(32,131)	(7,148)
	230,307	16,513
Investments in affiliates.....	612,962	544,799
Other investments	149,612	133,982
Deferred tax assets.....	144,233	1,831
Due from related parties.....	218,018	0
Other assets.....	720,096	691,508
TOTAL ASSETS.....	8,135,922	8,307,093
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short Term Borrowings.....	945,992	508,862
Accounts payable	524,969	381,224
Accrued liabilities.....	172,979	133,653
Payables to related parties.....	103,744	689,362
Deferred income.....	66,508	67,491
Income taxes payable	12,726	12,556
Deferred income taxes	1,398	12,952
Other current liabilities.....	44,352	29,138
TOTAL CURRENT LIABILITIES.....	1,872,668	1,835,238
Long-term debt, net of current portion.....	2,353,858	2,319,126
Lease obligations, net of current portion.....	798,955	757,305
Employee benefit obligations.....	448,536	248,462
Deferred income taxes.....	19,329	71,009
Other.....	38,964	45,880
Stockholders' equity		
Common stock, issued and outstanding shares 500,000,000 with par value of €2.181....	1,090,500	1,090,500
Additional paid in capital.....	451,677	452,105
Retained earnings.....	1,061,462	1,487,575
Accumulated other comprehensive loss.....	(27)	(107)
TOTAL STOCKHOLDERS' EQUITY.....	2,603,612	3,030,073
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	8,135,922	8,307,093

See accompanying notes to consolidated financial statements

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating revenues..... a)	2,814,397	2,948,199	2,830,435
Operating expenses..... b)			
Materials.....	(108,167)	(133,718)	(97,654)
Employee costs, including benefits and taxes.....	(865,599)	(645,596)	(555,134)
Depreciation and amortization.....	(915,889)	(864,549)	(814,642)
Other operating expenses.....	(1,217,377)	(1,036,694)	(758,999)
OPERATING (LOSS) INCOME.....	<u>(292,635)</u>	<u>267,642</u>	<u>604,006</u>
Other income (expense)			
Interest income..... c)	78,552	66,749	40,406
Interest expense..... d)	(239,914)	(228,069)	(212,019)
Dividend income.....	1,405	1,152	663
Other, net.....	(44,662)	(9,528)	(6,284)
(LOSS) INCOME BEFORE INCOME TAXES, EQUITY IN EARNINGS OF AFFILIATES AND EXTRAORDINARY ITEMS.....	<u>(497,254)</u>	<u>97,946</u>	<u>426,772</u>
Income tax (expense) benefit.....	178,829	(14,489)	(123,375)
Equity in earnings of affiliates.....	36,314	117,469	136,545
(LOSS) INCOME BEFORE EXTRAORDINARY ITEMS...	<u>(282,111)</u>	<u>200,926</u>	<u>439,942</u>
Extraordinary loss, net of tax.....	(3,453)	(689)	(10,468)
NET (LOSS) INCOME.....	<u>(285,564)</u>	<u>200,237</u>	<u>429,474</u>
Basic and fully diluted earnings per share.....	(0.57)	0.40	0.86
Basic and fully diluted earnings per share excluding extraordinary items.....	(0.56)	0.40	0.88
a) includes revenues from related parties of	289,818	262,970	208,274
b) includes operating expenses from related parties of	309,094	344,864	291,143
c) includes interest income from related parties of	3,138	1,975	20,059
d) includes interest expense from related parties of	13,045	31,298	14,862

See accompanying notes to consolidated financial statements

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

	2000	1999	1998
Cash generated from operations			
Net Income.....	(285,564)	200,237	429,474
Adjustments to reconcile net income to cash generated from operations			
Depreciation and amortization of property, plant and equipment, goodwill and other intangible assets.....	915,889	864,549	814,642
Employee benefit obligation - long term.....	200,073	34,699	(905)
Allowance for doubtful accounts.....	26,483	40,142	26,984
Change in deferred taxes.....	(180,726)	6,270	16,654
Equity in earnings of affiliates in excess of dividends received.....	30,805	(59,325)	(99,482)
Stock purchase plan.....	7,196	0	0
(Gain)/Loss on sales of investments.....	(524)	201	(1)
Loss on disposal of equipment.....	35,161	14,046	13,412
Changes in assets and liabilities, net of effect of business acquired			
Accounts receivable.....	94,224	(121,158)	(96,628)
Due from related parties.....	(6,408)	69,462	(144,044)
Inventories.....	4,920	14,639	561
Prepaid Expenses.....	2,005	875	543
Other assets.....	7,808	42,194	104,264
Accounts payable.....	143,480	111,294	(45,464)
Accrued liabilities.....	38,723	17,384	16,658
Due to related parties.....	(33,155)	(31,986)	122,374
Other liabilities.....	7,283	8,155	38,118
	1,007,673	1,211,678	1,197,160
Cash used in investing activities			
Capital expenditures, including interest capitalized.....	(601,538)	(697,188)	(764,179)
Acquisitions and investments, net of cash acquired.....	(334,662)	(45,057)	(5,943)
Proceeds from sale of equipment.....	16,133	11,503	13,962
Purchase of investments - short term.....	(176)	(6,513)	(167,023)
Purchase of American Call for Stock Option Programm.....	(12,527)	0	0
Proceeds from sale of investment - short term.....	36,336	138,383	3,508
Proceeds from sale of investment - long term.....	2,719	2,665	2,754
	(893,715)	(596,207)	(916,921)
Cash from (used in) financing activities			
Principal payments on bonds.....	(202,030)	0	(119,838)
Proceeds from issuance of long-term debt.....	377,553	0	0
Principal payments on long-term debt.....	(138,151)	(248,654)	(278,978)
Change in short-term bank borrowings.....	387,710	31,016	(10,519)
Changes in financing with ÖIAG.....	(492,516)	(398,588)	949,861
Changes from financing with Mobilkom group.....	(268,520)	(110,135)	153,252
Proceeds from sale of tax benefits.....	0	44,437	7,337
Dividends paid.....	(140,549)	(333,201)	(205,342)
Capital contributions by minority shareholders.....	0	0	534
	(476,503)	(1,015,125)	496,307
Effect of exchange rate changes	158	0	0
Net increase (decrease) in cash and cash equivalents	(362,387)	(399,654)	776,546
Cash and cash equivalents at beginning of period.....	380,102	779,756	3,210
Cash and cash equivalents at end of period.....	17,715	380,102	779,756
Cash paid for			
Interest.....	190,278	200,825	218,599
Income tax.....	8	80,178	118,997
Cash received for			
Interest.....	30,882	63,242	19,309
Income tax.....	0	31,160	0
Non cash investing and financing			
Cross border leasing.....	0	607,802	143,598

See accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in €'000s omitted, except per share information)

	Common stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number of shares	Par value				
Balance January 1, 1998.....	500.000.000	1.090.500	452.105	1.396.407	77	2.939.089
Dividends declared.....				(205.342)		(205.342)
Comprehensive income						
Net income.....				429.474		429.474
Unrealized gains on securities, net of €(84) deferred income taxes.....					163	163
Total comprehensive income.....						429.637
Balance December 31, 1998.....	500.000.000	1.090.500	452.105	1.620.539	240	3.163.384
Dividends declared.....				(333.201)		(333.201)
Comprehensive income						
Net income.....				200.237		200.237
Unrealized losses on securities, net of €60 deferred income taxes.....					(117)	(117)
Foreign currency translation adjustment....					(230)	(230)
Total comprehensive income.....						199.890
Balance December 31, 1999.....	500.000.000	1.090.500	452.105	1.487.575	(107)	3.030.073
Dividends declared.....				(140.549)		(140.549)
Stock purchase plan.....				7.924		7.924
Change in Stock Options.....				(8.352)		(8.352)
Comprehensive loss						
Net loss.....				(285.564)		(285.564)
Unrealized losses on securities, net of €62 deferred income taxes.....					(121)	(121)
Foreign currency translation adjustment....					201	201
Total comprehensive income.....						(285.484)
Balance December 31, 2000.....	500.000.000	1.090.500	451.677	1.061.462	(27)	2.603.612

See accompanying notes to consolidated financial statements

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

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

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

Telekom Austria AG and subsidiaries (the "Company" or "Telekom Austria") is engaged as a full service telecommunications provider of long distance, local and wireless services, corporate data communication services as well as internet services. The Company also provides services through pay phones and supplying telephones and technical equipment for telephone communication. These activities are conducted and operated primarily in Austria.

On May 1, 1996, Post und Telekom Austria Aktiengesellschaft (PTA) was incorporated as successor to Post und Telegraphenverwaltung (PTV). The Poststrukturgesetz (Austrian Post Restructuring Act) provided the basis for the separation of PTA from the Federal Republic of Austria. PTA's operations included postal services, telecommunications, coach line services and other activities.

As of December 31, 1997, the postal services, coach line services and other non-telecommunication-related operations of PTA were transferred to different legal entities. The operations remaining related to the telecommunications business and were named Telekom Austria AG.

In 1998, Telecom Italia SpA, through its subsidiary STET Internationale Netherlands NV, became a strategic investor in the Company by acquiring 25 % plus one share in Telekom Austria AG from the Austrian government. As of December 31, 2000 Telecom Italia owns 29,78 % of Telekom Austria.

Subsequent to these structural changes and the Initial Public Offering in November 2000, the Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), continues to be a significant shareholder owning approximately 47,8 % of the voting common stock of the Company. In addition to the transactions described in note (7), the Federal Republic of Austria authorizes and supervises the Österreichische Gesellschaft für Telekommunikationsregulierung mit beschränkter Haftung (Telekom Control GmbH) which regulates certain activities of the Company. The government holds the taxing authority for the Austrian operations of Telekom Austria and imposes taxes such as income and value added taxes on the Company.

All of the Company's interests in the mobile communications business are held through its holding in Mobilkom Austria AG and its subsidiaries ("Mobilkom"). The Company owns a 75 % minus one share of common stock in Mobilkom. The remaining 25 % plus one share of common stock interest is held by STET Mobile Holding NV, a subsidiary of Telecom Italia Mobile SpA, a publicly-traded subsidiary of Telecom Italia SpA. Telekom Austria does not consolidate Mobilkom for financial reporting purposes due to certain substantive participating rights held by the minority shareholder.

In July 2000, Telekom Austria Personalmanagement GmbH ("TAP") was formed through a spin off from Telekom Austria AG. TAP contains all the personnel of Telekom Austria AG and in the future will lease this personnel mainly to Telekom Austria AG but also to companies outside of the group. In 2000 TAP is still reported in the fixed line segment but may become a separate segment beginning 2001. Additionally, the internet business with private customers of Telekom Austria AG was separated as of July 2000 and will form together with Czech Online the internet segment beginning in 2001.

Basis of presentation

The consolidated financial statements of Telekom Austria AG have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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

Principles of consolidation

The consolidated financial statements include the accounts of Telekom Austria AG and all material subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

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

Comparative statements

Certain amounts in prior years have been reclassified for consistency of presentation.

Cash and cash equivalents

The Company considers cash in banks and highly liquid investments with original maturities of three months or less as cash and cash equivalents. Money market deposits with original maturities of more than three months are classified as short-term investments along with marketable securities. The Company had €36,336 in money market deposits as of December 31, 1999, none in 2000.

Marketable securities

Marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as either available-for-sale or held-to-maturity. Securities classified as available-for-sale are reported at fair value at the balance sheet date and held-to-maturity securities are reported at amortized cost. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of applicable deferred tax.

Inventories

Inventories consist of merchandise sold in Telekom shops and of material and spare parts used for the construction of networks, mainly for the Company's own use. Inventories are valued at the lower of cost or market, cost being determined on the basis of weighted average cost.

Property, plant and equipment

Property, plant and equipment are stated at cost and include certain costs which are capitalized during the installation and expansion of the telecommunication network including material, payroll, direct overhead and interest costs. Value added tax ("VAT") which is charged by suppliers and refunded by the tax authorities is not included in cost. Plant and equipment under capital leases are stated at the lower of present value of minimum lease payments or fair value.

