

# Financial Statements 2000

## Telekom Austria AG

(single financial statements according to  
Austrian HGB)

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# MANAGEMENT REPORT OF TELEKOM AUSTRIA AG FOR THE PERIOD JANUARY 1, 2000 - DECEMBER 31, 2000

## 1. Business development

As in previous years, Telekom Austria Aktiengesellschaft was confronted in 2000 with massive competition from the subsidiaries of major international industry players. The fight for market shares involves continuous price reductions and declining margins, and only companies with sufficiently strong financial backing are able to engage in this competition in the long run. Not only the competitive pressure of other operators, but also the asymmetrical market regulation, which was deliberately introduced with the 1997 Telecommunication Act (Telekommunikationsgesetz, TKG), require further substantial improvements in our business performance so as to establish a standard that is internationally comparable to other companies in the sector. Increased customer focus, and improved customer care and management are used to improve the competitive position of Telekom Austria Aktiengesellschaft.

Telekom Austria Aktiengesellschaft and its subsidiaries – most importantly, Mobilkom Austria Aktiengesellschaft and Datakom Austria GmbH – provide a broad range of products and services to customers, moving from the formerly predominant business of voice transmission to the role of full-range service provider. Our new brand "Jet2Web" has been introduced to emphasise this new orientation towards a comprehensive mix of voice and data transmission, as well as multimedia and content services. Another focus of our market communication in 2000 was to underline our role as the only reliable operator serving all customer segments based on the legal requirement to function as a universal service provider, which gives Telekom Austria Aktiengesellschaft unique responsibility in the sector.

As the full liberalisation of the Austrian telecommunications market, which began in 1998, continues, the number of competitors in the fixed-line business segment is increasing substantially. As stated above, the Telecommunication Act regulates the market in a deliberately asymmetrical way; the Act, plus several regulations which implement it, are mainly concerned with facilitating the market entry of new operators, banning cross-subsidisation, regulating the duties of Telekom Austria Aktiengesellschaft as the (currently) only universal service provider, as well as prescribing conditions for interconnection between different networks.

Since 1999, the business environment has been characterised to a large extent by decisions of the Austrian regulatory authority, Telekom Control Kommission, regarding issues in connection with the market domination of fixed-line and mobile operators. In June 1999, the regulator found that Telekom Austria Aktiengesellschaft dominated the market for fixed-line voice transmission and leased lines; in July 1999 and 2000, the Commission declared that Telekom Austria Aktiengesellschaft dominates the interconnection market. Telekom Control Kommission passed decisions dealing with interconnections, local loop unbundling, indirect interconnectivity, portability of subscriber numbers, preselection of network operators, special services and value-added services, special regulations for interconnections, and access to Internet service providers.

Further regulatory proceedings are pending, including some dealing with the above-mentioned issues. Most pending lawsuits and litigation risks are connected to regulatory decisions.

We believe that our primary task is to maintain and secure our position as leader in the Austrian domestic market. Our major competitors, which entered the market in 1998 with low-priced offers for business customers, began to concentrate on building up a private customer base in 1999, and have so far achieved a significant market position in this segment. We have introduced attractive optional rates and special rate offers to counter this trend.

By the end of 1999, the conversion of our entire network to digital transmission was completed, giving all our customers access to all the potential additional services of the network. Sales campaigns were conducted for ISDN lines to inform the public about the advantages of using two channels simultaneously, which led to a good placement of ISDN services in the market. In late 1999, Telekom Austria Aktiengesellschaft was one of the first telecom in Europe to offer ADSL technology. This fast Internet access option achieved excellent growth rates in 2000.

With sales revenues of ATS 35.673,3 million, Telekom Austria Aktiengesellschaft continued to be the leading telecommunications operator in Austria in 2000.

## **2. Affiliated companies and investments**

Telekom Austria's two major subsidiaries, Mobilkom Austria Aktiengesellschaft and Datakom Austria GmbH, continued to have a decisive impact on the group's assets, earnings and financial situation in 2000.

Mobilkom Austria Aktiengesellschaft is a mobile telecommunications operator. Its pre-tax profit for 2000 is ATS 1,983.9 m.

Mobilkom Austria Aktiengesellschaft continues to lead the market for mobile communication services. As of 31 December 2000, the mobile network had approx. 3,336,000 registered users, including the customers of subsidiaries. Coverage in Austria is 98%, and at year-end, Mobilkom Austria Aktiengesellschaft held a market share of 45%.

Last year, Mobilkom Austria Aktiengesellschaft increased its stake in the Croatian VIP-Net GSM d.o.o., Zagreb, to 61.0 %, and on 27 February 2001 signed an agreement for the purchase of a 49% stake in the Slovenian mobile operator Si.Mobil d.d., Ljubljana. Another 26% plus one share was taken over by the Slovenian subsidiary Teleimpuls (Domzale), in which Mobilkom Austria Aktiengesellschaft holds a 49% stake.

Although the already fierce competition in the mobile communications segment increased even further in 2000, Mobilkom Austria Aktiengesellschaft succeeded in keeping its position as the leading operator in terms of quality and technology through the consistent expansion of its range of products and services, including the introduction of WAP-based (Wireless Application Protocol) services.

Datakom Austria GmbH is the market leader in data services and network solutions in the Austrian market, with a pre-tax profit for 2000 of ATS 403,5 m in 2000. Business development

in the year 2000 was again characterised by increasing demand for network services and information procurement. Corporate networks continue to be the company's most dynamic growth segment.

In July 2000, we acquired a stake in Czech On Line a.s. (Prag) , a leading provider of Internet services in the Czech market. The remaining shares in Czech On Line were taken over in December 2000, making the company a 100% subsidiary of Telekom Austria Aktiengesellschaft. Over the course of the business year 2000, Czech On Line was able to double the number of its active users to approx. 188,000 by year-end. The loss for the year of the company is ATS 22.3 m.

In the second half of 2000 Highway 194 Internet GmbH was renamed to Jet2Web Internet Services GmbH and the Internet business, which was within Telekom Austria Aktiengesellschaft was transferred to this company. The target was to concentrate all Internet activities and to make a market appearance under the new brand name Jet2Web. The loss for the year of the company is ATS 309.2 m.

