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Independent Auditor's Report

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft

We have audited the accompanying consolidated balance sheets of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. 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 did not audit the financial statements of mobilkom austria AG & Co KG and mobilkom austria AG and subsidiaries (collectively "mobilkom"), wholly-owned consolidated subsidiaries (74.999% owned unconsolidated subsidiaries from January 1, 2002 to June 28, 2002) whose total assets as of December 31, 2003 and 2002 constitute 35.6 percent and 32.2 percent of total consolidated assets and whose revenues for the year ended December 31, 2003 and for the period June 28, 2002 to December 31, 2002, respectively, constitute 48.9 percent and 30.7 percent of total consolidated revenues. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for mobilkom, is based solely on the report of the other auditors.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" effective January 1, 2003 and Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" effective January 1, 2002.

KPMG Alpen-Trenthand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
KPMG Alpen-Trenthand GmbH

Vienna, Austria
March 10, 2004

Independent Auditor's Report

The Supervisory Board and Stockholders
mobilkom austria AG & Co KG and
mobilkom austria AG:


We have audited the consolidated balance sheets of mobilkom austria AG & Co KG and mobilkom austria AG and subsidiaries (collectively "mobilkom"), wholly-owned consolidated subsidiaries of Telekom Austria Aktiengesellschaft (74.999% owned unconsolidated subsidiaries from January 1, 2002 to June 28, 2002), as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. 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 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" effective January 1, 2003 and Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" effective January 1, 2002.

Grant Thornton
Wirtschaftsprüfungs- und Steuerberatungs-GmbH



Vienna, Austria
February 12, 2004

Independent Auditors' Report

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheet of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2001, and the related consolidated statement of income, stockholders' equity and comprehensive income, and cash flows for the year then ended. 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 audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

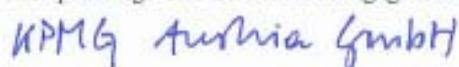
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telekom Austria as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



Vienna, Austria
March 20, 2002

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



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

	Notes No	December 31, 2003	December 31, 2002
ASSETS			
Current assets			
Cash and cash equivalents.....		201,926	27,337
Short-term investments.....		6,867	5,327
Accounts receivable - trade, net of allowances of EUR 92,238 and EUR 74,945 as of December 31, 2003 and December 31, 2002.....	(5)	559,872	451,934
Receivables due from related parties.....	(6)	1,549	6,723
Inventories.....	(7)	83,535	91,261
Deferred tax assets.....	(18)	45,633	4,657
Prepaid expenses.....		91,177	81,935
Taxes receivable.....		9,739	22,829
Assets held for sale.....		5,560	30,512
Other current assets.....		118,963	142,743
TOTAL CURRENT ASSETS.....		1,124,821	865,258
Property, plant and equipment, net.....	(9)	4,457,666	5,000,659
Goodwill.....	(8)	597,577	590,727
Other intangible assets, net.....	(8)	711,988	725,893
Investments in affiliates.....	(3)	3,555	8,642
Other investments.....		143,630	162,682
Deferred tax assets.....	(18)	94,349	193,414
Other assets.....		762,679	987,063
TOTAL ASSETS.....		7,896,265	8,534,338
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings.....	(10)	631,321	1,309,905
Accounts payable - trade.....		589,368	649,890
Accrued liabilities.....	(11)	231,778	256,790
Payables to related parties.....		23,657	37,198
Deferred income.....	(12)	150,378	129,963
Income taxes payable.....		7,650	6,077
Other current liabilities.....		155,563	141,210
TOTAL CURRENT LIABILITIES.....		1,789,715	2,531,033
Long-term debt, net of current portion.....	(14)	2,342,288	2,079,885
Lease obligations, net of current portion.....	(15)	861,300	1,076,354
Employee benefit obligations.....	(16)	155,960	232,529
Other liabilities and deferred income.....		107,629	104,997
Stockholders' equity			
Common stock, issued and outstanding shares 500,000,000 with zero par value.....		1,090,500	1,090,500
Additional paid in capital.....		453,371	452,498
Retained earnings.....		1,103,867	969,626
Accumulated other comprehensive loss.....		(8,365)	(3,084)
TOTAL STOCKHOLDERS' EQUITY.....	(20)	2,639,373	2,509,540
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....		7,896,265	8,534,338

see accompanying notes to consolidated
financial statements

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

	Notes No	twelve months ended		
		December 31,		
		2003	2002	2001
Operating revenues (a).....	(21)	3,969,750	3,118,064	2,659,660
Operating expenses (b)				
Materials.....		(297,084)	(196,434)	(71,908)
Employee costs, including benefits and taxes.....		(699,348)	(600,718)	(619,080)
Depreciation and amortization.....		(1,133,148)	(1,016,312)	(904,075)
Impairment charges.....	(9)	(6,825)	(41,871)	(145,126)
Other operating expenses.....	(22)	(1,463,521)	(1,205,354)	(1,153,930)
OPERATING INCOME		369,824	57,375	(234,459)
Other income (expense)				
Interest income (c).....		75,167	88,191	82,683
Interest expense (d).....		(230,979)	(244,628)	(240,986)
Equity in earnings of affiliates.....		19,112	140,543	195,450
Other, net.....	(23)	(567)	2,330	(2,756)
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....		232,557	43,811	(200,068)
Income tax (expense) benefit	(18)	(83,036)	(26,112)	94,913
Minority interests		(3,422)	(4,910)	530
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....		146,099	12,789	(104,625)
Cumulative effect of change in accounting principle, net of tax of EUR 6,071.....	(13)	(11,858)	-	-
NET INCOME		134,241	12,789	(104,625)
Basic and fully diluted earnings per share.....		0.27	0.03	(0.21)
Basic and fully diluted earnings per share excluding cumulative effect of change in accounting principle.....		0.29	0.03	(0.21)
a) includes revenues from related parties of		89,506	147,990	293,459
b) includes operating expenses from related parties of		128,694	192,153	314,769
c) includes interest income from related parties of		1	4,992	17,619
d) includes interest expense from related parties of		30	938	749