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

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

The useful lives are:

	<u>Years</u>
Transmission equipment	3 – 20
Cables and wires	10 – 20
Communication equipment	4 – 10
Software	4 – 5
Furniture, fixtures and other	3 – 8
Buildings	10 – 50

Maintenance and repairs are expensed as incurred while replacements and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in other income or expense.

Intangible assets

Intangible assets are stated at cost and are amortized straight-line over the estimated useful life over the periods shown below:

	<u>Years</u>
Goodwill	3 – 5
Other intangibles	10 – 30

Software development costs

In 1999, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". In accordance with this standard, certain direct and indirect development costs associated with internal-use software are capitalized, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are amortized using the straight-line method over a period not exceeding four years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs, as well as research and development costs are expensed as incurred.

Advertising and promotional cost

Advertising and promotional costs are expensed as incurred and totaled €67,379, €47,661 and €26,161 in 2000, 1999 and 1998, respectively.

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

Research and development cost

Research and development costs are expensed as incurred and amounted to €28,190, €18,516 and €19,948 in 2000, 1999 and 1998, respectively.

Income taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized as income or expense in the period that includes the enactment date.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted.

Earnings per share

Basic and dilutive earnings per share are computed by dividing consolidated net income by the weighted average number of common shares outstanding for the year. As the Company will not issue new shares for the stock option plan, but has purchased an American call option to satisfy the obligation, diluted earnings per share equals basic earnings per share, as there were no potentially dilutive securities for any of the periods presented.

Concentration of risks

A portion of the Company's revenue is derived from services provided to others in the telecommunications industry, mainly to alternative telecommunication and cellular companies and internet online services. As a result, the Company has some concentration of credit risk in its customer base. The Company performs ongoing credit evaluations of its large customers' financial condition to support its receivables. As of the balance sheets dates, the Company does not have any significant concentration of business transacted with a particular supplier or lender that could, if suddenly eliminated, severely impact the operations. The Company also does not have a concentration of available sources of labor, services, franchises, or licenses or other rights that could, if suddenly eliminated, severely impact the operations. The Company invests its cash with several high-quality credit institutions.

Foreign currency translation

The Company prepares and reports its consolidated financial statements in Austrian schilling and then translates them into Euro (€).

In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are converted at the exchange rate applicable on the transaction date. Unrealized foreign currency losses and gains due to exchange rate fluctuations through the balance sheet date are recognized in the income statement. Foreign currency items, hedged by forward exchange contracts, are valued by the corresponding hedged rate.

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

The functional currency for the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to Euro is performed for assets and liabilities using the current exchange rate in effect at the balance sheet date. Revenue and expense accounts are translated using the weighted average exchange rate during the period. The resulting translation adjustments are recorded as other comprehensive income or loss.

Revenue recognition

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

Access fees and lines leased to commercial customers are billed in advance resulting in deferred revenues. Cash discounts and incentives are accounted for as a reduction of revenues when granted or, where a service continuation exists, ratably over the contract period.

The installation of customer lines in residences is a separate service and the company provides this installation service in situations where it is not providing other services. Revenue on such installation work is recognized when the installation work is completed. Product and other service revenues are recognized when the products are delivered and accepted by customers or when services are provided in accordance with contract terms.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") which the Company adopted in the fourth Quarter 2000. No material changes were necessary upon adoption.

Impairment of long-lived assets and long-lived assets to be disposed of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and of Long-Lived Assets to Be Disposed of". This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or estimated proceeds less cost to sell.

Derivative financial instruments

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

Unrealized gains and losses on foreign exchange instruments are recognized in other income or expenses in the income statement at the same time the effects of related changes in the items hedged are recognized. Interest rate swap agreements that the Company designate as a hedge of long term debt obligations are accounted for on an

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

accrual basis. Interest rate differentials associated with interest rate swaps used to hedge the Company's debt obligations are recorded as an adjustment to interest payable.

Realized gains or losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement.

The effectiveness of a hedge is measured by historical and probable high correlation of changes in fair value of the hedging instruments with changes in the value of the hedge item. If correlation ceases to exist, hedge accounting is terminated and gains and losses are recorded in other income. Derivatives that do not meet the conditions for hedge accounting are reported at fair value either as other asset or other liability.

Fair value of financial instruments

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

The fair value of some investments is estimated based on quoted market prices. For other investments, mainly in unconsolidated subsidiaries and equity investments, for which there are no quoted market prices, an estimate of fair value was not made, as it was not practicable to estimate the fair value of those investments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates.

New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of Statement of Financial Accounting Standards No. 137. The effective date for SFAS No. 133, as amended by Statement of Financial Accounting Standards No. 138, is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged. The Company adopted SFAS 133 on January 1, 2001 as a one-time cumulative adjustment.

It is estimated that adoption of SFAS 133 will result in a net transition adjustment loss of €11,492, net of tax €5,920 and a net transition adjustment gain of €533, net of tax €275 in other comprehensive income as of January 1, 2001. Further, the adoption of the Statement will result in a derivative instrument asset of €48,359 and a derivative instrument liability of €17,412. Also, the Company expects that the adoption of SFAS 133 will increase the volatility of other comprehensive income. In general, the amount of volatility will vary with the level of derivative activities during any period.

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

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" a replacement of SFAB Statement No. 125. This statement revises the standards for accounting for securitization and other transfers of financial assets and collateral and requires certain financial statement disclosure. SFAS 140 is effective for transactions occurring after March 31, 2001. The new disclosure requirements are effective for fiscal years ending after December 15, 2000. The expected impact of implementation is expected to be immaterial.

(2) BUSINESS COMBINATION

All acquisitions have been accounted for under the purchase method with the excess of the purchase price over the estimated fair value of the net assets acquired accounted for as goodwill. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of the acquisition.

In July 2000, the Company acquired 100 % of the shares of Czech Online, an internet service provider in the Czech Republic for total acquisition cost of €231,505. The purchase price was allocated to assets based on fair market value and the balance of €232,070 was recorded as goodwill and will be amortized over the estimated useful life of five years. In 2000 amortization of €23,207 was recorded. Proforma financial statements including Czech Online were not prepared as it would not have a material impact on the Company's assets and liabilities, statements of operations or cash flows.

(3) MOBILKOM

The Company's interests in mobile communications are held through Mobilkom, which operates a mobile telecommunications network and ancillary services in Austria and through its subsidiaries in Croatia and Liechtenstein. The operations include wireless internet access.

Telekom Austria owns 75 % minus one share of the common stock in Mobilkom. Due to certain substantive participating rights held by the minority shareholder, the Company's investment in Mobilkom is accounted for under the equity method. These participation rights include significant blocking rights over operating decisions including operating budgets, capital spending, senior management positions, strategy and dividend distributions.

The Company's investment in and amounts due to and from the mobile communications group at December 31, 2000 and 1999 consist of the following:

	2000	1999
Investment		
Beginning of year	540,719	481,893
Equity in net income	125,716	116,817
Dividends received	(65,950)	(57,774)
Other	546	(217)
End of year	<u>601,031</u>	<u>540,719</u>

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

The following table presents summarized financial information of Mobilkom

	2000	1999
Income statement information		
Revenues	1,500,078	1,242,365
Depreciation and amortization.....	(174,442)	(120,763)
Operating income	261,136	225,771
Interest, net.....	(17,095)	(10,093)
Minority interest	529	10,377
Income before taxes.....	243,490	223,886
Net income	167,456	155,588
Balance sheet information		
Total current assets	401,210	429,975
Total assets.....	1,964,017	1,654,115
Current liabilities	482,256	473,505
Non-current debt	666,285	441,517
Minority interest	14,090	18,124
Stockholders' equity.....	801,386	720,969

(4) OTHER EQUITY INVESTEEES

The investments in equity investees include a 25 % plus one share interest in Libro AG ("Libro"), a 26 % holding in Herold Business Data ("Herold") and a 49 % interest in Walky Talky Telekom GmbH ("Walky Talky").

In 1998, the Company acquired a 26 % interest in Herold, which is engaged in the media and information business and is the provider of the telephone directory in Austria including electronic versions. Goodwill is being amortized over five years and amortization for each of the years 2000, 1999 und 1998 was €841.

In April 2000, the Company acquired 49 % of Walky Talky for a purchase price of €7,703. Walky Talky mainly leases radio frequencies to organizations providing emergency services. Goodwill is being amortized over five years and amortization for the year 2000 was €598.

On March 1, 2000 the Company purchased 25 % plus one share of common stock of Libro, a book, CD, video, paper and new media company. The purchase price for the investment totaled €90,537. Since the purchase, Libro and its subsidiaries have incurred significant losses. The investment in Libro was made mainly to develop the internet company. The strategy of the Company to build up this internet company together with Libro was not successful. Therefore, the investment in Libro was written down to the Company's share of Libro's equity of €0.

A summary of aggregated financial information as reported by equity investees other than Mobilkom is as follows:

	2000	1999	1998
Income statement information			
Revenues	333,561	50,087	41,153
Operating (loss) income.....	(35,306)	6,937	1,358
Net (loss) income	(45,790)	4,757	1,608

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

December 31,	2000	1999
Total current assets	288,579	36,554
Total assets	408,301	40,034
Current liabilities	387,319	35,801
Long-term debt	3,073	9,440
Total liabilities	390,392	35,241
Total stockholders' equity.....	17,909	4,793

(5) MARKETABLE SECURITIES

Debt securities originating from cross border lease transactions entered into in 1998 and 1999 (see note (14)) are classified as held-to-maturity as the Company is contractually obligated to hold these securities until maturity. The securities are bonds of triple A rated issuers and held by a custodian. Through a further asset based swap the cash inflows from the securities are transformed into the cash flow stream required to match a specified portion of the lease payments. The securities are pledged to a counterparty in the swap agreement. No sales of securities occurred in 2000, 1999 and 1998. The interest rates on the securities are fixed and range from 5.65 % to 9.01 %. Accrued interest is recorded as interest income. The securities will mature between 2006 and 2011.

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2000				
<i>Current assets</i>				
Available-for-sale				
Mutual funds	5,960	86	84	5,962
<i>Non-current assets</i>				
Held-to-maturity.....	144,161	0	989	143,171
At December 31, 1999				
<i>Current assets</i>				
Available-for-sale				
Mutual funds	5,783	186	0	5,969
<i>Non-current assets</i>				
Held-to-maturity.....	128,352	0	10,178	118,174

The contractual maturity of debt securities classified as held-to-maturity were as follows at December 31, 2000.

	Amortized cost	Fair value
Held-to-maturity		
Due after five years through ten years	117,659	116,584
Due after more than ten years	26,502	26,587
	144,161	143,171

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

Available-for-sale securities are included in short-term investments among current assets. Held-to-maturity securities are reported within non-current assets on the balance sheet.

Proceeds from sales of available-for-sale securities amounted to €13,749 and €3,508 in 1999 and 1998, respectively. Gross realized gains from sales of available-for-sale securities were and €203 and €56, while gross realized losses were €545 and €322 in 1999 and 1998, respectively. In 2000 no such gains or losses occurred. The specific identification method was used to determine the cost in computing realized gains and losses.

(6) ACCOUNTS RECEIVABLE

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

	<u>2000</u>	<u>1999</u>
Allowance beginning of the year	61,423	57,956
Charged to expenses	26,483	40,142
Amounts written-off	<u>(15,738)</u>	<u>(36,675)</u>
Allowance at the end of the year	<u>72,168</u>	<u>61,423</u>

(7) RELATED PARTY TRANSACTIONS

The terms of the services provided by Telekom Austria to government entities are generally based on standard pricing policies. However, the Company is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to an appropriate compensation from the government on a contractual basis. The reimbursement was €83,574 and €39,970 in 2000 and 1999, respectively. The reimbursement 2000 was a result of negotiations with the government which lead to an additional one time payment for remainder amounts for the years 1998, 1999 and 2000.

The disclosures below present balances and transactions relating to the immediate shareholder ÖIAG and its subsidiary Österreichische Post AG as "ÖIAG", while other government agencies and government-owned entities are for practical reasons not disclosed. None of the individual accounts associated with government agencies or government-owned entities is considered significant to the Company.