The second half of 2000 also saw the establishment of Telekom Austria Personalmanagement GmbH, whose task is the provision, management and development of human resources. Another redundancy scheme was adopted in this context, foreseeing the transfer of all personnel to this company; at a later point, the personnel required by Telekom Austria Aktiengesellschaft will be transferred back to the parent company.

### **3. Result**

The negative operating result of Telekom Austria Aktiengesellschaft for 2000 amounted to ATS 4.917,7. Compared to 1999, revenues declined by ATS 2.592,7 million, with substantial declines in traffic-based revenues being compensated only in part by increases in base rates and interconnection/international carrier revenues.

With regard to personnel expenses, the most important development in 2000 was the transfer of all personnel management tasks to the newly-founded Telekom Austria Personalmanagement GmbH. This is why the personnel expenses show the build-up of provisions for the redundancy schemes in the first half of the year.

The amounts charged by Telekom Austria Personalmanagement GmbH for the provision of personnel in the second half of the year, including building-up of provisions are reported under operating expenses. Additionally, again substantial marketing expenses, as well as expenses for legal and other consultation services were incurred.

The company's financial result is characterised by increased expenses for financial investments, increased interest expenses (in part related to the financial investments), and higher dividend payments for the business year 1999 as well as the income based on the profit and loss transfer agreements.

The result on ordinary activity is negative in an amount of ATS 6,494.3 million. The extraordinary result of ATS -65 m was caused by provisions for the company's obligations to the

Reconciliation Fund. The loss for the year is ATS 6,261.4 m, which is balanced after earnings carryforward and the reversal of provisions.

Investments in intangible assets amount to ATS 7.452,5 m. Investment in the period under report focused on network technology (lines, switching, transmission). Financial investments increased significantly as a result of the acquisition of 100% of Czech On Line a.s., and of a stake of 25% plus 1 share in Libro AG.

The operating cash flow of Telekom Austria Aktiengesellschaft for the last full business year was ATS 9.267,0 m. The funds were used for the above-mentioned investments and for the (partial) payment of existing liabilities to banks and loans.

Calculated in accordance with business principles, the equity ratio including untaxed reserves decreased from 42,9% to 35.2%.

#### **4. Research and development**

The research activities of Telekom Austria Aktiengesellschaft are geared primarily towards existing and anticipated future customer needs. Technological advances are swiftly applied to create customer benefits.

In addition to national R&D programmes, international EU projects constitute an important basis for the European R&D activities of Telekom Austria Aktiengesellschaft. Telekom Austria Aktiengesellschaft is actively involved in R&D programmes such as IST (Information Society Technologies), TEN Telecom (Trans European Networks – Telecom) and COST at the international level. Furthermore, experts from Telekom Austria contribute to projects dealing with the convergence of networks and the migration to packet-switched networks within the framework of our participation in EURESCOM (European Institute for Research and Strategic Studies in Telecommunications).

Another area of special importance is the leading international role of Telekom Austria Aktiengesellschaft in the VOIP segment.

Telekom Austria Aktiengesellschaft is actively involved in standardisation efforts, both within Europe and internationally. In addition to the traditional organisations, such as the International Telecommunication Union (ITU) and the European Telecommunications Standardization Institute (ETSI), recent technological advances have spawned a whole series of forums and consortia, including IETF (Internet Engineering Task Force), the ATM Forum, the UMTS Forum (Universal Mobile Telecommunications System), the ADSL Forum, etc. Standards and technical specifications are the basis for the cost-efficient application of cutting-edge information and communication technologies in a highly competitive market.

Nationally, Telekom Austria Aktiengesellschaft and Mobilkom Austria AG participate in the government's competence centre initiative (K-plus) as partners in the Forschungszentrum für Telekommunikation Wien (Vienna Telecommunications Research Centre), which conducts pre-competitive research projects to bundle and develop existing know-how and skills in the key technological area of telecommunications.

In this context, Telekom Austria Aktiengesellschaft participates primarily as a pioneer in Digital Subscriber Line technology (ADSL) and aims at the further development of ADSL to optimise its application in the network.

## **5. Employees**

In the period ending 30 June 2000, Telekom Austria Aktiengesellschaft employed a staff of (on average) 15,798, comprising 12,242 public servants, 3,337 employees with contracts under private law and 219 apprentices. In the period beginning on 1 July 2000, Telekom Austria Personalmanagement GmbH employed on average 15,303 employees, comprising 11,690 public servants, 3,372 employees with contracts under private law and 241 apprentices.

## **6. Outlook**

The year 2000 constituted a major turning point in the company history of Telekom Austria Aktiengesellschaft. It was characterised by the preparations for the IPO in Vienna and New York in November of that year.

In the run-up phase, the first half of the year saw the appointment of a new management board which immediately started an evaluation and analysis of the current situation of the company. As a result, initial measures for a fundamental restructuring of Telekom Austria Aktiengesellschaft were begun even before the IPO.

The current year 2001 will be characterised mainly by the restructuring process. The primary objectives of these measures are to minimise market share loss and achieve a substantial improvement of the operating result of Telekom Austria Aktiengesellschaft through massive cost cuts.

One focal point of our measures is a major reduction of the workforce in the core business, which is being implemented through the above-mentioned Telekom Austria Personalmanagement GmbH. Several programmes for early retirement, outsourcing, personnel leasing and severance pay for redundant employees are being applied to reduce the workforce by about 3,000 employees, so that the resulting number of employees approaches a level that corresponds to market requirements.

At the same time, all-out marketing efforts are made to maintain the company's customer base. An important step on this way has been the introduction of per-second billing for business and private customers as of 1 March 2001. In addition, extensive customer retention programmes have been initiated to reduce churn rates and increase customer loyalty.

Telekom Austria Aktiengesellschaft network is technologically among the most advanced networks worldwide and provides a strong basis for new products and services. Capital expenditure was reduced and focused on broadband activities last year – a development which will be continued in 2001. Moreover, Telekom Austria Aktiengesellschaft business centres will be bundled and reduced in number in 2001 and 2002.

The restructuring process of Telekom Austria Aktiengesellschaft has three overarching goals:

- a change in corporate culture,
- stronger customer orientation, and
- significant improvement of profitability.

In the context of the IPO, the management of Telekom Austria Aktiengesellschaft committed itself to consistent implementation of the restructuring process, and communicated this commitment to its shareholders. The year 2001 will be a milestone in the transformation of the company into a modern telecommunications provider with a strong customer orientation and a comprehensive range of products and services.