see accompanying notes to consolidated
financial statements

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

	twelve months ended			
	December 31,			
	Notes No	2003	2002	2001
Cash generated from operations				
Net income.....		134,241	12,789	(104,625)
Adjustments to reconcile net income to cash generated from operations				
Depreciation, amortization and impairment charges		1,139,973	1,058,183	1,049,201
Write-offs from investments.....		2,840	-	-
Employee benefit obligation - non cash.....		307	(49,840)	3,145
Allowance for doubtful accounts.....	(5)	30,629	39,184	14,818
Change in deferred taxes.....		59,241	33,498	(94,969)
Equity in earnings of affiliates less than (in excess of) dividends received.....		1,027	(45,801)	(80,731)
Asset retirement obligation - accretion expense.....		1,336	-	-
Cumulative effect of change in accounting principle, net of tax.....	(13)	11,858	-	-
(Gain) Loss on sale of investments.....		(17,903)	195	-
Loss on disposal / retirement of equipment.....		41,571	17,280	38,922
Other.....		(660)	-	-
		<u>1,270,219</u>	<u>1,052,699</u>	<u>930,386</u>
Changes in assets and liabilities, net of effect of business acquired				
Accounts receivable - trade.....		(140,331)	175,522	24,401
Due from related parties.....		5,813	3,759	69,050
Inventories.....		5,765	6,052	19,030
Prepaid expenses and other assets.....		71,506	(9,020)	(56,442)
Accounts payable - trade.....		(58,944)	10,979	(85,734)
Employee benefit obligation.....		(76,649)	(102,565)	(73,592)
Accrued liabilities.....		(23,487)	3,881	(54,414)
Due to related parties.....		(13,358)	17,088	3,830
Other liabilities and deferred income.....		45,100	230	170,490
		<u>(184,585)</u>	<u>105,926</u>	<u>16,619</u>
Cash generated from operations				
		<u>1,219,875</u>	<u>1,171,414</u>	<u>842,380</u>
Cash from investing activities				
Capital expenditures, including interest capitalized.....		(599,684)	(560,742)	(459,039)
Acquisitions and investments, net of cash acquired.....		(85,989)	(665,128)	(4,759)
Sale of subsidiary, net of cash.....		205	-	-
Proceeds from sale of equipment.....		17,300	49,819	12,106
Purchase of investments - short-term.....		(79,750)	(1,629)	(2,790)
Purchase of investments - long-term.....		(601)	(1,107)	-
Sale of American call options.....		957	2,609	-
Proceeds from sale of investments - short-term.....		80,108	6	8
Proceeds from sale of investments - long-term.....		23,599	225	1,285
Cash used in investing activities				
		<u>(643,855)</u>	<u>(1,175,947)</u>	<u>(453,189)</u>
Cash from financing activities				
Principal payments on bonds.....		(22,765)	(72,673)	(61,845)
Proceeds from issuance of long-term debt and bonds.....		775,948	127,857	-
Principal payments on long-term debt.....		(385,330)	(406,294)	(335,159)
Changes in short-term bank borrowings.....		(774,644)	237,973	74,968
Changes from financing with mobilkom austria.....		-	114,921	(73,166)
Proceeds from sale of tax benefits.....		-	-	14,547
Cash (used in) generated from financing activities				
		<u>(406,791)</u>	<u>1,784</u>	<u>(380,655)</u>
Effect of exchange rate changes.....		5,360	3,693	142
Net increase in cash and cash equivalents.....		174,589	944	8,678
Cash and cash equivalents at beginning of period.....		27,337	26,393	17,715
Cash and cash equivalents at end of period.....		<u>201,926</u>	<u>27,337</u>	<u>26,393</u>

see accompanying notes to consolidated
financial statements

TELEKOM AUSTRIA AG
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in EUR '000s, except 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, 2001.....	500,000,000	1,090,500	451,677	1,061,462	(27)	2,603,612
Comprehensive income						
Net loss.....				(104,625)		(104,625)
Net unrealized loss on securities, net of						
EUR 83 deferred income tax.....					(162)	(162)
Foreign currency translation adjustment.....					14,630	14,630
Cumulative effect of accounting change, net						
of EUR 5,646 deferred income tax.....					(10,959)	(10,959)
Unrealized net loss of hedging activities,						
net of EUR 954 deferred income tax.....					(2,102)	(2,102)
Total comprehensive loss.....						(103,218)
Balance December 31, 2001.....	500,000,000	1,090,500	451,677	956,837	1,380	2,500,394
Comprehensive income						
Net income.....				12,789		12,789
Net unrealized loss on securities, net of						
EUR 362 deferred income tax.....					(687)	(687)
Foreign currency translation adjustment.....					(6,496)	(6,496)
Unrealized net gain of hedging activities, net of						
EUR (1,386) deferred income tax.....					2,719	2,719
Total comprehensive income.....						8,325
Sale of call options, net of						
EUR (424) income tax.....			821			821
Balance December 31, 2002.....	500,000,000	1,090,500	452,498	969,626	(3,084)	2,509,540
Comprehensive income						
Net income.....				134,241		134,241
Net unrealized gains on securities, net of						
EUR (1,141) deferred income tax.....					2,214	2,214
Foreign currency translation adjustment.....					(10,690)	(10,690)
Unrealized net gain on hedging activities,						
net of EUR (1,646) deferred income tax.....					3,195	3,195
Total comprehensive income.....						128,960
Sale of call options, net of						
EUR (451) income tax.....			873			873
Balance December 31, 2003.....	500,000,000	1,090,500	453,371	1,103,867	(8,365)	2,639,373