The following is the detail of the accounts receivable with related parties:

<u>At December 31,</u>	<u>2000</u>	<u>1999</u>
ÖIAG	45,178	57,214
Telecom Italia	3,762	2,340
Unconsolidated subsidiaries	168	238
Other equity investees	946	38
Mobilkom - accounts receivable	<u>57,087</u>	<u>50,416</u>
Total receivables due from related parties	<u>107,141</u>	<u>110,246</u>
 Mobilkom – financing long-term	 <u>218,018</u>	 <u>0</u>

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

The following is the detail of the accounts payable with related parties:

At December 31,	2000	1999
ÖIAG	29,943	564,602
Telecom Italia	6,871	6,859
Unconsolidated subsidiaries	386	68
Other equity investees	3,152	271
Mobilkom – accounts receivable	45,034	48,702
Mobilkom – financing short-term	18,358	68,860
Total.....	103,744	689,362

The majority of related party transactions are carried out with Österreichische Post AG and its subsidiaries ("the Post") which provide postal services and are a subsidiary of ÖIAG. The Company was charged €61,490, €110,294 and €122,077 in 2000, 1999 and 1998, respectively, for different services received such as postal charges, rent, repair and administration. The Company charged the Post for IT support, voice telephony, technical services, rent, repair and other services totalling €63,905, €69,880 and €56,241 in 2000, 1999 and 1998, respectively.

The Company purchased services from Telecom Italia and affiliated companies for technical and management services in the amount of €9,203, €4,456 and €0 in 2000, 1999 and 1998, respectively.

Interconnection revenues from Telecom Italia were €9,186, €5,645 and €8,900 and interconnection expenses were €17,396, €5,321 and €7,235 in 2000, 1999 and 1998, respectively.

One of the Company's consolidated subsidiaries, Telekom Finanzmanagement GmbH ("TFG"), provides treasury services for the Company, Mobilkom and, until December 29, 2000 for subsidiaries of ÖIAG. Of the total balances with ÖIAG, liabilities of €520,074 and receivables of €9,436 as of December 31, 1999 relate to cash of subsidiaries of ÖIAG held and managed by TFG. The Company was charged interest expenses of €12,659, €27,884 and €11,764 and recognized interest income of €128, €1,975 and €20,059 with ÖIAG in 2000, 1999 and 1998, respectively. In connection with treasury and financing transactions with Mobilkom, the Company was charged interest of €386, €3,414 and €3,098 in 2000, 1999 and 1998, respectively and charged Mobilkom for interest in an amount of €3,010 in 2000, which mainly relates to long-term financing of Mobilkom.

The Company holds investments accounted for under the equity method of accounting in an amount of €612,962 and €544,799 as of December 31, 2000 and 1999, respectively, essentially all of which relates to Mobilkom. Mobilkom charged the Company for different services received such as interconnection, rent, commission and administration expenses in the amount of €221,005, €224,793 and €161,831 in 2000, 1999 and 1998, respectively. The Company charged Mobilkom for interconnection, voice telephony, rent, repair and other services in the amount of €216,727, €187,445 and €143,133 in 2000, 1999 and 1998, respectively.

(8) INVENTORIES

Inventories consist of:

At December 31,	2000	1999
Spare parts, cables and supplies.....	61,242	64,759
Merchandise	13,534	14,930
Total.....	74,776	79,689

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

(9) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transferred to the Company by the government was recorded upon transfer at cost less accumulated depreciation as of that date.

At December 31,	2000	1999
Land	64,626	64,634
Buildings and Leasehold Improvements	647,743	629,683
Communications network and other equipment	7,597,658	7,273,391
Capital leases	13,590	12,250
Software	71,953	72,358
Construction in progress, network.....	97,911	141,159
	<u>8,493,481</u>	<u>8,193,475</u>
Less accumulated depreciation (other than capital leases)	(3,412,643)	(2,773,832)
Less accumulated depreciation, capital leases	(11,331)	(8,518)
Property, plant and equipment, net.....	<u>5,069,507</u>	<u>5,411,125</u>

Total interest capitalized was €3,876 and €10,719 in 2000 and 1999, respectively.

Depreciation expense was €889,088 and €862,248 in 2000 and 1999, respectively. These amounts include amortization of software of €16,499 and €20,178 in 2000 and 1999, respectively, and amortization of leased assets of €2,611 and €2,831 in 2000 and 1999, respectively.

(10) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2000	1999
Current portion of long-term debt	475,589	454,596
Short-term debt	386,672	0
Lines of credit	2,486	18,087
Current portion of lease obligations	81,245	36,179
Total.....	<u>945,992</u>	<u>508,862</u>

In 2000, the Company entered into short term interim financing of €384 million with due dates between January and June 2001. It is the Company's intention to restructure this short term borrowings into long term debt during 2001.

The weighted-average interest rate on lines of credit was 4,78 % and 3.85 % in 2000 and 1999, respectively.

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

(11) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

At December 31,	2000	1999
Non-income taxes	17,606	18,036
Employees.....	58,113	48,918
Customer discounts	64,886	48,256
Exit costs	10,376	0
Other	21,998	18,443
Total.....	172,979	133,653

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

At December 31, 2000, an accrual for exit costs in the amount of €10,376 was recorded. The accrual covers the refurbishment cost of leased buildings as the lease contract were terminated.

At December 31, 2000, a potential exposure for local non-income taxes amounted to €13.8 million. As management does not expect payments to be probable, no accrued liability was recorded.

(12) DEFERRED INCOME

At December 31,	2000	1999
Unearned income	59,681	62,773
Unamortized balance on sale of tax benefits	44,232	48,949
	103,913	111,722
Thereof non-current portion.....	(37,405)	(44,231)
Thereof deferred income net of non-current portion.....	66,508	67,491

Additional information concerning the sale of the tax benefits is contained in note (14), Leasing.

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

(13) LONG-TERM DEBT

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

<u>At December 31,</u>	<u>Maturity</u>	<u>2000</u>	<u>1999</u>
Bonds and debentures.....	2001-2005	313,409	524,131
Bank debt	2001-2011	2,516,038	2,249,591
		<u>2,829,447</u>	<u>2,773,722</u>
Less current portion of long-term debt.....		(475,589)	(454,596)
Long-term debt, net of current portion.....		<u>2,353,858</u>	<u>2,319,126</u>

Most of the bonds were issued and loans granted while the Company was still part of the government. Of the bank total debt, amounts of €2,444,132 and €2,767,168 at December 31, 2000 and 1999, respectively, are guaranteed by the Federal Republic of Austria.

In March 2000 the Company entered into a loan agreement for €145,000 with the European Investment Bank. Under the terms of this agreement the Company must observe covenants requiring the Company to meet certain financial ratios. If these ratios are not met, the bank would be entitled to receive collateral from the Company. As of December 31, 2000, the Company was in compliance with these covenants.

Further, in October 2000 the Company entered into a loan agreement for €232,553. Under the terms of the contracts the Company has to maintain certain investments otherwise the loan becomes due. As of December 31, 2000 the Company was in compliance with these covenants. The interest rates vary depend on the rating of the Company.

The year end interest rates for the long-term debt excluding interest rate swap agreements for 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Bonds.....	5.95 %	4.63 %
Bank loans	5.84 %	5.73 %

Following is a table that shows the aggregate amounts of long-term debt maturing during the next five years and thereafter:

2001.....	475,589
2002.....	348,353
2003.....	353,392
2004.....	337,848
2005.....	512,486
Thereafter.....	801,779

(14) LEASING

The Company leases equipment used in its operations which are classified as either operating or capital leases. The lease contracts expire on various dates through 2010.

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

Future minimum lease payments, for noncancelable operating leases, capital leases and cross border leases as of December 31, 2000 are:

	Cross border leases	Capital leases	Operating leases
2001	77,012	4,233	44,567
2002	77,561	2,196	34,027
2002	78,881	77	31,872
2004	82,594	77	30,423
2005	92,582	13	29,940
after 2005	897,380	0	17,727
Total minimum lease payments	1,306,010	6,596	<u>188,556</u>
Less amount representing interest	(431,970)	(436)	
Present value of lease payments	874,040	6,160	
Less current portion	(77,012)	(4,233)	
Non-current lease obligations	<u>797,028</u>	<u>1,927</u>	

Total rent expense was €52,299, €45,066 and €43,089 in 2000, 1999 and 1998, respectively.

Cross border leases

In 1999 and 1998, the Company entered into various cross border lease transactions whereby certain equipment items, mainly switches were sold to a U.S.-based trust and leased back over certain terms. Concurrent with the inception, the Company entered into Payment Undertaking Agreements ("PUA") with several counter-parties whereby the counter-parties agree to make lease payments on behalf of the Company in exchange for a deposit. The counter-parties in the PUAs received upfront payments equaling €509,285 and €113,763 for a portion of the debt assumed in 1999 and 1998, respectively. Interest accruing on the cash deposits match interest on the debt portion financed through the deposit. In addition to the cash deposits made, the Company purchased debt securities, deposited those securities with a custodian and pledged the securities to one of the counter-parties in the PUA; the balance is to cover the remaining portion of the present value of the lease obligation not yet covered by the cash deposit made by the Company. The Company then also entered into a swap agreement with that very counter-party swapping the entire cash flows from the securities for cash flows from the portion of the lease payments that the counter-party is obligated to pay under the PUA. As a result of the swap agreement, interest income on the securities matches interest expense on the lease.

The difference between the cash proceeds from the sale and the present value of the future minimum lease payments represents a gain on the sale of a tax benefit. The net cash effect resulting from these transactions relates to the total gain from the sale of the tax benefits which amounted to €44,437 and €7,337 in 1999 and 1998, respectively. The Company is amortizing these amounts over the term of the lease. The cash deposits and securities purchased in connection with the PUA contracts and the lease obligation are recorded separately on the balance sheets as the Company has not been released from their obligation under the lease and a legal right of offset does not exist. Accordingly, interest income and expenses totaling €56,773, €30,261 and €3,125 have been recognized in 2000, 1999 and 1998, respectively.

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

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

At December 31,	2000	1999
Securities held-to-maturity, non-current	144,161	128,352
Other assets	729,879	661,440
<i>Thereof current</i>	77,012	33,561
Lease obligations	874,040	789,792
<i>Thereof current</i>	77,012	33,561

(15) EMPLOYEE BENEFITS

Liabilities for employee benefits consist of the following:

At December 31,	2000	1999
Post employment benefit obligation.....	358,128	166,927
Service awards	60,289	54,737
Severance	20,205	14,644
Pensions.....	9,914	12,154
Total.....	448,536	248,462

Post employment benefit obligation

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs (VRIPs) to eligible civil servants meeting the criteria detailed in the programs.

As of December 31, 2000, approximately 2,976 employees had accepted the VRIP offers. In connection with the VRIPs, the Company made payments of €61,985 and €51,376 in 2000 and 1999, respectively.

An obligation for voluntary termination benefits is recognized when the eligible civil servant, who cannot be terminated involuntarily accepts the offer. The present value of the obligation is determined based on current compensation levels and the law. An annual increase of 2 % for future years and a discount rate of 4.5 % is used. VRIPs are not funded.

Any change in the estimate caused by changes in the law will be expensed in the period of the change.

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

Actuarial assumptions

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

At December 31,	2000	1999
Weighted-average assumptions:		
Discount rate	5.5 %	5.5 %
Rate of compensation increase	3.5 %	3.5 %
Rate of increase of pensions	1.7 %	1.7 %

Service awards

Civil servants and employees (together "employees") are eligible to service awards. Under these plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two monthly salaries after 25 years of service and four monthly salaries after 40 years of service. Employees with at least 35 years of service when retiring are also eligible to a four months bonus. The compensation is accrued as earned over the period of service taking into account estimates of employees whose employment will be terminated or who will retire prior to reaching the required service period.

The following table provides a reconciliation of the changes of service award for the years ended December 31, 2000 and 1999, respectively:

	2000	1999
Obligation at the beginning of the year	54,737	54,501
Service cost	2,352	2,277
Interest cost	2,931	2,675
Actuarial losses	3,574	917
Benefits paid	(3,305)	(5,633)
Obligation at the end of the year	<u>60,289</u>	<u>54,737</u>

Severance

Certain employees are eligible to receive severance payments upon termination of their employment. Civil servants generally are not eligible to receive severance payments.

Eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements like overtime, bonus. Maximum severance is equal to a multiple of twelve times eligible monthly compensation. Up to three months of benefits are paid upon termination, any benefit in excess of that amount in monthly installments over a period not exceeding ten months. In case of death, the heirs of an eligible employee will receive 50 % of the severance benefits.

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

The following table provides a reconciliation of the changes of severance benefit obligations for the years ended December 31, 2000 and 1999, respectively:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost.....	1,452	1,119	1,008
Interest cost.....	816	744	735
Net periodic benefit cost.....	<u>2,268</u>	<u>1,863</u>	<u>1,743</u>
		<u>2000</u>	<u>1999</u>
Obligation at the beginning of the year.....		15,056	14,292
Service cost.....		1,452	1,119
Interest cost.....		816	744
Actuarial gains (losses).....		951	412
Benefits paid.....		<u>(1,947)</u>	<u>(1,511)</u>
Projected benefit obligation at the end of year.....		16,328	15,056
Unrecognized net gain (loss).....		<u>(1,340)</u>	<u>(412)</u>
Accrued liability at the end of the year.....		14,988	14,644
Voluntary severance payments.....		<u>5,217</u>	<u>0</u>
Total accrued liabilities at the end of the year.....		<u>20,205</u>	<u>14,644</u>

The liability for voluntary severance payments also relates to individuals, who are generally not entitled to severance payments, but have accepted a special offer by the Company to receive severance payments when terminating their contract.

Pensions

Defined contribution pension plans

Pension benefits are generally provided by social security for employees and by the government for civil servants in Austria. The Company is required to assist in funding the Austrian government's pension and health care obligations to the Company's current and former civil servants and their surviving dependents. The Company is legally obligated to make annual contributions to the government of 27.5 % until September 30, 2000 of the compensation of active civil servants (including contributions from the civil servants). The contribution to the government were increased to 28,3 % beginning October 1, 2000. The Company has no additional obligation. Contributions to the government, net of the share contributed by the civil servants, were €59,064, €62,402 and €62,793 in 2000, 1999 und 1998, respectively.

The Company also sponsors a defined contribution plan covering substantially all employees of one subsidiary. The Company's contributions to this plan are based on various percentages of compensation not exceeding 5 % of the salary including certain bonuses. The annual cost of this plan amounted to approximately €1,364, €660 and €513 in 2000, 1999 and 1998, respectively.

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

Defined benefit pension plan

The Company provides defined benefits for certain former employees of one subsidiary. All of those employees are already retired and were employed prior to January 1, 1975. The plan provides benefits based on a percentage of the salary depending on the years employed not exceeding 80 % of the salary before retirement including the pension provided by social security.

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

The plan is not funded.

The pension benefits for 2000, 1999 and 1998 are shown in the following table:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost.....	0	0	0
Interest cost.....	695	711	774
Amortization of unrecognized net obligation.....	343	342	343
Net periodic pension benefit cost.....	<u>1,038</u>	<u>1,053</u>	<u>1,117</u>

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2000 and 1999, respectively:

	<u>2000</u>	<u>1999</u>
Projected benefit obligation at the beginning of year.....	12,062	12,913
Service cost.....	0	0
Interest cost.....	695	711
Actuarial gains.....	(2,638)	(575)
Benefits paid.....	(974)	(987)
Projected benefit obligation at the end of the year.....	9,145	12,062
Unrecognized net gain.....	1,797	1,463
Transitional obligation.....	(1,028)	(1,371)
Accrued pension liability.....	<u>9,914</u>	<u>12,154</u>

(16) STOCK BASED COMPENSATION

Stock Option Plan

On October 4, 2000, the shareholders of Telekom Austria approved a stock option plan. Under this plan, the Company may grant a total of 3,832,248 options, each of which entitle eligible grantees upon exercise of the option to receive at their choice either cash equal to the difference between the average quoted price of Telekom Austria stock during the five trading days preceding the exercise and the IPO price of €9 or shares at an exercise price of €9. One option is convertible into one share. The options granted may be exercised on specific dates between May 31, 2002 and February 27, 2004 as long as the average share price during the five days prior to exercise exceeds the initial public offering price by 30 % or more. The Company will recognize compensation expense over the applicable service periods if the performance hurdles are met.

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

On November 21, 2000 the Company granted all 3,832,248 options, all of which are outstanding as of December 31, 2000.

As the stock option plan is accounted for in accordance with APB Opinion 25 and related interpretations, the amount of the liability is measured each period based on the current stock price. As the stock price as of December 31, 2000 does not meet the hurdle, no compensation expense was recorded in 2000.

On November 21, 2000 Telekom Austria purchased 3,832,248 American call options for a premium of €12,527. The expiration date is February 27, 2004. The underlying share of the American call option is the share of Telekom Austria AG. The strike and execution price of the call option is €9 and settlement is either physical delivery of the shares or cash, at the request of Telekom Austria. The American call option will be used to satisfy any obligation resulting from the stock option plan. The American call option is recorded net of tax €4,162 in stockholder's equity.

Stock purchase plan

ÖIAG, the selling shareholder, approved a stock purchase plan for employees of Telekom and its subsidiaries in which the Company has at least a 50% interest. Under the stock purchase plan, each eligible employee was allowed to purchase shares worth up to €1,817 (25,000 Austrian schilling) at a total discount of 45% from the offering price made up of the 5% Austrian retail discount and an additional 40% employee discount if they purchase at least €654 (9,000 Austrian schilling) worth of shares. The maximum benefit to each employee was €727 (10,000 Austria schilling) which must be refunded to ÖIAG if the employee sells the shares before January 1, 2003. The Company reported a capital contribution by ÖIAG of €7,924 and compensation expense of €7,196.

(17) INCOME TAXES

Income before income taxes, minority interest, equity in earnings from affiliates and extraordinary items is attributable to the following geographic locations:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Austria.....	(496,573)	97,946	426,772
Other countries.....	(756)	0	0
Total.....	<u>(497,329)</u>	<u>97,946</u>	<u>426,772</u>

Income tax expense (benefit) attributable to income before extraordinary items for the years ended December 31, consisted of the following:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current.....	68	20,759	140,029
Deferred.....	(178,897)	(6,270)	(16,654)
Total.....	<u>(178,829)</u>	<u>14,489</u>	<u>123,375</u>

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

The Company is subject to income taxes in Austria at a rate of 34 % of taxable income. The following table shows the principal components for the difference between the effective income tax rate and the Austrian statutory income tax rate based on income before income taxes, equity in earnings of affiliates and extraordinary items in 2000, 1999 and 1998:

	2000	1999	1998
Income tax at statutory rate	(169,092)	33,301	145,102
Tax-free income	(20,411)	(19,464)	(22,130)
Permanent differences	10,651	527	517
Other	23	125	(114)
Effective income tax expense	(178,829)	14,489	123,375
Effective income tax rate	36.0 %	14.8 %	28.9 %

Tax free income mainly comprises investment tax credits.

In December 2000 Telekom Austria AG fulfilled the requirements to include three of its consolidated subsidiaries in its tax return for the whole year 2000. Based on that the tax assets and tax liabilities of these companies are netted in the table below for the year 2000. The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are as follows:

	2000	1999
Tax assets		
Trade payables	2,975	8,764
Accounts receivable	1,445	294
Net operating loss carryforward	201,558	6,195
Employee benefit obligation	2	12,164
Long-term debt	16,178	11,611
Other	12,920	3,735
Total deferred tax assets	235,078	42,763
Tax liabilities		
Property, plant and equipment	(55,340)	(64,080)
Other current liabilities	(13,112)	(5,196)
Other assets	(12,292)	(14,216)
Untaxed reserves	(4,081)	(4,271)
Employee benefit obligation	(18,590)	0
Other	(6,415)	(15,321)
Total deferred tax liabilities	(109,830)	(103,084)
Net deferred taxes	125,248	(60,321)

At December 31, 2000 and 1999, the Company had approximately €593,031 and €18,220, respectively, of net operating losses. Thereof €2,429 have an expiration date of seven years, the remaining amounts are not subject to expiration.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based on the level of historical taxable income and projections for future taxable income

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

over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the company will realize all the benefits of these deductible differences.

(18) FINANCIAL INSTRUMENTS

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

By their nature, all such instruments involve risk, including market risk and credit risk of nonperformance by counterparties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, at December 31, 2000 and 1999, in management's opinion the probability of nonperformance of the counterparties in these financial instruments was remote.

Credit risk

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

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

Market risk

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

Interest rate swap agreements

The Company entered into interest rate swaps to reduce the aggregate exposure to changes in floating interest rates of the debt portfolio. Fixed interest rate payments as of December 31, 2000, ranged from 6.74 % to 3.0 %. Floating-rate payments are based on rates tied to different Inter-Bank Offered Rates.

The following table indicates the types of swaps in use at December 31, 2000 and 1999, and their weighted-average interest rates and the weighted-average remaining terms of the interest rate swap contracts. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts:

	2000	1999
Variable to fixed swaps in Euro		
Notional amount in €.....	218,019	218,019
Average receive rate	5.18 %	3.37 %
Average pay rate	6.20 %	6.20 %
Average maturity in years	3.5	4.5

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

	2000	1999
Variable to fixed swaps in Japanese Yen ("JPY")		
Notional amount in JPY	10,000,000	10,000,000
Notional amount in €.....	93,528	97,345
Average receive rate	0.54 %	0.17 %
Average pay rate	3.15 %	3.15 %
Average maturity in years	3.5	4.5

Foreign exchange agreements

The Company entered into foreign currency denominated loans, because of low interest rates connected to loans denominated in Japanese Yen and Swiss Francs ("SFR"). The use of cross currency swaps allows the Company to reduce the exposure to the risk of adverse changes in exchange rates. Fixed interest rates as of December 31, 2000, range from 6.4 % to 8.03 %.

The following table indicates the types of cross currency swaps in use at December 31, 2000 and 1999, and their weighted-average interest rates and the weighted-average remaining terms of the cross currency swap contracts:

	2000	1999
Cross Currency Swaps €– SFR		
Notional amount in €.....	235,028	235,028
Notional amount in SFR.....	400,000	400,000
Average receive rate – SFR	5.58 %	5.58 %
Average pay rate – €.....	7.74 %	7.74 %
Average maturity in years	3.7	4.7
Cross Currency Swaps €– JPY		
Notional amount in €.....	73,554	73,554
Notional amount in JPY	10,000,000	10,000,000
Average receive rate – JPY	3.15 %	3.15 %
Average pay rate – €.....	6.41 %	6.41 %
Average maturity in years	3.5	4.5

The following table summarizes the fair values of financial instruments:

	2000		1999	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	17,715	17,715	380,102	380,102
Short-term investments (other than securities).....	0	0	36,336	36,336
Accounts receivable	493,817	493,817	613,667	613,667
Balances due from related parties.....	325,159	325,159	110,246	110,246
Accounts payable	(524,969)	(524,969)	(381,224)	(381,224)
Payables to related parties.....	(103,744)	(103,744)	(689,362)	(689,362)
Securities held-to-maturity.....	144,161	143,171	128,352	118,174
Securities available-for-sale.....	5,962	5,962	5,969	5,969
Long-term debt	(2,353,858)	(2,450,878)	(2,319,126)	(2,444,130)

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

The notional amounts of the derivative instruments below do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. The Company's exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

	Notional Amount	Carrying Amount	Fair value	
			Liability	Asset
2000				
Interest rate swap agreements				
in €.....	218,019	0	11,270	0
in JPY.....	93,528	0	8,545	0
Cross Currency swap agreements				
in SFR.....	235,028	27,577	0	22,456
in JPY.....	73,554	19,974	0	23,070
1999				
Interest rate swap agreements				
in €.....	218,019	0	12,993	0
in JPY.....	97,345	0	9,850	0
Cross Currency swap agreements				
in SFR.....	235,028	14,178	0	10,608
in JPY.....	73,554	23,791	0	27,737

(19) RESTRICTED EARNINGS

Dividend distributions are based on earnings determined in accordance with Austrian accounting standards for Telekom Austria AG on a stand-alone basis. As of December 31, 2000 no retained earnings as determined under Austrian accounting rules were available for potential distribution.