Vienna, 9 March 2001

CEO  
Heinz Sundt

Deputy CEO  
Dr. Stefano Colombo

Ing. Mag. Rudolf Fischer

Dr. Heinz Alois Brasic

# PROFIT AND LOSS ACCOUNTS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2000

with comparative figures for the year 1999 in thousand Austrian Schillings (thous. ATS)

	1-Jan - 31-Dec-2000		1999	
	ATS	ATS	thous. ATS	thous. ATS
1. Net sales		35,673,255,542.60		38,266,036
2. Change in work in progress and services not yet chargeable		45,572,982.90		15,982
3. Own work capitalized		929,347,619.13		1,342,589
4. Other operating income				
a) Income from disposal of fixed assets excluding financial assets	31,571,914.91		15,674	
b) Income from reversal of accruals	597,358,872.44		35,066	
c) Sundry	<u>1,861,735,435.73</u>	2,490,666,223.08	<u>1,411,714</u>	1,462,454
5. Cost of material and other production services				
a) Cost of materials	1,284,860,642.94		1,739,137	
b) Cost of services	<u>12,200,246,503.40</u>	-13,485,107,146.34	<u>9,734,472</u>	-11,473,609
6. Personnel expenses				
a) Salaries	6,834,559,477.81		7,273,372	
b) Expenses for severance payments	11,462,925.30		29,586	
c) Expenses for statutory social security and payroll related taxes and contributions	900,132,214.93		1,804,530	
d) Other social benefits	<u>44,673,747.41</u>	-7,790,828,365.45	<u>70,698</u>	-9,178,186
7. Depreciation of intangible assets, property, plant and equipment		-11,516,288,677.83		-11,393,203
thereof: extraordinary depreciation of fixed assets according with § 204 (2) HGB: ATS 29.521.611,00; prior year: TATS 12.079				
8. Other operating expenses				
a) Taxes	157,678,899.56		537,505	
b) Sundry	<u>11,106,592,573.62</u>	-11,264,271,473.18	<u>5,158,655</u>	-5,696,160
<b>9. Subtotal from line 1 to 8</b>		<b>-4,917,653,295.09</b>		<b>3,345,903</b>
10. Income from investments		1,580,675,087.19		903,071
thereof from affiliated companies: ATS 1.541.556.637,98; prior year: TATS 883.492				
11. Income from other securities and loans of financial assets		2,533,938.88		1,238
12. Other interest and similiar income		154,483,384.57		99,047
thereof from affiliated companies: ATS 68.909.792,16; prior year: TATS 17.630				
13. Income from disposal of financial assets		7,209,762.36		1,949
14. Expenses for financial assets and short-term securities		-738,072,671.74		-7
15. Interest and similiar expenses		-2,583,514,286.74		-2,477,679
thereof for affiliated companies: ATS 314.018.328,38; prior year: TATS 51.685				
<b>16. Subtotal from line 10 to 15</b>		<b>-1,576,684,785.48</b>		<b>-1,472,381</b>
<b>17. Ordinary business result</b>		<b>-6,494,338,080.57</b>		<b>1,873,522</b>
<b>18. Extraordinary expenses</b>				
= <b>extraordinary result</b>		<b>-65,000,000.00</b>		<b>0</b>
19. Taxes on income	-94.98		-1,818	
less: Income from tax refunds	38,393,959.04		428,767	
less: Income from reversal of deferred tax liabilities	<u>259,521,615.00</u>	297,915,479.06	<u>169,117</u>	596,066
<b>20. Net loss/income for the year</b>		<b>-6,261,422,601.51</b>		<b>2,469,588</b>
21. Reversal of untaxed reserves		950,817,135.44		31,484
22. Reversal of additional paid-in capital		2,128,502,864.98		0
23. Reversal of capital reserves		59,819.00		0
24. Allocation to untaxed reserves		-636,378,409.67		-742,292
25. Allocation to taxed reserves		0.00		-60
26. Profit carried forward from prior year		<u>3,818,421,191.76</u>		<u>3,993,701</u>
<b>27. Net loss/income</b>		<b>0.00</b>		<b>5,752,421</b>

## BALANCE SHEET AS OF DECEMBER 31, 2000

with comparative figures as of December 31, 1999 in thousand Austrian Schillings (thous. ATS)

<b>ASSETS</b>	<b>As of 31-Dec-2000 ATS</b>	<b>As of 31-Dec-1999 thous. ATS</b>
<b>A. Fixed assets</b>		
<b>I. Intangible assets</b>		
Concessions, industrial property rights and similiar rights	<b>509,842,032.45</b>	<b>560,105</b>
<b>II. Property, plant and equipment</b>		
1. Land, simliar rights and buildings including buildings on non-owned land	7,427,483,136.90	7,761,262
2. Technical plants and machinery	57,898,200,713.31	61,779,256
3. Other plants, furniture and fixtures	1,147,616,776.51	1,234,098
4. Prepayments and assets under construction	1,176,742,825.48	1,631,172
	<b>67,650,043,452.20</b>	<b>72,405,788</b>
<b>III. Financial assets</b>		
1. Investments in affiliated companies	12,574,213,857.31	8,889,205
2. Investments	694,399,331.92	126,364
3. Securities	0.00	28,643
4. Other loans	0.00	26,033
	<b>13,268,613,189.23</b>	<b>9,070,245</b>
	<b>81,428,498,673.88</b>	<b>82,036,138</b>
<b>B. Current assets</b>		
<b>I. Inventories</b>		
1. Raw material and supplies	778,942,820.44	867,621
2. Merchandise	170,057,457.22	201,337
3. Services not yet chargable	110,915,189.74	65,342
	<b>1,059,915,467.40</b>	<b>1,134,300</b>
<b>II. Accounts receivable</b>		
1. Accounts receivable from trade	6,521,888,806.34	7,813,828
2. Accounts receivable from affiliated companies	2,026,985,331.13	3,808,353
3. Accounts receivable from associated companies	11,550,070.56	9,136
4. Other receivables and assets	2,478,627,416.94	3,520,297
	<b>11,039,051,624.97</b>	<b>15,151,614</b>
<b>III. Short-term investments</b>	<b>66,943,139.16</b>	<b>0</b>
<b>IV. Cash on hand and in banks</b>	<b>96,842,038.42</b>	<b>95,296</b>
	<b>12,262,752,269.95</b>	<b>16,381,210</b>
<b>C. Prepaid expenses</b>	<b>129,299,699.98</b>	<b>227,902</b>
	<b>93,820,550,643.81</b>	<b>98,645,250</b>