see accompanying notes to consolidated
financial statements

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

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Description of business, 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 communications services as well as internet services. The Company also provides services through pay phones and supplies telephones and technical equipment for telephone communications. These activities are conducted and operated primarily in Austria.

On May 1, 1996, Post und Telekom Austria Aktiengesellschaft ("PTA") was incorporated as the successor to Post und Telegraphenverwaltung. 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-telecommunications-related operations of PTA were transferred to different legal entities. The operations remaining related to the telecommunications business and were named Telekom Austria AG.

Telecom Italia owned 29.78% of Telekom Austria until their sale of 75,000,000 shares on November 4, 2002 in a private placement, thereby reducing its level of ownership to 14.78% as of December 31, 2002 and 2003, respectively (see note (27)).

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), continues to be a significant shareholder with its holding of approximately 47.17% of the voting common stock of the Company. In July 2003, ÖIAG issued convertible notes in the nominal amount of EUR 325,000 due in 2006 exchangeable into 25 million existing underlying common shares of Telekom Austria AG. The exchange price has been set at Euro 13 for each Telekom Austria AG share. In addition to the related party transactions described in note (6), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), 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 mobile communications business are held through mobilkom austria AG & Co KG and mobilkom austria AG and its subsidiaries; collectively these companies are referred to as mobilkom austria.

Prior to June 28, 2002, the Company held a 74.999% interest in mobilkom austria. Due to certain substantive participating rights held by the minority shareholder, the Company's investment in mobilkom austria was accounted for under the equity method. These participation rights included significant blocking rights over operating decisions including operating budgets, capital spending, senior management positions, strategy and dividend distributions.

On June 28, 2002, the Company acquired the remaining 25.001% equity interest in mobilkom austria, thereby bringing its total interest in mobilkom austria to 100%. Consequently, the Company has consolidated mobilkom austria effective June 28, 2002. The consolidated statement of operations for the year ending December 31, 2002 reflects the Company's equity in earnings of mobilkom austria through June 28, 2002 and mobilkom austria's results of operations for the period June 28, 2002 until December 31, 2002.

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

Basis of presentation

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

The Company has reclassified certain amounts in prior year financial statements to conform to the current year presentation.

In December 2001, the RTR enacted a regulation that revised the manner in which phone calls that are both i) initiated and terminated within Austria and ii) require interconnection between multiple networks, are controlled. Historically, the Company served as a central hub through which all such calls were interconnected based on agreements in place between the Company and Austrian alternative service providers or mobile phone operators. Accordingly, the Company would recognize revenue and a trade receivable on the interconnection fee charged to the provider on whose network the call was initiated and recognize expense and a trade payable to the provider on whose network the call was terminated. As a result of the new regulation, the Company is no longer a party to such transactions unless the call either originates or terminates on its network. Had the new regulation been in place during 2001, revenues and expenses in the accompanying consolidated statements of operations would have been lower by EUR 257,243, all of which relates to the wireline segment.

In September 2003, the Austrian Supreme Court ruled that no contractual relationship exists between value-added service providers (VASP) and the Company, with the contractual relationship being established directly between the VASP and the customers. The Company is no longer considered the primary obligor and ceased reporting revenues on a gross basis beginning on October 1, 2003. Had the ruling been in effect for all of 2003, 2002 and 2001, revenues and expenses in the accompanying consolidated statements of operations would have been lower by EUR 45,886, EUR 51,206 and EUR 41,386, respectively. Had the enacted regulation been in place during 2001 and the VASP ruling been in effect for all of 2003, 2002 and 2001 revenues and expenses would have been adjusted as follows:

	Year ended December 31,					
	2003	2003	2002	2002	2001	2001
	<u>pro-forma</u>	<u>as reported</u>	<u>pro-forma</u>	<u>as reported</u>	<u>pro-forma</u>	<u>as reported</u>
Revenues	3,923,864	3,969,750	3,066,858	3,118,064	2,361,031	2,659,660
Operating expenses	(3,554,040)	(3,599,926)	(3,009,483)	(3,060,689)	(2,595,490)	(2,894,119)
Operating income	<u>369,824</u>	<u>369,824</u>	<u>57,375</u>	<u>57,375</u>	<u>(234,459)</u>	<u>(234,459)</u>

Principles of consolidation

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

Investments in 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. 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 from or paid to the investee are included in consolidated cash flows.

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

Cash and cash equivalents

The Company considers cash in banks and highly liquid investments with original maturities of three months or less to be 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.