Under the terms of the shareholders' agreement between ÖIAG and Telecom Italia, a supermajority vote is required at the annual shareholders' meeting to approve the payment of dividends. In addition, the shareholders' agreement also provides that, unless Telekom Austrias' shareholders agree otherwise, at least 50 % of the annual surplus determined in accordance with Austrian accounting rules must be distributed in the form of dividends, provided that any distribution must ensure that Telekom Austria will have an appropriate capitalization, equity ratio and must take into account the profit and capital expenditure requirements of Telekom Austria.

(20) REVENUES

Year ended December 31,	2000	1999	1998
Revenues from services.....	2,700,521	2,817,357	2,722,294
Revenues from sales of merchandise.....	113,876	130,842	108,141
Total.....	<u>2,814,397</u>	<u>2,948,199</u>	<u>2,830,435</u>

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

(21) OTHER OPERATING EXPENSES

Year ended December 31,	2000	1999	1998
Interconnection fees	655,013	527,475	368,842
Repairs.....	133,346	110,879	99,325
Services received	34,939	39,385	2,612
Advertising and marketing	67,379	47,661	26,161
Rental expenses	52,299	45,066	43,089
Commission expenses	4,072	2,610	518
Bad debt charges to expenses	26,483	40,142	26,984
Legal and other consulting	59,058	34,363	34,668
Charges from related parties	40,433	58,276	54,872
Travel expenses	35,644	41,026	42,520
Other taxes	8,411	13,776	12,070
Energy.....	21,835	22,144	20,787
Training expenses	11,859	15,229	11,498
Other.....	66,606	38,662	15,053
Total.....	1,217,377	1,036,694	758,999

(22) OTHER INCOME/EXPENSE - NET

Year ended December 31,	2000	1999	1998
Foreign exchange losses.....	(89,430)	(10,016)	(3,082)
Foreign exchange gains	80,474	11,734	6,805
Loss from retirement of assets.....	(35,161)	(14,046)	(13,412)
Other.....	(545)	2,800	3,405
Total.....	(44,662)	(9,528)	(6,284)

(23) EXTRAORDINARY ITEMS

The Company recorded extraordinary losses of €3,453, €689 and €10,468 net of tax of €1,779, €355 and €5,393 in 2000, 1999 and 1998, respectively. In 1999 and 1998 amounts relate to the early redemption of long-term debt with a carrying amount of €47,237 and €246,773, respectively. The amount in 2000 relates to an accrued loss representing management's commitment to contribute €5,232 to the Austrian fund for forced labor victims who were forced laborers between 1938 and 1945 and have raised claims against the Austrian industry. In response to these claims, the Parliament of the Republic of Austria and representatives of Austrian companies have set up a fund to settle these claims. Management believes that the amount accrued represents the best estimate of the amount of loss.

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

(24) COMMITMENTS AND CONTINGENCIES

In the normal course of business the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2000. These matters could affect the operating results of any one quarter when resolved in future periods. However, management believes that after final disposition, any monetary liability or financial impact to the Company beyond that provided for at year-end would not be material to its annual consolidated financial statements.

(25) SEGMENT REPORTING

On a monthly basis, the Company's management board consisting of four executive officers obtains and disseminates information about the fixed line services (Telekom Austria), data communication services (DataKOM), mobile communication (MobilKOM) and the other operating segments, which mainly includes internet business, international data services and other services (Other). As the internet segment is not material in 2000 it is not reported separately. The management board is the Company's chief operating decision maker and evaluates the performance of the operating segments, allocates resources to those segments and sets incentive goals for management. While the Company does not hold a controlling financial interest in MobilKOM and therefore does not consolidate the mobile telecommunication business for financial reporting purposes, MobilKOM represents a reportable segment of the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see note 1). The Company evaluates performance based on several factors, of which the primary financial measure is earnings, including other income (expense), before interest, taxes and depreciation and amortization (EBITDA). EBITDA does not include equity in earnings of affiliates and dividend income from cost method investments.

Fixed line services include access fees, domestic long-distance services including internet, local and fixed line to mobile calls, international traffic, voice value added services, interconnection, call center services, and public payphone services.

Mobile communications services include digital and analog mobile communications services including value-added services like text messaging and e-commerce and information services. Prepaid services are also offered.

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

The data communications services include domestic and international leased lines, switched data services, corporate network services and additional international data service. In the years reported, the data communications segment received cash discounts from the fixed line segment for the usage of datalines. Due to a change in cost allocation strategy, these cash discounts will be reduced beginning in 2001, which will effect EBIT and EBITDA of the data communication segment.

	Fixed line services	Mobile communi- cation	Data communi- cation	Other	Segment totals
2000					
External revenues	2,397,741	1,279,073	205,262	23,271	3,905,347
Intersegmental revenues.....	279,199	221,005	103,755	28,662	632,621
Total revenues.....	2,676,940	1,500,078	309,017	51,933	4,537,968
EBITDA	519,498	437,947	59,500	(559)	1,016,386
Depreciation and amortization.....	857,651	174,442	32,549	1,362	1,066,004
EBIT	(338,153)	263,505	26,951	(1,921)	(49,618)
Interest income.....	68,538	18,201	691	24,867	112,297
Interest expense	230,144	35,296	421	24,893	290,754
Income tax expense (benefit).....	(177,235)	76,034	(454)	(1,140)	(102,795)
Extraordinary losses	3,118	1,343	336	0	4,797
Net income (loss).....	(210,769)	167,456	29,442	(442)	(14,313)
Total assets.....	7,560,133	1,964,017	194,198	488,484	10,206,832
Additions to property, plant and equipment	558,475	323,074	34,198	1,946	917,693
1999					
External revenues	2,562,169	1,016,937	184,808	12,033	3,775,947
Intersegmental revenues.....	279,950	225,428	94,794	11,113	611,285
Total revenues.....	2,842,119	1,242,365	279,602	23,146	4,387,232
EBITDA	1,077,089	355,284	43,592	2,140	1,478,105
Depreciation and amortization.....	837,404	120,763	26,181	556	984,904
EBIT	239,685	234,521	17,411	1,584	493,201
Interest income.....	37,549	6,784	1,080	33,637	79,050
Interest expense	201,071	16,877	309	32,971	251,228
Income taxes	8,146	68,298	5,348	735	82,527
Extraordinary losses	689	542	0	0	1,231
Net income	133,058	155,589	12,979	1,970	303,596
Total assets.....	8,055,590	1,614,021	183,585	606,660	10,459,856
Additions to property, plant and equipment	646,634	287,382	48,272	928	983,216

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

	Fixed line services	Mobile communi- cation	Data communi- cation	Other	Segment totals
1998					
External revenues	2,522,463	751,317	155,352	9,204	3,438,336
Intersegmental revenues	222,478	161,831	78,923	4,753	467,985
Total revenues	2,744,941	913,148	234,275	13,957	3,906,321
EBITDA	1,355,695	386,506	55,947	376	1,798,524
Depreciation and amortization.....	794,060	102,510	19,749	426	916,745
EBIT	561,635	283,996	36,198	(50)	881,779
Interest income.....	23,678	3,417	1,105	31,609	59,719
Interest expense	199,043	17,341	229	28,643	245,256
Income taxes	110,956	87,450	11,448	16	209,870
Extraordinary losses	10,468	0	0	0	10,468
Net income	302,570	182,623	25,682	2,901	513,776
Total assets.....	7,470,578	1,199,229	163,423	1,156,407	9,989,637
Additions to property, plant and equipment	713,521	158,674	46,261	1,053	919,509

EBITDA differs from consolidated net income as a result of the following differences:

	2000	1999	1998
EBITDA – segment totals	1,016,386	1,478,105	1,798,524
Depreciation and amortization.....	(915,889)	(864,549)	(814,642)
Interest income.....	78,552	66,749	40,406
Interest expense	(239,914)	(228,069)	(212,019)
EBITDA – Mobilkom.....	(437,947)	(355,284)	(386,506)
Other	1,558	994	1,009
Income before taxes, equity of earnings of affiliates and extraordinary items	(497,254)	97,946	426,772
Equity in earnings of affiliates – Mobilkom.....	125,265	116,817	136,968
Equity in earnings of affiliates – other	(88,951)	652	(423)
Income tax (expense) benefit.....	178,829	(14,489)	(123,375)
Extraordinary losses	(3,453)	(689)	(10,468)
Net income	(285,564)	200,237	429,474

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

The segment totals reconcile to the consolidated financial statements as a result of eliminating transactions and balances between consolidated segments and by eliminating Mobilkom which is accounted for under the equity method for purposes of reporting consolidated financial information in accordance with U.S. GAAP:

	Segment totals	Eliminations	Mobile communi- cation	Consolidated
2000				
Total revenues	4,537,968	(223,493)	(1,500,078)	2,814,397
Depreciation and amortization.....	1,066,004	24,327	(174,442)	915,889
Interest income.....	112,297	(15,544)	(18,201)	78,552
Interest expense	290,754	(15,544)	(35,296)	239,914
Income tax expense (benefit).....	(102,795)	0	(76,034)	(178,829)
Net income (loss).....	(14,313)	(103,795)	(167,456)	(285,564)
Total assets.....	10,206,832	(106,893)	(1,964,017)	8,135,922
Investments in property, plant and equipment	917,693	0	(323,074)	594,619
1999				
Total revenues	4,387,232	(196,668)	(1,242,365)	2,948,199
Depreciation and amortization.....	984,904	408	(120,763)	864,549
Interest income.....	79,050	(5,517)	(6,784)	66,749
Interest expense	251,228	(6,282)	(16,877)	228,069
Income taxes	82,527	260	(68,298)	14,489
Net income.....	303,596	52,230	(155,589)	200,237
Total assets.....	10,459,856	(538,742)	(1,614,021)	8,307,093
Investments in property, plant and equipment	983,216	0	(287,382)	695,834
1998				
Total revenues	3,906,321	(162,738)	(913,148)	2,830,435
Depreciation and amortization.....	916,745	407	(102,510)	814,642
Interest income.....	59,719	(15,896)	(3,417)	40,406
Interest expense	245,256	(15,896)	(17,341)	212,019
Income taxes	209,870	955	(87,450)	123,375
Net income.....	513,776	98,321	(182,623)	429,474
Total assets.....	9,989,637	(431,649)	(1,199,229)	8,358,759
Investments in property, plant and equipment	919,508	0	(158,674)	760,834

In 2000 and 1999, more than 97 % and 99%, respectively, of the revenues generated by the reportable segments relate to operations in Austria and essentially all of the long-lived assets were located in Austria.

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

(26) SUBSEQUENT EVENTS

In the first Quarter 2001, the shareholders approved the transformation of "Mobilkom Austria AG" into a Limited Liability Partnership, "Mobilkom Austria AG und CoKG". As the application relating to the change in tax status was filed with the Companies Register prior to March 30, 2001, it will be effective for tax purposes as of June 30, 2000 and will result in Mobilkom no longer being a taxable entity. As Mobilkom's tax results will be reported in the tax return of its partners, all deferred tax assets and liabilities will be charged into tax expense in Mobilkom's financial statements. The Company will report its share of deferred tax assets und liabilities in the balance sheet. The one time tax effect will be reported as tax expense or tax benefit.

As of February 1, 2001, the Company guaranteed Cross Border Lease Obligations for Mobilkom totaling US \$ 50 million.