<b>LIABILITIES</b>	<b>As of 31-Dec-2000 ATS</b>	<b>As of 31-Dec-1999 thous. ATS</b>
<b>A. Share holder's equity</b>		
<b>I. Share capital</b>	15,005,607,150.00	15,000,000
<b>II. Additional paid-in capital</b>		
Appropriated	14,201,632,176.50	16,226,705
<b>III. Taxed reserves</b>		
Other reserves (unrestricted reserves)	0.00	60
<b>IV. Net loss/income</b>	0.00	5,752,421
thereof income carried forward: ATS 3,818,421,191.75; prior year: income thous. ATS 3,993,701		
	<b>29,207,239,326.50</b>	<b>36,979,186</b>
<b>B. Untaxed reserves</b>		
Other untaxed reserves	<b>3,770,157,057.06</b>	<b>4,091,024</b>
<b>C. Accruals</b>		
1. Accrued severance payments	4,316,000.00	126,465
2. Accrued potential taxes	431,506,906.54	1,056,023
3. Other accruals	2,889,189,350.74	6,147,845
	<b>3,325,012,257.28</b>	<b>7,330,333</b>
<b>D. Liabilities</b>		
1. Bonds	4,312,593,504.18	7,212,197
2. Bank loans and overdrafts	34,108,255,434.29	30,876,392
3. Advance payments received	8,394,065.54	2,362
4. Accounts payable from trade	6,033,765,387.77	4,517,499
5. Accounts payable to affiliated companies	11,496,237,743.35	5,650,526
6. Accounts payable to associated companies	2,067,874.40	2,730
7. Other liabilities	187,430,335.47	500,530
thereof due to taxes: ATS 314.701,38; prior year: thous. ATS 32.350 thereof due to social security: ATS 0,00; prior year: thous. ATS 56,598		
	<b>56,148,744,345.00</b>	<b>48,762,236</b>
<b>E. Deferred income</b>	<b>1,369,397,657.97</b>	<b>1,482,471</b>
	<b>93,820,550,643.81</b>	<b>98,645,250</b>
Contingent liabilities	12,027,071,242.00	10,882,066

## ASSETS ANALYSIS

thous. ATE	Purchase- / Construction Costs					31-Dec-2000	Accumulated Depreciations	Book Values		Depreciation Fiscal Year 2000
	1-Jan-2000	Additions	Disposals	Spn off	Changes			31-Dec-2000	31-Dec-1999	
<b>Intangible assets</b>										
1. Concessions, industrial property rights and similar rights	1,127,761	147,870	346,333	0	49,980	979,278	469,436	509,842	560,105	210,750
<b>Property, plant and equipment</b>										
1. Land, similar rights and buildings including buildings on non- owned land	9,521,908	252,013	102,403	0	37,157	9,708,675	2,281,192	7,427,483	7,761,262	525,450
2. Technical plants and machinery	95,414,493	5,577,470	3,185,963	69,828	1,324,311	99,060,483	41,162,282	57,898,201	61,779,256	10,272,794
3. Other plants, furniture and fixtures	2,346,080	437,074	190,199	0	11,303	2,604,258	1,456,641	1,147,617	1,234,098	507,295
4. Prepayments and assets under construction	1,631,172	1,038,096	50,724	19,050	-1,422,751	1,176,743	0	1,176,743	1,631,172	0
	<b>108,913,653</b>	<b>7,304,653</b>	<b>3,529,289</b>	<b>88,878</b>	<b>-49,980</b>	<b>112,550,159</b>	<b>44,900,115</b>	<b>67,650,044</b>	<b>72,405,788</b>	<b>11,305,539</b>
<b>Financial assets</b>										
1. Investments in affiliated companies	8,889,460	3,685,008	0	36,387	36,387	12,574,468	254	12,574,214	8,889,206	0
2. Investments	126,391	1,310,536	28,992	883	-36,387	1,370,665	676,266	694,399	126,363	676,238
3. Securities	28,643	0	0	28,643	0	0	0	0	28,643	0
4. Other loans	30,951	1,833	2,718	30,066	0	0	0	0	26,032	399
	<b>9,075,445</b>	<b>4,997,377</b>	<b>31,710</b>	<b>95,979</b>	<b>0</b>	<b>13,945,133</b>	<b>676,520</b>	<b>13,268,613</b>	<b>9,070,244</b>	<b>676,637</b>
	<b>119,116,859</b>	<b>12,449,900</b>	<b>3,907,332</b>	<b>184,857</b>	<b>0</b>	<b>127,474,570</b>	<b>46,046,071</b>	<b>81,428,499</b>	<b>82,036,137</b>	<b>12,192,926</b>

# NOTES TO FINANCIAL STATEMENTS 2000

## 1. General Explanations

Telekom Austria Personalmanagement GmbH was split off from Telekom Austria AG effective as per June 30, 2000. With the exception of the members of the managing board and the employees transferred to Jet2Web Internet Services GmbH all employees, irrespective of their terms and conditions of employment were transferred by way of universal succession to Telekom Austria Personalmanagement GmbH as set out in Article 17 Austrian Act on Company Divisions.

Pursuant to ÖIAG Act 2000, the provisions on affiliated companies (Article 228 paragraph 3 Austrian Commercial Code) do not apply. Only direct participating interests as well as sub-subsidiaries and their subsidiaries have been classified as affiliated companies of Telekom Austria AG in these Annual Financial Statements provided the conditions set out in Article 228 paragraph 3 Austrian Commercial Code are met.

## 2. Accounting and Valuation Methods

### 2.1. General

The Annual Financial Statements have been prepared in accordance with the principles of proper bookkeeping, and the general objective of presenting a fair and true view of the assets, earnings and financial position of the company.

The Annual Financial Statements have been prepared in accordance with the principle of completeness.

The principle of the separate valuation of assets and liabilities items and the principle of a going concern value have been applied.

The principle of conservatism has been applied by including only the gains realized as of the balance sheet date. All recognizable risks and losses have been taken into account.