Marketable securities

Marketable debt and equity securities, other than investments accounted for by the equity method, are classified 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 retail shops and 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, which includes certain costs that are capitalized during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated asset retirement obligations. 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.

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

The useful lives are:

	<u>Years</u>
Transmission equipment	3 – 20
Cables and wires	10 – 20
Communications equipment	4 – 10
Software	3 – 8
Furniture, fixtures and other	3 – 8
Buildings and leasehold improvements	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 operating expenses.

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

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are tested for impairment in accordance with SFAS No. 142 at least annually, but also on an interim basis if an event or circumstance indicates that an asset may be impaired. Other intangible assets with estimable useful lives are amortized over their respective useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Asset".

The goodwill impairment test is a two-step evaluation. The first step requires the Company to compare the fair value and carrying value of any reporting unit to which goodwill has been allocated. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists and the second step of the impairment test must be performed. In the second step, the implied fair value of goodwill, determined by allocating the aggregate fair value of the reporting unit to all identifiable tangible and intangible assets, is compared to its carrying amount. Any shortfall in fair value compared to carrying value is recognized as an impairment loss.

In each reporting period, the Company is required to reevaluate its decision that an Other intangible asset has an indefinite useful life. If a nonamortizable intangible asset is subsequently determined to have a finite useful life, the intangible asset is written down to the lower of its fair value or carrying amount and amortized prospectively based on its remaining useful life. The impairment test is a comparison of the fair value of the intangible asset with its carrying value. Any excess of carrying value over fair value is recognized as an impairment loss.

Amortizable intangible assets are stated at cost and are amortized using the straight-line method over their estimated useful lives, as shown below:

	Years
Wireless and wireline licenses.....	10 – 15
Patents and proprietary rights.....	4 – 20
Subscriber base.....	6
Other.....	10 – 30

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

Long-lived assets and certain identifiable intangible assets are reviewed for impairment annually at each year-end and 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 as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets held for sale are reported at the lower of the carrying amount or estimated proceeds less cost to sell.

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalized once the project has reached the application development stage. The 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 and research and development costs are expensed as incurred.

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Advertising and promotional costs

Generally, advertising and promotional costs are expensed as incurred and totaled EUR 198,362, EUR 153,737 and EUR 75,368 for the years ended December 31, 2003, 2002 and 2001, respectively.

Research and development costs

Research and development costs are expensed as incurred and amounted to EUR 42,759, EUR 30,338 and EUR 21,817 for the years ended December 31, 2003, 2002 and 2001, respectively and are classified in the consolidated statement of operations according to the nature of the expense.

Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of an existing asset or liability and its respective tax basis and operating losses 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.

Deferred income taxes on investments in pass-through enterprises are provided on the excess of the financial statement carrying amount of the investment, including the goodwill within the pass-through enterprise, over the tax basis of the investment.

Earnings per share

Basic and diluted earnings (loss) per share are computed by dividing consolidated net income (loss) 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, and there were no potentially dilutive securities for any of the periods presented.

Asset retirement obligation

The Company accounts for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations". The Company records the fair value of an asset retirement obligation as a liability in the period in which the legal obligation associated with the retirement of a tangible long-lived asset is incurred. An amount equal to the initial obligation is recorded as an increase to the carrying amount of the related long-lived asset and depreciated over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Employee benefit obligations

The Company provides retirement benefits under defined contribution and defined benefit plans.

In the case of defined contribution plans the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due.

All other retirement benefit plans are unfunded defined benefit plans for which the Company records accruals. The pension provisions are calculated using the projected unit credit method in accordance with SFAS No. 87. The future benefit obligations are valued using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase and rate of increase of pensions.

Concentration of risks

A portion of the Company's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications 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 sheet dates, the Company does not have any significant concentrations of business transacted with a particular supplier or lender that could, if suddenly eliminated, severely impact 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 operations. The Company invests its cash with several high-quality credit institutions.

Foreign currency translation

Until December 31, 2001, the Company prepared its consolidated financial statements in Austrian Schilling and then translated them into Euro using the official fixed exchange rate of 13.7603. Since January 1, 2002 the Company has adopted the Euro as its functional currency.

Foreign currency receivables and liabilities are recognized at the exchange rate applicable on the transaction date and retranslated periodically at the then ruling balance sheet rate. Unrealized foreign exchange losses and gains due to exchange rate fluctuations are recognized in the statement of operations.

The functional currency for the Company's foreign operations is the applicable local currency. Assets and liabilities are translated using the current exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the weighted average exchange rate during the period. Resulting translation adjustments are recorded as other comprehensive income or loss.

Revenue recognition

Wireline

The Company generates revenues from fixed line services to individuals, commercial and non-commercial organizations and other national and foreign carriers. Fixed line services include access fees, domestic and long distance services, including internet, fixed to mobile calls, international traffic, voice value-added services, interconnection, call center services and public payphone services.

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The Company recognizes long distance and local service revenue based upon minutes of traffic processed or contracted fee schedules when the services are rendered. Revenues due from other national and foreign carriers for incoming calls from outside the company's network are recognized in the period the call occurs.

Access fees, monthly base fees and lines leased to commercial customers are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as reductions in revenues when granted.

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.

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.

The Company has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby the Company grants some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of the counter party. The Company does not recognize revenue or an obligation to the counter party under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans. The benefits and costs of such swap agreements will be reflected in the Company's results of operations in the periods in which they are realized through reduced interconnection obligations and revenues, respectively.