Independent auditors' report

The Supervisory Board and Stockholders
Mobilkom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Mobilkom Austria Aktiengesellschaft ("Mobilkom") as of December 31, 2000 and 1999, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for each of the years in the three year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobilkom as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

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

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Vienna
March 30, 2001

MOBILKOM AUSTRIA AG
CONSOLIDATED BALANCE SHEETS
(in €'000s omitted, except per share information)

ASSETS	December 31,	December 31,
	2000	1999
Current assets		
Cash and cash equivalents.....	36,988	72,491
Accounts receivable, net of allowances of €71,457 and €67,865 as of December 31, 2000 and 1999.....	191,297	194,578
Receivables due from related parties.....	46,129	54,090
Inventories.....	44,175	73,116
Prepaid expenses.....	51,235	27,963
Other current assets.....	31,386	7,737
TOTAL CURRENT ASSETS.....	401,210	429,975
Property, plant and equipment, net.....	753,003	581,238
Intangible assets, net.....	415,387	240,619
Investments.....	3,934	2,251
Deferred tax assets.....	164,151	185,505
Other assets.....	226,332	214,527
TOTAL ASSETS.....	1,964,017	1,654,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings.....	91,202	88,919
Accounts payable.....	184,549	160,187
Accrued liabilities.....	22,095	19,562
Payables to related parties.....	63,952	51,758
Deferred income.....	62,956	38,599
Income taxes payable.....	26,108	84,840
Deferred income taxes.....	51	1,800
Other current liabilities.....	31,343	27,840
TOTAL CURRENT LIABILITIES.....	482,256	473,505
Long-term debt, net of current portion.....	430,837	219,323
Lease obligations, net of current portion.....	214,958	201,575
Other.....	34,580	38,743
Stockholders' equity		
Common stock, issued and outstanding shares 100,000 with par value of €726,73...	72,673	72,673
Additional paid in capital.....	7,819	7,091
Retained earnings.....	720,842	641,320
Accumulated other comprehensive income (loss).....	52	(115)
TOTAL STOCKHOLDERS' EQUITY.....	801,386	720,969
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	1,964,017	1,654,115

See accompanying notes to consolidated financial statements

MOBILKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF OPERATIONS
(in €'000s omitted, except per share information)

		2000	1999	1998
Operating revenues.....	a)	1,500,078	1,242,365	913,148
Operating expenses.....	b)			
Materials.....		(302,886)	(271,281)	(88,388)
Employee costs, including benefits and taxes.....		(98,107)	(74,281)	(50,409)
Depreciation and amortization.....		(174,442)	(120,763)	(102,510)
Other operating expenses.....		(663,507)	(550,269)	(370,946)
OPERATING INCOME.....		261,136	225,771	300,895
Other income (expense)				
Interest income.....	c)	18,201	6,784	3,417
Interest expense.....	d)	(35,296)	(16,877)	(17,341)
Write offs of investments.....		(1,577)	0	0
Other, net.....		1,840	(1,627)	(17,703)
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND EXTRAORDINARY ITEMS.....		244,304	214,051	269,268
Income tax expense.....		(76,034)	(68,298)	(87,450)
Minority Interests.....		529	10,377	805
INCOME BEFORE EXTRAORDINARY ITEMS.....		168,799	156,130	182,623
Extraordinary loss, net of tax.....		(1,343)	(542)	0
NET INCOME.....		167,456	155,588	182,623
a) includes revenues from related parties of		254,152	265,352	181,282
b) includes operating expenses from related parties of		239,345	213,943	161,609
c) includes interest income from related parties of		386	3,414	3,098
d) includes interest expense from related parties of		3,019	0	0

See accompanying notes to consolidated financial statements

MOBILKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in €'000s omitted, except per share information)

	2000	1999	1998
Cash generated from operations			
Net Income.....	167,456	155,588	182,623
Adjustments to reconcile net income to cash generated from operations			
Depreciation and amortization of property, plant and equipment and intangible assets...	174,442	120,763	102,510
Write offs of investments.....	1,577	0	0
Employee benefit obligation - long term.....	1,353	624	569
Changes in allowance for doubtful accounts.....	25,364	21,009	6,882
Change in deferred taxes.....	17,521	5,135	18,855
Stock purchase plan.....	728	0	0
Loss on disposal of equipment.....	1,064	3,423	19,017
Changes in assets and liabilities, net of effect of business acquired			
Accounts receivable.....	(22,084)	(107,142)	(19,003)
Due from related parties.....	7,961	(14,036)	(38,417)
Inventories.....	28,940	(47,043)	(13,745)
Prepaid expenses.....	(23,272)	(25,351)	(2,325)
Other assets.....	283	(14,841)	14,040
Accounts payable.....	24,363	33,932	24,824
Accrued liabilities.....	(56,200)	2,281	63,492
Due to related parties.....	12,194	11,956	21,087
Other liabilities.....	26,305	28,879	11,030
	387,995	175,177	391,439
Cash used in investing activities			
Capital expenditures, including interest capitalized.....	(507,117)	(289,524)	(178,600)
Acquisitions and investments.....	(23,138)	(13,146)	(4)
Other.....	464	332	573
	(529,791)	(302,338)	(178,031)
Cash from (used in) financing activities			
Proceeds from issuance of long-term debt.....	73,764	0	0
Principal payments on long-term debt.....	(29,069)	(87,207)	0
Change in short-term bank borrowings.....	(67,562)	125,615	(323)
Changes in financing with Telekom Austria.....	218,019	0	0
Proceeds from sale of tax benefits.....	0	18,774	0
Dividends paid.....	(87,934)	(77,033)	(49,417)
Capital contributions by minority shareholders.....	0	29,297	7
	107,218	9,446	(49,733)
Effect of exchange rate changes.....	(925)	696	3
Net increase (decrease) in cash and cash equivalents.....	(35,503)	(117,019)	163,678
Cash and cash equivalents at beginning of period.....	72,491	189,510	25,832
Cash and cash equivalents at end of period.....	36,988	72,491	189,510
Cash paid for			
Interest.....	18,418	16,761	16,459
Income tax.....	118,232	66,849	12,001
Cash received for			
Interest.....	505	4,669	4,717
Income tax.....	0	0	4,108
Non-cash investing and financing			
Cross border leasing.....	0	198,822	0

See accompanying notes to consolidated financial statements

MOBILKOM AUSTRIA AG
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in €'000s omitted, except per share information)

	Common stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number of shares	Par value				
Balance January 1, 1998.....	100,000	72,673	7,091	429,559	0	509,323
Dividends declared.....				(49,417)		(49,417)
Comprehensive income						
Net income.....				182,623		182,623
Unrealized gains on securities.....					1	1
Foreign currency translation adjustment....					2	2
Total comprehensive income.....						182,626
Balance December 31, 1998.....	100,000	72,673	7,091	562,765	3	642,532
Dividends declared.....				(77,033)		(77,033)
Comprehensive income						
Net income.....				155,588		155,588
Unrealized gains on securities, net of €4 deferred income taxes.....					8	8
Foreign currency translation adjustment....					(126)	(126)
Total comprehensive income.....						155,470
Balance December 31, 1999.....	100,000	72,673	7,091	641,320	(115)	720,969
Dividends declared.....				(87,934)		(87,934)
Stock purchase plan.....			728			728
Comprehensive income						
Net income.....				167,456		167,456
Unrealized gains on securities, net of €4 deferred income taxes.....					(7)	(7)
Foreign currency translation adjustment....					174	174
Total comprehensive income.....						167,623
Balance December 31, 2000.....	100,000	72,673	7,819	720,842	52	801,386

See accompanying notes to consolidated financial statements

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

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

Mobilkom Austria Aktiengesellschaft ("AG") and subsidiaries (the "Company" or "Mobilkom") operate in the mobile communications business. Mobile communication services offered by the Company include a wide range of digital and analog mobile communication services like text messaging, e-commerce and information services. Prepaid services and message servicing are also offered. These activities are conducted and operated primarily in Austria, since 1999 also in Croatia and since 2000 in Liechtenstein (9.8 % and 2.5 % of consolidated revenues in 2000 and 1999, respectively).

As of April 22, 1996, Mobilkom Austria Aktiengesellschaft was incorporated. May 1, 1996, the mobile communication operations were then transferred to the newly incorporated entity by Post und Telekom Aktiengesellschaft (PTA), an entity wholly owned by the Federal Republic of Austria.

In April 1997, STET Mobile Holding NV, an entity jointly held by Telecom Italia SpA and Telecom Italia Mobile SpA, a publicly-traded subsidiary of Telecom Italia SpA, purchased a 25 % plus one share common stock interest in Mobilkom leaving PTA with a 75 % minus one common share interest in their subsidiary Mobilkom. PTA later changed its name to Telekom Austria Aktiengesellschaft ("Telekom Austria").

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), continues to be a significant shareholder owning approximately 47,8 % of the voting common stock of Telekom Austria.

In addition to the transactions described in note (4), the Federal Republic of Austria authorizes and supervises the Österreichische Gesellschaft für Telekommunikationsregulierung mit beschränkter Haftung (Telekom Control GmbH) which regulates certain activities of both Telekom Austria and Mobilkom. The government holds the taxing authority for the Austrian operations of Mobilkom and levies taxes such as income and value added taxes.

Basis of presentation

The consolidated financial statements of Mobilkom Austria AG have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of Mobilkom Austria AG and its subsidiaries in which the Company has a controlling financial interest. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Comparative statements

Certain amounts in prior years have been reclassified for consistency of presentation purposes.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

Cash and cash equivalents

The Company considers cash in banks and highly liquid investments, with original maturities of three months or less, cash and cash equivalents. The Company has a cash pooling arrangement with Telekom Finanzmanagement GmbH ("TFG"), a subsidiary of Telekom Austria. These balances managed by TFG are classified as cash as the Company has immediate access to the amounts. Balances totaled €18,358 and €68,860 in 2000 and 1999, respectively. Interest income received on these balances totaled €386 and €3,414 in 2000 and 1999, respectively.

Marketable securities

Marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as available-for-sale. These securities are reported at fair value at the balance sheet date and unrealized gains and losses are included in accumulated other comprehensive income, net of applicable deferred tax.

As of December 31, 2000 and 1999, Mobilkom held securities available-for-sale of fair value €498 and €231, including gross unrealized holding gains of €2 and €13, respectively.

Inventories

The majority of inventory balances consist of merchandise sold in Mobilkom shops as well as items sold to dealers. Additionally, the Company maintains supply items used for the construction of networks mainly for the Company's own use. Inventories are valued at the lower of cost or market, cost being determined on the basis of weighted average cost.

Property, plant and equipment

Property, plant and equipment are stated at cost and include certain costs which are capitalized during the installation and expansion of the telecommunication network. Value added tax ("VAT") which is charged by suppliers and subject to refund from the tax authorities is not included in cost.

Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized straight-line over the lease term or the estimated useful life of the asset.

The useful lives are:

	Years
Communication network and other equipment	8
Software.....	5 – 8
Buildings and leasehold improvements.....	10 – 25

Maintenance and repairs are expensed as incurred while replacements and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in other income or expense.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

Intangible assets

Intangible assets are stated at cost and are amortized straight-line over the estimated useful life over the periods shown below:

	<u>Years</u>
Goodwill.....	5
Wireless licenses.....	10 – 15
Patents and proprietary technology	5 – 20
Other	20

Advertising and promotional cost

Advertising and promotional costs are expensed as incurred and total €119,465, €86,532 and €50,060 in 2000, 1999 and 1998, respectively.

Income taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized as income or expense in the period that includes the enactment date.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted.

Concentration of risks

A portion of the Company's revenue is derived from services provided to others in the telecommunications industry, mainly to providers of fixed network telecommunication, foreign cellular companies and retailers of cellular handsets. As a result, the Company has some concentration of credit risk in its customer base. The Company performs ongoing credit evaluations of its large customers' financial condition to support its receivables. As of the balance sheet dates, the Company does not have any significant concentration of business transacted with a particular supplier or lender that could, if suddenly eliminated, severely impact the operations. The Company also does not have a concentration of available sources of labor, services, franchises, or licenses or other rights that could, if suddenly eliminated, severely impact the operations. The Company invests its cash through a cash pooling with TFG, which invests the funds under management in several high-quality credit institutions.

Foreign currency translation

The Company prepared and reported its consolidated financial statements in Austrian schillings and then translates them into Euro (€).

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are converted at the exchange rate applicable on the transaction date. Unrealized foreign currency losses and gains due to exchange rate fluctuations through the balance sheet date are recognized in the income statement.

The functional currency for the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to the Euro is performed for assets and liabilities using the current exchange rate in effect at the balance sheet date. Revenue and expense accounts are translated using the weighted average exchange rate during the period. The resulting translation adjustments are recorded as other comprehensive income or loss.

Revenue recognition

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

Access fees to mobile customers and certain prepaid usage services are billed in advance resulting in deferred revenues. Cash discounts and incentives are accounted for as a reduction of revenues when granted or, where a service continuation exists, ratably over the contract period.