The profit and loss account has been prepared in accordance with the total cost format. The figures in the tables are given in thousands of Austrian schillings. The balance sheet date is December 31.

## 2.2. Changes in Valuation Methods

With the exception of the ADSL modems acquired in the year 2000 and to be depreciated over a period of use of 3 years, single fixed assets with an acquisition value of up to ATS 5,000 have been fully written off in the year of acquisition pursuant to Article 13 Austrian Income Tax Act.

## 2.3. Fixed Assets

The items under intangible assets have been valued at cost of acquisition less scheduled straight-line depreciation. A reasonable useful life of 4-10 years has been assumed; utilization rights for lines have been written off in accordance with the terms of contracts.

The items under tangible assets have been valued at cost of acquisition or cost of production less scheduled depreciation. Production costs of installations built by the company itself include both direct and pro-rated overhead costs; however, these do not include social expenditure in the meaning of Article 203 paragraph 3 Austrian Commercial Code, nor any directly attributable interests on borrowed funds.

Scheduled depreciation has been calculated on a straight-line basis in accordance with the periods of use:

	Period of use in years	Rate of depreciation in %
Buildings	20– 50	2 – 5
Technical installations and buildings	3 – 20	5 – 33
Tools, measuring and testing instruments	5 – 10	10 – 20
IT equipment	4 – 5	20 – 25
Vehicle fleet	4 – 8	12,5 – 25
Social facilities and office equipment	10	10
Office machines and other small machines	5	20

In accordance with Article 7 paragraph 2 Income Tax Act, additions made during the first half-year have been deducted in full, additions made during the second half-year only by half. With the exception of low-value tools, measuring and testing instruments, and ADSL modems, low-value assets (with an acquisition value of up to ATS 5,000 each) have been fully written off in the year of acquisition pursuant to Article 13 Income Tax Act. Such assets are shown as additions or disposals under Changes in Fixed Assets. A fixed value was determined for office and customer services equipment of Telekom Austria AG as well as for office machines in the opening balance sheet on 1 May 1996, which has remained unchanged during the business year. Extraordinary depreciation on tangible assets amounted to ATS 29,522,000 in the business year 2000.

In 1998 and 1999, installations for digital communication technology were sold to several US trust companies through the conclusion of a number of sales agreements. These assets were subsequently re-leased by Telekom Austria AG on the basis of leasing agreements. Telekom

Austria AG has been granted the right to repurchase the leased assets at a contractually agreed-on price after a period of approximately ten years.

The cross-border lease transactions concluded in 1998 and 1999 have been reported in the Annual Financial Statements for the period ended on December 31, 2000 as stated below:

1. The net cash value benefit in an amount of USD 54.4 million (of which USD 7.7 million dating from 1998) has been reported under Deferred Income and will be liquidated within a period of around ten years on a pro rata temporis basis and shown as interest income; the amount for the year ended December 31 2000 is ATS 64.9 million (in 1999: ATS 35.5 million).
2. Overall leasing liabilities not yet paid up have been reported under Contingent Liabilities in an amount of ATS 12,027,071,000 (in 1999: ATS 10,882,066,000).
3. Assets that have been sold and re-leased have been reported and written off under Fixed Assets of Telekom Austria AG based on an assumed continuation of economic ownership.

Participating interests have generally been valued at cost of acquisition. Loans subject to interest payment and securities held as fixed assets have been reported at cost of acquisition, interest-free loans at cash value.

Extraordinary depreciation has been applied if the valuation on the balance sheet date is lower than the book value or if a permanent lower attributable value is expected to apply. For 2000 an extraordinary depreciation of ATS 676,238,000 has been applied.

#### 2.4. Current Assets

Inventories have been valued at cost of acquisition or cost of production according to the lower of cost principle. A sliding average price procedure has been applied to the valuation of inventories on stock.

Depreciation was required, in particular, due to declines in exchange and market prices on the balance sheet date, restricted saleability and excessive duration of storage.

Output that has not yet been settled has been valued at cost of production. Production costs include direct material and manufacturing costs, as well as the corresponding portions of indirect material and production overhead.

Receivables and other assets have been valued at nominal value unless a lower value was applicable in cases of recognizable individual risks. Individual value adjustments for credit risks have been made to account for general credit risks. If required, later due dates for receivables have been taken into account by means of discounting.

Receivables in foreign currencies have been valued at the mean rate of exchange at the date on which they were incurred or at a lower mean rate of exchange at the balance sheet date. Receivables in currencies that are part of the European single currency have been valued at the exchanges rates irrevocably fixed pursuant to Article 6 First Euro-Related Amendment to Civil Law on 31. Dezember 1999.

In the International Accounting division receivables were set off against liabilities per Carrier, the resulting balance has been valued according to the lower of cost principle.

#### 2.5. Prepaid Expenses and Deferred Charges

The item Prepaid Expenses and Deferred Charges contains prepaid expenditure and the deferred costs of procuring money capitalised in the opening balance sheet as per 1 May 1996; these costs are recognised as expenses and distributed over the applicable terms.

#### 2.6. Provisions

Provisions for severance payments have been made for statutory and contractual claims on the part of employees. The calculation is based on the methods of financial mathematics according to the principles of a going concern value and based on a calculated interest rate of 4%, as well as a fluctuation discount of 3%.

Other provisions have been made based on the amount that is expected to be needed. These take into account all recognizable risks and liabilities in as of yet unknown amounts.

#### 2.7. Liabilities

Liabilities have been valued at their repayment amount in accordance with the principle of conservatism. Liabilities in foreign currencies have been valued at the mean average rate of exchange at the balance sheet date provided that this rate is higher than the book value. In the International Accounting division receivables were set off against liabilities, the resulting balance has been valued according to the highest of cost principle.

Liabilities in currencies that are part of the single currency have been valued at the exchange rates irrevocably fixed pursuant to Article 6 First Euro-Related Amendment to Civil Law on 31. Dezember 1999.

### **3. Notes to the Balance Sheet**

#### 3.1. Fixed Assets

Developments in the individual items under Fixed Assets and annual depreciation by item are presented under "Changes in Fixed Assets" (Annex 1).

Fixed assets include property valued at 865,947,000 (31.12.1999: 871,478,000).