Wireless

The Company provides mobile communications services to individuals and commercial and non-commercial organizations through mobilkom austria. mobilkom austria generates revenue primarily by providing digital wireless services as well as value-added services, text and multimedia messaging, m-commerce and information services. To a lesser extent, mobilkom austria generates revenue from the sale of wireless handsets.

The Company recognizes mobile 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.

Certain prepaid usage services in the mobile communications segment are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognized ratably over the contract period as marketing expense when a service contract exists.

Revenue and related expenses associated with the sale of wireless handsets to distributors are recognized when the products are delivered and accepted, as such sales are separate and distinct from the sale of wireless services to customers.

Activation revenues and direct incremental expenses are generally recognized over the average expected contract term. When direct incremental expenses exceed revenues, the excess is expensed.

Other service revenues are recognized when delivered and accepted by customers and when services are provided in accordance with contract terms.

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

Allowance for doubtful accounts

The Company estimates the portion of its outstanding receivables that are uncollectible based on aging schedules. Based on historical experience, uncollectibility is estimated as an increasing percentage of each aging category. Additionally, the Company records an allowance for specific customers if circumstances indicate non-collectibility.

The estimated allowance for doubtful accounts relating to receivables sold under the securitizations described in note (5) are recorded as accrued liabilities.

Stock compensation

The Company accounts for stock-based employee compensation in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Further, the Company accounts for its combination stock option and stock appreciation right plan in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*, which requires the plan be accounted for as a stock appreciation right.

The company will recognize a liability and pro rata compensation expense in the first period in which it is probable that the target stock price criteria outlined in the plan will be met. Based on historical trends of the stock and current market conditions, no compensation expense has been recognized under the plan for any of the years presented. Application of the fair-value approach prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, would not effect the amount of compensation expense recognized under this combination plan (see note (27)).

Derivative financial instruments

Effective January 1, 2001, the Company adopted SFAS No. 133, as amended, which requires all derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized periodically either in income or stockholders' equity (as a component of accumulated other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instruments are recognized in accumulated other comprehensive income in the balance sheet until the hedged item is recognized in earnings. The ineffective portion of the value changes are recognized in earnings immediately. SFAS No. 133 also requires that certain derivative instruments embedded in host contracts be accounted for separately as derivatives.

Upon the adoption of SFAS No. 133, the Company had cash flow hedges only and, therefore, recorded a transition loss of EUR 11,492, net of tax of EUR 5,920, related to the interest rate swap contracts and a transition gain of EUR 533, net of tax of EUR 275, related to the cross currency swap agreements, in other comprehensive income. Additionally, the adoption resulted in the recognition of a derivative instrument asset of EUR 48,359 and a derivative liability of EUR 17,412.

The Company has entered into various foreign currency forward contracts which are accounted for as free standing derivatives. These forward contracts serve as economic hedges of the Company's operating exposure to

TELEKOM AUSTRIA AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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fluctuations in foreign currencies. Changes in the fair values of such forward contracts are recorded directly in income.

Fair value of financial instruments

The carrying amounts of 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, the Company estimates the fair value to approximate the carrying value based on the audited financial statements, if available. Those investments are tested for impairment if losses are generated over an extended period or if the business environment changes materially.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

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Changes in accounting principles

See note (13) for discussion of the Company's adoption of SFAS No. 143 as of January 1, 2003.

As discussed in "Goodwill and other intangible assets" above, the adoption of SFAS No. 142 effective January 1, 2002, changed the manner in which the Company accounts for goodwill and intangible assets acquired in business combinations. Upon adoption of SFAS No. 142, the Company ceased amortization of goodwill and did not recognize amortization on the indefinite lived intangible assets. The following table reconciles reported net income (loss), basic earnings (loss) per share and diluted earnings (loss) per share to the corresponding adjusted amounts excluding the effects of amortization recognized for goodwill in prior years:

Year ended December 31,	2003	2002	2001
Reported net income (loss).....	134,241	12,789	(104,625)
Add back amortization			
Goodwill	-	-	50,444
Goodwill included in equity in earnings from mobilkom austria.....	-	-	25,362
Goodwill included in equity in earnings, others.....	-	-	1,639
Adjusted net income.....	<u>134,241</u>	<u>12,789</u>	<u>(27,180)</u>

Basic and diluted earnings (loss) per share

Reported net income (loss).....	0.29	0.03	(0.21)
Add back amortization			
Goodwill	-	-	0.10
Goodwill included in equity in earnings from mobilkom austria.....	-	-	0.05
Goodwill included in equity in earnings, others.....	-	-	-
Adjusted net income.....	<u>0.29</u>	<u>0.03</u>	<u>(0.06)</u>

New accounting pronouncements

In May 2003, the Emerging Issues Task Force reached consensus on EITF Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables", which addresses (1) how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and (2) how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EITF 00-21 does not change otherwise applicable revenue recognition criteria. EITF 00-21 is effective for Telekom Austria beginning January 1, 2004. The Company does not expect EITF 00-21 to have a material impact on the Company's consolidated financial statements.