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

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") which the Company adopted in the fourth Quarter 2000. SAB 101 addresses, among other items, when revenue relating to nonrefundable, up-front fees should be recognized. Upon adoption the Company performed a detailed analysis of the activation fees and recorded deferred revenues when revenues exceed expenses. These amounts will be recognized over the average expected contract term. When direct incremental expenses exceed revenues the amounts are not deferred. The impact from implementation was immaterial.

Impairment of long lived assets and long lived assets to be disposed of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and of Long-Lived Assets to Be Disposed of". This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or estimated proceeds less cost to sell.

Derivative financial instruments

The Company uses the treasury services provided by TFG. The TFG has established a control environment which includes policies and procedures for risk assessment, approval, reporting and monitoring of derivative financial instrument activities in connection with the derivative management services provided to the Company. The Company has entered into interest rate swap agreements to manage its exposure to adverse fluctuations in interest rates.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

The Company is not a party to leveraged derivatives and the policies prohibit the holding or issuing of financial instruments for speculative purposes.

Interest rate swap agreements that the Company designates as a hedge of debt obligations are accounted for on an accrual basis. Interest rate differentials associated with interest rate swaps used to hedge the Company's debt obligations are recorded as an adjustment to interest payable.

Realized gains or losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement.

The effectiveness of a hedge is measured by historical and probable high correlation of changes in fair value of the hedging instruments with changes in the value of the hedge item. If correlation ceases to exist, hedge accounting is terminated and gains and losses are recorded in other income. Derivatives that do not meet the conditions for hedge accounting are reported at fair value either as other asset or other liability.

Fair value of financial instruments

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

Use of estimates

The Company offers its customers a loyalty program where they receive "Mobil points" for most invoiced services. Customers can use the points to purchase various products. Points accumulated are recorded as a liability as earned with the corresponding offset against revenues. Points are valued based on the average cost of the products available for purchase. As of December 31, 2000 and 1999, respectively, €16 million and €3 million were recorded in accrued liabilities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates.

New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of Statement of Financial Accounting Standards No. 137. The effective date for SFAS No. 133, as amended by Statement of Financial Accounting Standards No. 138, is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged. The Company adopted SFAS 133 on January 1, 2001 as a one-time cumulative adjustment.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

However, because of the insignificant use of derivatives, the adoption of the standard will not have a significant effect on the financial position or results of operations. The Company expects that the adoption of Statement 133 will increase the volatility of other comprehensive income. In general the volatility will vary with the level of derivative activities during any period. The Company believes it is not likely that these amounts will be material in the future.

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" a replacement of SFAB Statement No. 125. This statement revises the standards for accounting for securitization and other transfers of financial assets and collateral and requires certain financial statement disclosure. SFAS 140 is effective for transactions occurring after March 31, 2001. The new disclosure requirements are effective for fiscal years ending after December 15, 2000. The impact of implementation is expected to be immaterial.

(2) BUSINESS COMBINATIONS

All acquisitions have been accounted for under the purchase method with the excess of the purchase price over the estimated fair value of the net assets acquired accounted for as goodwill. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of the acquisition.

In 1998, Mobilkom and other investors formed VIP NET GSM d.o.o (VIP Net), a cellular phone service provider in Croatia. At foundation, Mobilkom held a 30 % share in VIP Net. In 1999 and 2000, Mobilkom acquired an additional interest in VIP Net through several step acquisitions, resulting in an increase in the Company's common stock holding in VIP Net to 61.0 %. The total cost of these step acquisitions was €19,718 and €12,814 in 2000 and 1999. The purchase price was allocated to assets based on fair market value and the balance of €15,980 was recorded as goodwill.

In January 2000 Mobilkom founded a 100 % subsidiary in Liechtenstein to operate as a cellular phone service provider, which is fully consolidated. The Company started providing services to customers in July 2000.

(3) ACCOUNTS RECEIVABLE

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

	2000	1999
Allowance beginning of the year	67,865	46,856
Charged to expenses	25,364	21,095
Amounts written-off	<u>(21,772)</u>	<u>(86)</u>
Allowance at the end of the year	<u>71,457</u>	<u>67,865</u>

(4) RELATED PARTY TRANSACTIONS

The majority of related party transactions are carried out with Telekom Austria. The Company receives and provides interconnection services as well as various other services from and to Telekom Austria. Interconnection

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

revenues from Telekom Austria were €197,712, €205,892 and €152,752 interconnection expenses were €118,986, €97,468 and €71,007 in 2000, 1999 and 1998, respectively. Other services rendered to Telekom Austria, like cellular telephone services and sale of handsets, totaled €23,293, €18,901 and €9,079. Other services purchased from Telekom Austria, like repairs and maintenance, and support totaled €97,741 €89,977 and €72,126 in 2000, 1999 and 1998, respectively.

In addition to the services noted above, TFG, a subsidiary of Telekom Austria, has provided long-term financing to Mobilkom in connection with the purchase of the UMTS license as disclosed in note (10) and note (6).

The Company also transacts a limited amount of business with the Federal Republic of Austria and various government agencies and entities owned or controlled by the government. Disclosures below present only balances and transactions relating to ÖIAG and its subsidiary Österreichische Post AG. Other government agencies and government-owned entities are not disclosed for practical reasons. None of the individual accounts associated with government agencies or government-owned entities are significant to the Company. The majority of the services purchased from the ÖIAG consist of postal and other administrative services. Amounts charged for services received totaled €15,146, €17,977 and €11,902 in 2000, 1999 and 1998, respectively. Purchases by ÖIAG from Mobilkom consist primarily of cellular phone services and handsets. Revenues for these transactions totaled €29,764, €37,894 and €17,229 in 2000, 1999 and 1998, respectively.

Services purchased from Telecom Italia and subsidiaries for technical and management services totaled €932, €3,480 and €3,156 in 2000, 1999 and 1998, respectively. Roaming revenues billed to Telecom Italia were €3,383, €2,665 and €2,222 while roaming charges by Telecom Italia were €6,540, €5,041 and 3,418 in 2000, 1999 and 1998, respectively.

The following is the detail of the accounts receivable with related parties:

At December 31,	2000	1999
Telekom Austria	45,034	48,702
ÖIAG	124	5,001
Telecom Italia	922	387
Other	49	0
Total.....	46,129	54,090

The following is the detail of the accounts payable with related parties:

At December 31,	2000	1999
Telekom Austria	57,087	50,416
ÖIAG	5,358	682
Telecom Italia	1,507	660
Total.....	63,952	51,758

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(5) INVENTORIES

Inventories consist of:

At December 31,	2000	1999
Spare parts, cables and supplies.....	2,261	2,732
Merchandise.....	41,914	70,384
Total.....	<u>44,175</u>	<u>73,116</u>

(6) INTANGIBLE ASSETS

Intangible assets consist of:

At December 31,	2000	1999
Wireless licenses.....	476,068	303,692
Patents and proprietary technology.....	16,502	6,491
Goodwill.....	17,690	1,772
Other.....	5,307	3,744
Total intangibles.....	<u>515,567</u>	<u>315,699</u>
Less accumulated amortization.....	<u>(100,180)</u>	<u>(75,080)</u>
Net intangibles.....	<u>415,387</u>	<u>240,619</u>

Amortization expense was €25,410, €21,412 and 21,197 for the years 2000, 1999 and 1998, respectively.

The licenses are recorded at cost and amortized on a straight-line basis over the estimated useful life. In November 2000, Mobilkom purchased a UMTS license during the Austrian Government's auction process with a term of 20 years for €171,540. Mobilkom obtained an intercompany loan from TFG to finance this purchase as disclosed in note (10). Amortization over the useful life will begin once the network is constructed and the asset is ready for commercial use and sale.

The Company holds licenses to operate as a mobile telecommunication service provider from the Austrian and the Croatian Communication Commission. The license from the Croatian Government, granted for 10 years, was acquired for €13,672 in 1998. The Croatian Government is obligated to refund part of the payment if an additional competitor is allowed to operate on the Croatian market before 2003.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (All amounts in €'000s omitted)

(7) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transferred to the Company by the government was recorded upon transfer at cost less accumulated depreciation as of that date. Acquisitions since that date have been recorded at cost.

At December 31,	2000	1999
Land.....	1,483	130
Buildings and leasehold improvements	25,676	13,029
Communications network and other equipment	929,053	684,619
Software	129,277	86,457
Construction in progress, network.....	68,437	51,259
	<u>1,153,926</u>	<u>835,494</u>
Less accumulated depreciation and amortization.....	(400,923)	(254,256)
Property, plant and equipment, net.....	<u>753,003</u>	<u>581,238</u>

Depreciation expense was €149,032, €99,351 and €81,313 in 2000, 1999 and 1998, respectively. These amounts include amortization of software totaling €23,561, €12,902 and €6,672 in 2000, 1999 and 1998, respectively.

(8) SHORT TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2000	1999
Current portion of long-term debt	72,557	34,256
Lines of credit	0	54,663
Current portion of lease obligations	18,645	0
Total.....	<u>91,202</u>	<u>88,919</u>

The weighted-average interest rate on lines of credit was 3.843 % in 1999.

(9) DEFERRED INCOME

At December 31,	2000	1999
Unearned income	61,530	37,173
Unamortized balance on sale of tax benefits	17,047	18,473
Total.....	<u>78,577</u>	<u>55,646</u>
Noncurrent portion.....	<u>(15,621)</u>	<u>(17,047)</u>
Current portion	<u>62,956</u>	<u>38,599</u>

Additional information concerning the sale of tax benefits is contained in note (11) Leasing.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(10) LONG-TERM DEBT

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

At December 31,	Maturity	2000	1999
Bank debt	2001-2008	242,771	231,616
Long-term financing with Telekom Austria.....	2005	218,018	0
Other	2001	42,605	21,963
		503,394	253,579
Less current portion of long-term debt.....		(72,557)	(34,256)
Long-term debt, net of current portion.....		430,837	219,323

Bank debt balances of €149,423 and €178,419 at December 31, 2000 and 1999 are subject to guarantees by the Federal Republic of Austria.

In October 1999, a subsidiary entered into a senior debt facility consisting of an Austrian Export Credit Agency loan in an amount of €77,628 and a loan provided by the European Bank for Reconstruction and Development and the Nordic Investment Bank in the amount of €42,372. These loans were granted to finance the expansion of VIP Net on the Croatian market. The debt bears interest ranging from 6.33 % to 8.63 % and 4.78 % to 7.08 % in 2000 and 1999, respectively; commitment fees are incurred at 0.5 % payable quarterly on the undrawn and uncanceled commitment. VIP Net had unused long-term credit lines of €46,059 as of December 1999.

The Company has granted certain sureties over the assets of VIP Net in support of the facility arrangements. In accordance with the senior debt facility agreement, VIP Net is required to maintain certain financial ratios, which were met for 2000 and 1999.

In February 2000, Vip Net's minority shareholders granted a credit line up to €22,025 of which €4,320 have not been drawn as of December 31, 2000.

The year end interest rates for the long-term debt excluding interest rate swap agreements for 2000 and 1999 are as follows:

	2000	1999
Bank loans	6.04 %	5.74 %
Long term financing with Telekom Austria.....	5.19 %	0 %

Following is a table that shows the aggregate amounts of long-term debt maturing during the next five years and thereafter:

2001	72,557
2002	2,329
2003	60,366
2004	63,881
2005	243,076
Thereafter	61,185

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(11) LEASING

Operating leases

The Company leases equipment used in its operations which are classified as operating leases. The lease contracts expire on various dates through 2005.

Future minimum lease payments for noncancelable operating leases and cross border leases as of December 31, 2000 are:

	Cross border leases	Operating leases
2001	18,645	10,814
2002	19,790	10,597
2003	19,962	10,393
2004	21,726	10,155
2005	22,348	10,053
after 2005	289,052	0
Total minimum lease payments	391,523	52,012
Less amount representing interest	(157,920)	
Present value of lease payments	233,603	
Less current portion.....	(18,645)	
Non-current lease obligations	214,958	

Total rent expense was €33,885, €21,876 and €10,787 in 2000, 1999 and 1998, respectively.