Participating interests held by Telekom Austria AG with a share of at least 20%:

Name and registered office of company  (thous. ATS)	Share in capital as per 31.12.2000 %	Book value of shareholders' equity as per 31.12.2000	Profit/loss for the year 2000
<b>Affiliated Companies</b>			
Mobilkom Austria AG, Vienna	75.0 <sup>1</sup>	14,751,853	1,983,928
Datakom Austria GmbH, Vienna <sup>2</sup>	100.0	982,475 <sup>3</sup>	403,497
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft mbH, Vienna	100.0	1,411	1,033
Telekom Beteiligungs- und Entwicklungs GmbH, Vienna	100.0	5,457	4,975
Telekom Austria Personalmanagement GmbH	100.0	4,816	56,516
Jet2Web Internet Services GmbH, Vienna	100,0	686,915	-309,200
Jet2Web NET Internet Betriebs GmbH, Vienna	100,0	241	-60
Jet2Web Network Services GmbH, Vienna	100,0	-4,148	-5,161
Czech On Line a.s., Prague	100,0	16,395	22,260 <sup>4</sup>
<b>Other Participating Interests</b>			
Libro AG, Guntramsdorf	25.0 <sup>1</sup>	802,785	-159.630 <sup>5</sup>
Herold Business Data AG, Mödling	26.0	95,361	89,145

<sup>1</sup> 75% less one share

<sup>2</sup> for these business years the result is integrated in Telekom Austria AG income due to the fiscal unit contract

<sup>3</sup> untaxed reserves are included

<sup>4</sup> result due to local GAAP

<sup>5</sup> result of the first -half group report due to IAS as at 30.11.2000

### 3.2. Accounts Receivable and Other Assets

(thous.ATS)	31.12.2000		31.12.1999	
	with a remaining time to maturity of		with a remaining time to maturity of	
	up to one year	over one year	up to one year	over one year
Accounts receivable - trade	6,521,889	0	7,813,828	0
Accounts owed by affiliated companies	1,986,222	40,763	3,808,353	0
Accounts owed by companies with which the company is related by participating interests	11,550	0	9,136	0
Other receivables and assets	2,335,530	143,097	3,341,925	178,372
	<u>10,855,191</u>	<u>183,860</u>	<u>14,973,242</u>	<u>178,372</u>

The item "Accounts Owed by Affiliated Companies" consists of trade receivables amounting to 443,659,000 (31.12.1999: 900,471,000) and of other receivables amounting to 1,583,326,000 (31.12.1999: 2,907,882,000). The item "Accounts Owed by Companies with which the Company is Related by Participating Interests" consists of trade receivables amounting to 9,307,000 (31.12.1999: 8,886,000) and other receivables amounting to 2,243,000 (31.12.1999: 250,000).

Other receivables contain an amount of 160,127,000 (31.12.1999: 142,476,000) for interest deferral, which is considerable income that will be paid only after the cutoff date of the annual accounts.

At the end of the year, general value adjustments for trade receivables amounting to 66,823,000 (31.12.1999: 65,274,000) were booked.

### 3.3. Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges contain primarily advance payments relating to stock option plans, advance payments on insurances, advance payments on rent as well as the cost of funds. The entire amount of the cost of funds capitalised was 13,064,000 (31.12.1999: 21,129,000) on 31 December 2000.

### 3.4. Shareholders' Equity

The share capital of Telekom Austria AG is EUR 1,090,500,000 (ATS 15,005,607,000) and consists of 500,000,000 non-par-value shares. ÖIAG holds a share of 47.8% and STET International Netherlands N.V. of 29.8% in Telekom Austria AG. The free float of shares is 22.4%.

### 3.5. Untaxed Reserves

#### Investment allowance pursuant to Article 10 Income Tax Act

<u>(thous. ATS)</u>	As per 1.1.2000	Disposals from split-off	Reversals	Additions	As per 31.12.2000
of the year					
1996	1,524,495	502	931,000	0	592,993
1997	1,143,639	624	11,906	0	1,131,109
1998	746,388	1,206	5,339	0	739,843
1999	676,503	3,189	2,572	0	670,742
2000	0	908	0	636,378	635,470
	<u>4,091,025</u>	<u>6,429</u>	<u>950.817</u>	<u>636,378</u>	<u>3,770,157</u>

The untaxed reserves of Telekom Austria AG consist exclusively of investment allowance pursuant to Article 10 Income Tax Act.

### 3.6. Provisions

Provisions for taxes as per 31. Dezember 2000 refer primarily to payroll taxes, deferred taxes and local taxes. Provisions for taxes include provisions for deferred taxes in an amount of ATS 167,847,000.

Other provisions include:

<u>(thous. ATS)</u>	<u>31.12.2000</u>	<u>31.12.1999</u>
Redundancy schemes/restructuring costs	0	2,614,177
Reductions in earnings	952,844	1,147,564
Locational concept	340.000	0
Outstanding invoices	836,826	569,186
Provisions for employees	9,022	1,443,991
Other	750,497	372,927
	<u>2,889,189</u>	<u>6,147,845</u>

### 3.7. Liabilities

(thous. ATS)	31.12.2000		
	remaining time to maturity		
	of up to one year	of one to five years	over five years
Bonds	937,594	3,375,000	0
Amounts owed to banks	5,798,193	17,327,335	10,982,727
Payments on account of orders	8,394	0	0
Accounts payable – trade	6,013,494	20,247	24
Amounts owed to affiliated companies	5,570,103	5,926,135	0
Amounts owed to companies with which the company is related by participating interests	2,068	0	0
Other liabilities	99,508	87,923	0
	<u>18,429,354</u>	<u>26,736,640</u>	<u>10,982,751</u>

  

(thous. ATS)	31.12.1999		
	remaining time to maturity		
	of up to one year	of one to five years	over five years
Bonds	3,386,197	3,826,000	0
Amounts owed to banks	3,260,434	20,581,328	7,034,630
Payments on account of orders	2,362	0	0
Accounts payable – trade	4,515,212	2,283	3
Amounts owed to affiliated companies	5,650,526	0	0
Amounts owed to companies with which the company is related by participating interests	2,730	0	0
Other liabilities	372,592	120,446	7,493
	<u>17,190,053</u>	<u>24,530,057</u>	<u>7,042,126</u>

The item "Amounts owed to affiliated companies" of Telekom Austria AG consists of 673,466,000 (31.12.1999: 901,462,000) for trade accounts payable, and of 10,822,771,000 (31.12.1999: 4,749,064,000) for other liabilities. The item "Amounts owed to companies with which the company is related by participating interests" consists of 2,068,000 (31.12.1999: 2.730) for trade accounts payable.