The FASB issued FIN No. 46 in January 2003, "Consolidation of Variable Interest Entities", which provides guidance regarding the consolidation of certain entities in which equity investors do not have the characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 introduces the concept of variable interest entities, explains how to identify a variable interest entity, and requires that the primary beneficiary of any variable interest entity consolidates that entity. In December 2003, the FASB deliberated a partial deferral of and certain proposed modifications to FIN No. 46 to address certain implementation issues. The Board decided that all of the

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proposed modifications will be incorporated directly into a revised FIN No. 46, rather than into a new interpretation that amends FIN No. 46 (FIN No. 46-R or the "Revised Interpretation"). The effective dates for the Company for both FIN No. 46 and FIN No. 46-R are at the end of the first annual reporting period ending after March 15, 2004. The Company does not expect to identify or consolidate any variable interest entities.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. SFAS No. 149 has multiple effective date provisions depending on the nature of the amendment to SFAS No. 133. The adoption of SFAS No. 149 did not have a material impact on the Company's financial statements.

In May 2003, the FASB issued Statement of Financial Reporting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, FASB Staff Position 150-3 was issued, which indefinitely deferred the effective date of SFAS No. 150 for certain mandatory redeemable non-controlling interests. As the Company does not have any of these financial instruments, the adoption of SFAS 150 did not have any impact on the Company's consolidated financial statements.

(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.

The Company's interests in mobile communications are held through mobilkom austria AG & Co KG and mobilkom austria AG ("mobilkom austria"), which, together with its subsidiaries, operate mobile telecommunications networks and provide ancillary services in Austria, Croatia, Slovenia and Liechtenstein. The operations include wireless internet access.

On June 28, 2002, the Company acquired 100% of "AUTEL" Beteiligungs GmbH ("Autel"), which held a 25.001% interest in mobilkom austria, from Telecom Italia Mobile SpA (the successor of STET Mobile Holding N.V.), a publicly-traded subsidiary of Telecom Italia, bringing its total interest in mobilkom austria to 100%. Consequently, the Company consolidated the balance sheet of mobilkom austria for the first time as of June 28, 2002. The aggregate purchase price was EUR 693,064 and the Company recognized goodwill in the amount of EUR 431,304, a brand name not subject to amortization of EUR 159,161 and amortizable intangible assets of EUR 229,004.

The consolidated statement of operations for the year ended December 31, 2002 reflects the Company's equity in earnings of mobilkom austria through June 28, 2002 and mobilkom austria's results of operations for the period June 28, 2002 until December 31, 2002. As a result of the acquisition, the Company gained strategic and operating control of mobile communications service providers in Austria, Croatia, Slovenia and Liechtenstein.

The following table shows pro forma consolidated results of operations for the year ended December 31, 2002, as if Autel had been acquired at the beginning of 2002.

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	Pro forma December 31, 2002
Revenues.....	3,908,226
Net income	29,844
Basic and fully diluted earnings per share.....	0.06

The pro forma results include amortization of the intangible assets acquired, interest expense on debt assumed to finance the purchase and income taxes as well as other adjustments including amortization of fair value adjustments to long-term debt and pension benefit obligation and the reversal of deferred gain not representing a liability. The pro forma results of operations are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

As of January 30, 2003, mobilkom austria acquired an additional 9% and as of June 23, 2003, a further 19% of VIPnet d.o.o., Zagreb, for a total purchase price of EUR 69,663 bringing its interest to 99%. mobilkom austria recognized intangible assets of EUR 34,035, including intangible assets with an indefinite life of EUR 15,728 and a goodwill totaling EUR 11,774 as a result of these two transactions.

On July 29, 2003, the Company acquired 74% of World-Direct eBusiness solutions GmbH bringing its total interest to 100%. The purchase price amounted to EUR 1,543, of which EUR 543 was already prepaid. The Company recognized goodwill totaling EUR 1,000 as a result of the transaction.

On September 23, 2003, mobilkom austria acquired 100% of paybox cee AG which held a 51.02% in paybox österreich AG for a total purchase price of EUR 795. Prior to this acquisition, mobilkom austria held the remaining 48.98% of paybox österreich AG and accounted for the investment using the equity method. Consequently, the Company consolidated the balance sheets of paybox cee AG and subsidiaries for the first time as of September 30, 2003. As the purchase price was less than the fair value of the net assets acquired and liabilities assumed, the Company reduced the purchase price allocated to intangible assets (licenses). Following the purchase, paybox österreich AG was merged into paybox cee as of December 17, 2003.

On December 23, 2003 mobilkom austria purchased 100% of 3G Mobile Telecommunications GmbH ("3G Mobile"). The net assets acquired consist of a UMTS license. The total purchase price was allocated to the license and therefore no goodwill was recognized. Tax assets on acquired tax loss carry forwards were not recognized as currently the use of these loss carry forwards is not considered more likely than not.

No pro forma disclosure has been presented for the effect of the acquisitions discussed in the prior four paragraphs because the Company believes that the impact on the financial statements is not material.

On November 28, 2003, the Company sold 90% of Telekom Building Systems GmbH in a management buy-out transaction for a total purchase price of EUR 537, reducing its interest to 10%.

(3) INVESTMENTS IN AFFILIATES

As of December 31, 2003, the investments in affiliates comprise a 26.00% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia") and a 25.10% interest in Output Service GmbH ("OSG").

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In October 2001, the Company purchased 26.00% of the common stock of Omnimedia, a marketing and advertising company for EUR 3,401. In accordance with SFAS Nos. 141 and 142, the goodwill totaling EUR 3,161 was not amortized in 2001 and 2002.

In January 2002 the Company sold a 74.90% interest in OSG, a formerly consolidated subsidiary, for EUR 26. The Company accounts for its remaining 25.10% interest in OSG using the equity method of accounting.