Cross border leases

In 1999, the Company entered into cross border lease transactions whereby certain equipment items (mainly transceiver stations, base station controllers and location registers) were sold to four U.S.-based trusts and leased back over certain terms. At the same time, the Company entered into Payment Undertaking Agreements ("PUA") with a different counter-party where the counter-party agrees to make lease payments on behalf of the Company in exchange for a deposit. The counter-party in the PUA received upfront payments equaling €198,822 for the debt assumed. The difference between the proceeds and the present value of the future minimum lease payments represents a gain on sale of a tax benefit. The net cash effect in 1999 resulting from these transactions related to the total gain from the sale of the tax benefit and totaled €18,774. The Company is amortizing this difference over the term of the lease. The cash deposited (recorded as an other asset) made in connection with the PUA contracts and the lease obligation are recorded separately on the balance sheets in the amount of €233,603 and €201,575 as of December 31, 2000 and 1999, respectively, as the Company has not been released from its obligation under the lease and a legal right of offset does not exist. Accordingly, interest income and expense totaling €16,008 and €2,753 have been recognized in 2000 and 1999, respectively.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(12) DEFINED CONTRIBUTION PENSION PLANS

Pension benefits are generally provided by social security for employees and by the government for civil servants in Austria. The Company is required to assist in funding the Austrian government's pension and health care obligations to the Company's current and former civil servants and their surviving dependents. The Company is legally obligated to make annual contributions to the government of 27.5 % until September 30, 2000 of the compensation of active civil servants (including contributions from the civil servants). The contributions to the government were increased to 28,3 % beginning October 1, 2000. The Company has no additional obligation. Contributions to the government, net of the share contributed by the civil servants, was €2,766, €2,697 and €2,404 in 2000, 1999 and 1998, respectively.

(13) STOCK BASED COMPENSATION

Stock option plan

On October 4, 2000, the shareholders of Telekom Austria approved a stock option plan. Based on that approval Mobilkom formed a separate stock option plan which is a mirror plan to Telekom's plan. Under this plan, the Company may grant a total of 854,633 options, each of which entitle eligible grantees upon exercise of the option to receive at their choice either cash equal to the difference between the average quoted price of Telekom Austria stock during the five trading days preceding the exercise and the IPO price of €9, or shares at an exercise price of €9. One option is convertible into one share. The options granted may be exercised on specific dates between May 31, 2002 and February 27, 2004 as long as the average share price during the five days prior to exercise exceeds the initial public offering price by 30 % or more. Mobilkom will recognize compensation expense over the applicable service periods if the performance hurdles are met.

On November 21, 2000 the Company granted all 854,633 options, all of which are outstanding as of December 31, 2000.

As the stock option plan is accounted for in accordance with APB Opinion 25 and related interpretations, the amount of the liability is measured each period based on the current stock price. As the stock price as of December 31, 2000 does not meet the hurdle, no compensation expense was recorded in 2000.

For the American call option purchase to cover the obligation in connection with the stock option plan see note (15).

Stock purchase plan

ÖIAG, the selling shareholder of Telekom Austria, approved a stock purchase plan for employees of Telekom Austria and its subsidiaries in which Telekom Austria has at least a 50% interest. Under the stock purchase plan, each eligible employee was allowed to purchase shares worth up to €1,817 (25,000 Austrian schilling) at a total discount of 45 % from the offering price made up of the 5% Austrian retail discount and an additional 40 % employee discount if they purchase at least €654 (9,000 Austrian schilling) worth of shares. The maximum benefit to each employee was €727 (10,000 Austria schilling) which must be refunded to ÖIAG if the employee sells the shares before January 1, 2003. The Company reported for 2000 a capital contribution by ÖIAG of €728 and compensation expense in the same amount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(14) INCOME TAXES

Income before income taxes, minority interest and extraordinary items is attributable to the following geographic locations:

	2000	1999	1998
Austria.....	246,359	243,764	271,031
Croatia and Liechtenstein.....	(2,055)	(29,713)	(1,763)
Total.....	<u>244,304</u>	<u>214,051</u>	<u>269,268</u>

Income tax expense (benefit) attributable to income before taxes, minority interest and extraordinary items for the years ended December 31, consisted of the following:

	2000	1999	1998
Current (Austria).....	59,597	63,163	68,595
Deferred			
Austria.....	14,704	13,627	19,468
Croatia and Liechtenstein.....	1,733	(8,492)	(613)
	<u>16,437</u>	<u>5,135</u>	<u>18,855</u>
Total.....	<u>76,034</u>	<u>68,298</u>	<u>87,450</u>

The Company is subject to income taxes in Austria at a rate of 34 % of taxable income. The following table shows the principal components for the difference between the effective income tax rate and the Austrian statutory income tax rate based on income before income taxes, minority interest and extraordinary items:

	2000	1999	1998
Income tax at statutory rate.....	83,063	72,778	91,551
Foreign tax rate differential	646	(297)	(18)
Tax-free income.....	(14,682)	(5,329)	(4,109)
Permanent differences	1,344	1,936	26
Change in tax rate in Croatia	5,089	0	0
Other	574	(790)	0
Effective income tax.....	<u>76,034</u>	<u>68,298</u>	<u>87,450</u>
Effective income tax rate	31.12 %	31.91 %	32.48 %

Tax-free income mainly comprises investment tax credits.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are as follows:

	2000	1999
Tax assets		
Goodwill.....	162,372	179,000
Accounts receivable.....	2,097	1,239
Net operating loss carryforward.....	4,111	8,155
Employee benefit obligation.....	909	732
Other.....	8,238	27
Total deferred tax assets.....	177,727	189,153
Tax liabilities		
Property, plant and equipment.....	(1,477)	(2,052)
Accrued liabilities.....	(477)	(2,247)
Untaxed reserves.....	(445)	(345)
Other.....	(8,348)	(11)
Total deferred tax liabilities.....	(10,747)	(4,655)
Net deferred taxes.....	166,980	184,498

At December 31, 2000 and 1999, the Company had approximately €21,628 and €23,300 respectively, of loss carryforwards in Croatia and Liechtenstein with an expiration period of five years.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the company will realize all the benefits of these deductible differences.

(15) FINANCIAL INSTRUMENTS

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

By their nature, all such instruments involve risk, including market risk and credit risk of nonperformance by counter-parties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, at December 31, 2000 and 1999, in management's opinion the probability of nonperformance of the counter-parties in these financial instruments was remote.

Credit risk

The Company monitors its exposure to credit risk. The Company does not have any significant exposure to any individual customer or counter-party, nor does it believe that there are any other major concentrations of credit risk, relating to any financial instruments other than noted under section concentration of credit risk in significant accounting policies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

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

Market risk

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

Interest rate swap agreements

The Company entered into interest rate swaps to reduce the aggregate exposure to changes in floating interest rates of the debt portfolio. Fixed interest rate payments as of December 31, 2000, are based on 5.71 %. Floating-rate payments are based on rates tied to different Inter-Bank Offered Rates.

The following table indicates the types of swaps in use at December 31, 2000 and 1999, and their weighted-average interest rates and the weighted-average remaining terms of the interest rate swap contracts. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts:

	2000	1999
Variable to fixed swaps in Euro		
Notional amount in €.....	36,336	36,336
Average receive rate	4.18 %	3.52 %
Average pay rate	5.71 %	5.71 %
Average maturity in years	3.3	4.3

The notional amounts of the derivative instruments above do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. The Company's exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

American call option

On November 21, 2000 Telekom Austria purchased 854,633 American call options acting as an agent for Mobilkom for a premium of €2,794. The expiration date is February 27, 2004. The underlying share of the American call option is the share of Telekom Austria AG. The strike and execution price of the call option is €9 and settlement is either physical delivery of the shares or cash, at the request of Telekom Austria. The American call option will be used to satisfy any obligation resulting from the stock option plan of Mobilkom. The American call option is recorded at its fair value of €1,353 in other current assets.

Fair value

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date. Considering the variability of their value-determining factors, the fair values presented herein may not be indicative of the amounts that the Group could realize under current market conditions.

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

The following table summarizes the fair values of financial instruments:

	2000		1999	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	36,988	36,988	72,491	72,491
Accounts receivable	191,297	191,297	194,578	194,578
Receivables due from related parties.....	46,129	46,129	54,090	54,090
Accounts payable	(184,549)	(184,549)	(160,187)	(160,187)
Payables due to related parties.....	(63,952)	(63,952)	(51,758)	(51,758)
Long-term debt	(430,837)	(432,739)	(219,323)	(223,466)
Interest rate swap agreements.....	0	(1,902)	0	(1,945)
American call option.....	1,353	1,353	0	0

(16) REVENUES

Year ended December 31,	2000	1999	1998
Revenues from services.....	1,319,405	1,058,978	858,146
Revenues from sales of merchandise	180,673	183,387	55,002
Total.....	<u>1,500,078</u>	<u>1,242,365</u>	<u>913,148</u>

(17) OTHER OPERATING EXPENSES

Year ended December 31,	2000	1999	1998
Interconnection fees	148,414	103,435	71,713
Repairs.....	27,614	20,579	19,252
Services received	181,643	146,204	119,063
Advertising and marketing	119,465	86,532	50,060
Rental expenses	33,885	21,876	10,787
Commission expenses	49,515	70,121	40,439
Bad debt charges to expenses	25,364	21,095	7,331
Legal and other consulting	14,052	14,459	13,060
Charges from related parties	1,168	2,791	359
Training expenses	3,375	3,968	2,667
Travel expense	2,919	2,366	2,366
Other	56,093	56,843	33,849
Total.....	<u>663,507</u>	<u>550,269</u>	<u>370,946</u>

MOBILKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

(18) OTHER INCOME/EXPENSE - NET

Year ended December 31,	2000	1999	1998
Foreign exchange losses.....	(48,410)	(4,172)	(687)
Foreign exchange gains.....	49,814	1,611	250
Loss from retirement of assets.....	(1,080)	(3,423)	(19,017)
Write off American call option.....	(1,441)	0	0
Other.....	2,957	4,357	1,751
Total.....	1,840	(1,627)	(17,703)

(19) EXTRAORDINARY ITEMS

The Company recorded extraordinary losses of €1,343 and €542, net of tax of €692 and €280 in 2000 and 1999, respectively. In 1999, amounts relate to the early redemption of long-term debt with a carrying amount of €21,802. The amount in 2000 relates to an accrued loss representing management's commitment to contribute €2 million to the Austrian fund for forced labor victims who were forced laborers between 1938 and 1945 and have raised claims against Austrian industry. In response to these claims, the Parliament of the Republic of Austria and representatives of Austrian companies have set up a fund to settle these claims. Management believes that the amount accrued represents the best estimate of the amount of loss.

(20) COMMITMENTS AND CONTINGENCIES

In the normal course of business the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2000. These matters could affect the operating results of any one quarter when resolved in future periods. However, management believes that after final disposition, any monetary liability or financial impact the Company beyond that provided for at year-end would not be material to its annual consolidated financial statements.

(21) SUBSEQUENT EVENTS

On February 27, 2001, Mobilkom purchased through intermediate subsidiaries 75 % plus one share of SI.MOBIL d.d., Ljubljana (SI.MOBIL), a mobile communication provider in Slovenia with 15 % market share and approximately 155,000 customers, for €141.4 million in cash plus assumption of the seller's shareholder loan totaling €3.7 million. The purchase of the remaining 25 % less one share is set to occur until February 2002 for a fixed price of €42.8 million subject to certain contingent requirements. Subsequent to closing, Mobilkom committed itself to providing SI.MOBIL with a shareholder loan totaling €12.2 million, €8.2 million of which was paid to SI.MOBIL immediately.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in €'000s omitted)

In the first Quarter 2001, the shareholders approved the transformation of "Mobilkom Austria AG" into a Limited Liability Partnership, "Mobilkom Austria AG und CoKG". As the application relating to the change in tax status was filed with the Companies Register prior to March 30, 2001, it will be effective for tax purposes as of June 30, 2000 and will result in Mobilkom no longer being a taxable entity. As the Company's tax results will be reported in the tax return of its partners, all deferred tax assets and liabilities will be charged into tax expense.