### 3.8. Other financial obligations

<u>(thous. ATS)</u>	<u>31.12.2000</u>	<u>31.12.1999</u>
Order obligations for investments	522,354	2,287,648 <sup>6</sup>
Obligations from cross-border leases	12,027,071	10,882,066
Rents and leases in the following year <sup>7</sup> thereof to affiliated companies	606,007	607,756
Mobilkom	0	1,256
Next five years <sup>7</sup>	2.348.939	3,038,780

## 4. Notes to the Profit and Loss Account

### 4.1. Revenues

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Voice telephony	21,262,133	25,925,293
Interconnection/international carrier	8,599,733	5,774,433
End appliances	1,454,044	1,787,274
Leased lines	3,885,970	3,322,012
Coin and card telephony	914,761	1,102,468
Proceeds from services	310,291	305,734
On-line services	178,795	539,162
Value-added services	612,263	262,959
Telekom projects	93,806	48,108
Satellite services	54,255	47,973
Information services	284,174	268,110
Other	78,564	25,380
Decrease in proceeds	2.055.534	-1,142,871
	<u>35.673.255</u>	<u>38,266,035</u>

<sup>6</sup> statistical recording, partly estimated

<sup>7</sup> the amount has been calculated partly by means of extrapolation

#### 4.2. Other Operating Income

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Income from the disposal of fixed assets with the exception of financial assets	31,572	15,674,
Income from the reversal of provisions	597,359	35,066
Other	1,861,735	1,411,714
	<u>2,490,666</u>	<u>1,462,454</u>

Other operating income contains the following items:

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Income from affiliated companies	628,187	609,879
Income from rents and leases from affiliated companies	105,402	191,930
Proceeds from the reversal of provisions	11,725	114,877
Reimbursements of costs by the federal government	120,634	97,040
Compensations for damages	87,489	86,464
Income from reminder charges	60,570	80,370
Price gains	171,140	75,934
Income from previous periods	282,676	73,718
Diverse sales proceeds	55,590	23,911
Rental income	33,127	16,651
Other	305,195	40,940
	<u>1,861,735</u>	<u>1,411,714</u>

#### 4.3. Cost of Materials and Other Costs of Production

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Cost of materials	1,284,861	1,739,137
Cost of services	12,200,246	9,734,472
	<u>13,485,107</u>	<u>11,473,609</u>

#### 4.4. Personnel Expenses

Personnel expenses contain the following items:

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Salaries and wages	6,834,559	7,273,372
Expenses for severance payments	11,463	29,586
Expenses for statutory social security contributions and payroll-related contributions	900,132	1,804,530
Other social expenses	44,674	70,698
	<u>7,790,828</u>	<u>9,178,186</u>

As of 30 June 2000, the entire staff of Telekom Austria AG, with the exception of the members of the Management Board, was transferred to Telekom Austria Personalmanagement GmbH.

The item "Personnel Expenses" of these Financial Statements is only to a certain extent comparable to the preceding year, as personnel expenses of Telekom Austria AG do not contain the expenses for the employees transferred on 30 June 2000. Personnel expenses charged to Telekom Austria AG by Telekom Austria Personalmanagement are reported under Other Operating Expenses as costs for outside services.

The personnel expenses given in the table below refer to both companies to allow comparisons with last year's figures:

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Salaries and wages <sup>8</sup>	10,373,630	7,273,372
Expenses for severance payments	124,932	29,586
Expenses for statutory social security contributions and payroll-related contributions	1,762,839	1,804,530
Other social expenses	160,764	70,698
	<u>12,422,165</u>	<u>9,178,186</u>

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<sup>8</sup> Including changes for employee accruals of TS 3,861,080 for the year 2000 (1999: TS 683,720)

Average number of employees in the business year:

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Employees with contracts under public law (public servants)	12,242	12,840
Employees with contracts under private law	3,337	3,242
Apprentices	219	224
	<u>15,798</u>	<u>16,306</u>
in full-time employees	<u>15,227</u>	<u>15,722</u>

An average of 440 employees (in 1999: 466 employees) were on maternity leave during the business year.

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00<sup>9</sup></u>	<u>01-Jan – 31-Dec-99</u>
Remuneration of members of the Management Board	20,278	26,326
Remuneration of former members of the Management Board	1,622	1,180
Remuneration of members of the Supervisory Board	2.330	250
	<u>24.230</u>	<u>27,756</u>

Due to the appointment of a new Management Board in mid-April 2000, the salaries of the members of the Management Board are only to a certain extent comparable.

#### 4.5. Expenses for Severance Payments

A breakdown of expenses for severance payments is given below:

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Members of the Management Board	5,688	1,791
Managing staff	0	1,340
Other employees	5.775	26,455
	<u>11,463</u>	<u>29,586</u>

#### 4.6. Depreciation on Intangible Assets and Fixed Assets

The fixed assets of Telekom Austria AG include capitalised prepaid taxes that have been written off in the business year in an amount of ATS 76,342,000 (in 1999: ATS 672,636,000). Reimbursements of prepaid taxes pursuant to Article 12 par. 10 and par. 11 Turnover Tax Act have been netted in the same amount against depreciation. Further details on depreciation are given under "Changes in Fixed Assets".

<sup>9</sup> Average value for 6 months, due to the above-mentioned transfer of employees to TAP.

#### 4.7. Other Operating Expenses

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Other operating taxes	157,679	537,506
Other	11,106,592	5,158,655
	<u>11,264,271</u>	<u>5,696,161</u>

The item "Other Operating Expenses" contains the losses incurred from the disposal of fixed assets of ATS 557,392,000 (in 1999: ATS 225,786,000).

#### 4.8. Taxes on Income

<u>(thous. ATS)</u>	<u>01-Jan – 31-Dec-00</u>	<u>01-Jan – 31-Dec-99</u>
Corporation income tax	0	1,818
Corporation income tax from previous periods	-38,394	-428,767
Deferred taxes	-259,521	-169,117
	<u>-297,915</u>	<u>-596,066</u>

The release of untaxed reserves (ATS 35,000,000) and allocations to untaxed reserves (ATS 636,378,000) result in income tax savings of ATS 204,468,000.