In July 2003 the Company sold its 26.00% interest in Herold Business Data AG, the leading telephone directory provider in Austria, to PASR Vierte Beteiligungsverwaltung GmbH for a total purchase price of EUR 22,000 and realized a gain of EUR 18,367 which is recorded in equity in earnings of affiliates.

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

Year ended December 31,	2003	2002	2001
Revenues	35,515	68,045	67,491
Operating income	4,653	7,833	10,922
Net income	2,908	8,285	6,867
At December 31,	2003	2002	
Total current assets	31,003	81,914	
Total assets	31,684	92,911	
Current liabilities	28,808	70,129	
Long-term debt	1,357	3,846	
Total liabilities	30,165	73,975	
Total stockholders' equity	1,519	18,936	

(4) MARKETABLE SECURITIES

Debt securities originating from cross border lease transactions entered into in 1998 and 1999 (see note (15)) 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 counter-party in the swap agreement. No sales of securities held-to-maturity occurred in 2003, 2002 and 2001. 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.

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	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At December 31, 2003				
<i>Non-current assets</i>				
Available-for-sale				
debt securities	4,702	168	-	4,870
equity securities	6,914	2,646	605	8,955
mutual funds	5,679	2	163	5,518
Held-to-maturity.....	124,951	16,596	-	141,547
At December 31, 2002				
<i>Non-current assets</i>				
Available-for-sale				
debt securities	5,908	298	1	6,205
equity securities	2,456	-	258	2,198
mutual funds	11,516	37	1,008	10,545
Held-to-maturity.....	138,454	21,015	-	159,469

The contractual maturities of debt securities classified as held-to-maturity at December 31, 2003 were as follows:

	Amortized cost	Fair value
Held-to-maturity		
Due within one year	5,159	5,195
Due after one year through five years	27,394	30,548
Due after five years through ten years	92,399	105,804
	<u>124,951</u>	<u>141,547</u>

Proceeds from sales of available-for-sale securities amounted to EUR 80,108 and EUR 7,070 in 2003 and 2002, respectively. Gross realized gains from sales of available-for-sale securities were EUR 323 and EUR 46 in 2003 and 2002, respectively. The specific identification method was used to determine the cost in computing realized gains and losses.

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For the following marketable securities the Company incurred holding losses but has not recognized an impairment, since the losses are not material:

	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
At December 31, 2003						
<i>Non-current assets</i>						
Available-for-sale						
equity securities	988	48	4,550	557	5,538	605
mutual funds	125	8	4,231	155	4,355	163
Total temporarily impaired securities	1,113	56	8,781	712	9,893	768

(5) ACCOUNTS RECEIVABLE - TRADE

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

	2003	2002
Allowance beginning of the year	74,945	47,074
Foreign currency adjustment	(11)	2
Change in consolidated entities	-	32,838
Reclassification to accruals for sold receivables	-	(26,485)
Charged to expenses	30,629	39,184
Amounts written-off	(13,325)	(17,668)
Allowance at the end of the year	92,238	74,945

	December 31, 2003	December 31, 2002
Accounts receivable-trade, gross	652,110	526,879
Allowances	(92,238)	(74,945)
Accounts receivable-trade, net	559,872	451,934

Of these receivables EUR 226,807 are held for sale due to the securitization program described in the following paragraphs.

In January 2002, the Company entered into a revolving period securitization and sold trade receivables to a Qualifying Special Purpose Entity (QSPE) unrelated to the Company. The Company retains servicing responsibilities relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the QSPE, the Company retains interests in the sold receivables (retained interests). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies.

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In December 2003 the asset-backed securitization program was extended regarding the trade receivables sold and the maximum amount transferred to the trust. Additionally, the discounts required were reduced. The maximum program limit was increased from EUR 290,000 to EUR 350,000.

At December 31, 2003, the Company recorded a receivable due from the QSPE of EUR 145,360. The Company routinely evaluates its portfolio of trade receivables for risk of non-collection and records an allowance for doubtful accounts to reflect the carrying value of its trade receivables at estimated net realizable value. Pursuant to the provisions of the revolving-period securitizations, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. Accordingly, in the normal course of servicing the assets sold, the Company evaluates potential collection losses and delinquencies and updates the estimated fair value of the Company's retained interest.

The allowances recorded for sold receivables are classified as accrued liabilities. As of December 31, 2003 and 2002, respectively, the accruals totaled EUR 28,882 and EUR 62,481.

In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", the Company has not recorded a servicing asset as management believes it is not practicable to estimate this value given that verifiable data as to the fair value of the compensation and or cost related to servicing the types of the assets sold is not readily obtainable.

In the periods ended December 31, 2003 and 2002, respectively, the following cash flows were received from and paid to the QSPE:

	December 31,	
	2003	2002
Gross trade receivables sold to QSPE.....	2,789,761	2,044,513
Collections made on behalf of and paid to the QSPE.....	(2,578,860)	(1,732,372)
Deferred purchase price withheld.....	(168,846)	(104,616)
Unearned discount (withheld) reduced.....	(3,620)	(4,100)
Liquidity and program fees.....	(5,788)	(8,499)
Retained interests.....	-	(7,930)
Receivable from the QSPE.....	(145,360)	-
Net cash (paid to) received from QSPE during the period.....	<u>(112,713)</u>	<u>186,996</u>

Cash settlement with the QSPE takes place on a monthly basis. Gross trade receivables sold represent the fair value of billed and unbilled receivables to the QSPE during the periods ended December 31, 2003 and 2002, respectively. As the Company services these receivables, collection of the receivables previously sold is made on behalf of the QSPE. The Company recorded discounts, liquidity and program fees related to the securitization of trade receivables of EUR 5,690 and EUR 8,427 for the periods ended December 31, 2003 and 2002, respectively. These discounts and fees are included in interest expense in the statement of operations.