Deferred taxes are due to the different valuations of assets for the balance sheet according to the commercial code or for tax purposes and to changes in assets in the preceding business years.

Members of the Management Board and Supervisory Board:

**Management Board**

GD Heinz Sundt (Chairman of the Management Board)	since 11.4.2000
GD Stv. Dr. Stefano Colombo (Vice Chairman of the Management Board)	since 11.4.2000
VDir. Ing. Mag. Rudolf Fischer	
VDir.Dr. Heinz Alois Brasic	since 1.6.2000
GD Senator h.c. KR Ing. Werner Kasztler	until 11.4.2000
GD Stv. VDir. Dr. Alberto Mazzaelli	until 11.4.2000
VDir. Dr. Claudio Albanese	until 11.4.2000

**Syndicate Partners:**

ÖIAG (represented by Dr. Johannes Ditz )  
Telecom Italia (represented by Ing. Oskar Cicchetti)

**Supervisory Board:**

Dr. Johannes Ditz (Chairman of the Supervisory Board)	since 2.3.2000
Prof. DI Dr. Rudolf Streicher (Vice Chairman of the Supervisory Board)	since 2.3.2000
Ing. Oscar Cicchetti	since 29.5.2000
GF Gerhard Zeiler	
Dr. Günther Chaloupek	
Mag. Dr. Stephan Koren	
Dr. Giulia Nobili	
GD DI Otto G. Zich	
Robert Sulzbacher	
Helmut Hospodar	
Josef Ebner	since 29.9.2000
Ing. Karl-Heinz Muik	
GD Ing. Dr. Josef Sindelka	until 2.3.2000
Dr. Massimo Masini	until 29.5.2000
GD-Stv. Mag. Josef Stiegler	until 2.3.2000
Hans Billeth	until 29.9.2000

Holders of a special statutory authority (proxy holders) as per December 31.12.2000

Dr. Walter Bachler, geb. 06.10.1948  
Dipl. Ing. Franz Kaiser, geb. 09.06.1957  
Dr. Markus Krainer, geb. 23.09.1961  
Dipl. Ing. Manfred Erian, geb. 14.09.1957  
Dipl. Ing. Herbert Frech, geb. 06.04.1954  
Konrad Friedl, geb. 12.10.1946  
Dipl. Ing. Dr. Albert Kobald, geb. 13.08.1952  
Hubert Lidauer, geb. 25.04.1950  
Mag. Josef Wiener, geb. 26.02.1951  
Mag. Adolf Dietl, geb. 09.09.1958  
Mag. Wolfgang Frauenholz, geb. 14.10.1953  
Ing. Franz Nigl, geb. 07.04.1963  
Dr. Ernst–Olav Ruhle, geb. 02.04.1969  
Dipl. Ing. Helmut Leopold, geb. 27.04.1963  
Mag. Anton Steinringer, geb. 14.03.1959  
Dr. Antonio Breggia Bicchieri, geb. 20.05.1960  
Mag. Dr. Martin Mayr, geb. 24.12.1964  
Ing. Alfred Peter, geb. 24.06.1956  
Mag. Hubert Cottogni, geb. 01.06.1960  
Dipl. Ing. Josef Singer, geb. 27.05.1961  
Dr. Filippo Porcacchia, geb. 20.08.1964  
Mag. Martin Schmutz, geb. 22.06.1964  
Mag. Josef Vinatzer, geb. 04.01.1966  
Dipl. Ing. Kurt Martinek, geb. 28.05.1941  
Ing. Mag. Josef Trimmel, geb. 31.10.1957  
Hans-Georg Schwarz, geb. 27.07.1942

Vienna, 2001

The Management Board

Heinz Sundt

Stefano Colombo

Rudolf Fischer

Heinz Alois Brasic

# INDEPENDENT AUDITORS' REPORT

Unqualified opinion to Article 274 (1) HGB (Austrian Commercial Code of Telekom Austria Aktiengesellschaft, Vienna, to financial statements December 31, 2000.

As the result of our due audit we can certify that the accounting records and the interim financial statements for the period ended December 31, 2000 comply with the legal regulations. The financial statements for the period ended December 31, 2000 give a true and fair view of the Company's assets, liabilities, financial position and profit or loss in conformity with generally accepted accounting principles. The Management Report corresponds with the financial statements for the period ended December 31, 2000.

Vienna, March 6, 2001

## KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner

Mag. Elisabeth Spohn

Wirtschaftsprüfer und Steuerberater

## Grant Thornton – Jonasch & Platzer

Wirtschaftsprüfungs- und Steuerberatungs-OHG

Univ.-Doz.Dr. Walter Platzer

Mag. Karl Newertal

Wirtschaftsprüfer und  
Steuerberater

Steuerberater

## **REPORT OF THE SUPERVISORY BOARD OF TELEKOM AUSTRIA AG TO THE GENERAL ASSEMBLY**

The Supervisory Board has performed its function in the reporting year at ten meetings; In these meetings it has been informed by the Management Board in written and verbal form about the economic and financial situation of the company, its business policy, investment program and the development of its course of business, and has conferred on these points. Particular focus was placed on accompanying the IPO process, on restructuring the Group as well as on the strategic orientation to secure its competitiveness.

The Management Board presented the Supervisory Board with the financial statements of Telekom Austria AG and the Group Consolidated Accounts for the year ended December 31, 2000. The financial statements of Telekom Austria AG and the Group Consolidated Accounts were audited by KPMG Austria Wirtschaftsprüfungs-Gesellschaft mbH and Grant Thornton - Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG and given unreserved audit certification. The management report is in accordance with the financial statements and Group Consolidated Accounts.

The Supervisory Board endorses the Financial Statements for the Year 2000, which are thus fixed according to § 125 Point 2 Stock Corporation Act, and otherwise declares its agreement with the Group Consolidated Accounts and the Group Management Report according to §§ 244 ff. Commercial Code under application of § 245a Commercial Code.

Due to the net results for the year it is not necessary to make a proposal for the appropriation of earnings.

According to § 270 Point 1 Commercial Code, the Supervisory Board proposes to appoint KPMG Austria Wirtschaftsprüfungs-Gesellschaft mbH and Grant Thornton - Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG as auditors and Group auditors for the business year 2001.

April 2, 2001

Dr. Johannes Ditz  
Chairman of the Supervisory Board