(6) RELATED PARTY TRANSACTIONS

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

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(All amounts in EUR '000s)

The majority of the related party transactions were carried out with mobilkom austria. The Company charged mobilkom austria for interconnection fees, voice telephony, rent, repair and other services. mobilkom austria charged the Company mainly for interconnection fees. Since June 28, 2002 such transactions are fully eliminated in consolidation.

Österreichische Post AG and its subsidiaries ("Post"), a subsidiary of ÖIAG which provides postal services, charged the Company for different services such as postal charges, rent, repair and administration. The Company charged Post for IT support, voice telephony, technical services, rent, repair and other services. On September 17, 2003, Postbus AG, a 100% subsidiary of Österreichische Post AG, was sold to Österreichische Bundesbahnen and is therefore no longer reported as related party.

The terms of 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 appropriate compensation from the government on a contractual basis. Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was EUR 41,396, EUR 41,670 and EUR 43,032 in 2003, 2002 and 2001, respectively.

On June 28, 2001, a partner in a law firm which provides legal services to the Company was elected to the supervisory board. In 2003, 2002 and 2001 (since the day of appointment), respectively, the Company was charged EUR 560, EUR 993 and EUR 409 for legal services by that law firm.

Telecom Italia and the Company charged for interconnection services provided to each other at standard rates.

The Company has entered into agreements with Telecom Italia whereby the Company grants some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of Telecom Italia. The Company does not recognize revenue or an obligation under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans. The benefits and costs of such swap agreements will be reflected in the Company's results of operations in the periods realized through reduced interconnection obligations and revenues, respectively.

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

At December 31,	2003	2002
ÖIAG.....	945	4,296
Telecom Italia	-	435
Affiliated companies and other	604	1,992
Total.....	1,549	6,723

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

At December 31,	2003	2002
ÖIAG.....	7,840	4,997
Omnimedia.....	13,192	25,032
Affiliated companies and other	2,625	7,169
Total.....	23,657	37,198

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The following is the detail of revenues from and expenses charged to related parties:

Year ended December 31,	2003	2002	2001
Revenues			
mobilkom austria.....	-	72,879	222,231
ÖIAG.....	62,635	56,660	55,344
Telecom Italia	24,014	14,361	13,448
Other	2,857	4,090	2,436
Total.....	89,506	147,990	293,459
Interest income			
mobilkom austria.....	-	4,988	17,619
Other	1	4	0
Total.....	1	4,992	17,619
Expenses			
mobilkom austria.....	-	43,590	207,172
ÖIAG.....	70,643	58,285	66,421
Telecom Italia	10,808	23,559	25,841
Other	47,243	66,719	15,335
Total.....	128,694	192,153	314,769
Interest expense			
mobilkom austria.....	-	837	731
ÖIAG and other.....	30	101	18
Total.....	30	938	749

For the years ended December 31, 2003 and 2002, respectively, EUR 36,146 and EUR 55,289 of other expenses mainly relate to advertising and marketing services provided by Omnimedia.

(7) INVENTORIES

Inventories consist of:

At December 31,	2003	2002
Spare parts, cables and supplies	44,510	36,830
Merchandise	39,025	54,431
Total.....	83,535	91,261

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(8) GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

At December 31,	2003	2002
Wireless and wireline licenses	559,273	544,893
Patents and proprietary rights.....	53,497	47,100
Brandnames.....	174,046	158,934
Subscriber base	138,622	120,999
Other	35,858	37,952
Total intangibles.....	961,296	909,878
Less accumulated amortization	(249,308)	(183,985)
Net intangibles	<u>711,988</u>	<u>725,893</u>

Amortization expense was EUR 68,340, EUR 27,410 and EUR 53,339 for the years 2003, 2002 and 2001, respectively.

Licenses are recorded at cost and amortized on a straight-line basis over the estimated useful life. In November 2000, mobilkom austria purchased a UMTS license for Austria with a term of 20 years for EUR 171,540. Interest in the amount of EUR 1,843 and EUR 6,495 was capitalized in 2003 and 2002, respectively, on the UMTS license. The amortization of the UMTS license over 14.2 years and depreciation of the related network equipment over 8 years began in May 2003 after the start of the UMTS services and the generation of revenues. The Company recorded amortization and depreciation expenses from the use of these assets of EUR 14,086 in 2003 and expects EUR 19,567 on an annual basis thereafter.

The Company holds licenses to operate as a mobile telecommunications service provider from the Austrian, Croatian and Slovenian communications commissions. The Croatian license, granted for 10 years, was acquired for EUR 13,672 in 1998. Licenses from the Slovenian Government granted in 2001 and 1999 for 15 years, were acquired for EUR 4,637 and EUR 11,121, respectively.

Upon adoption of SFAS No. 142 on January 1, 2002, the Company ceased amortizing goodwill. The following tables illustrate the changes in net book value of goodwill by segment for the periods ended December 31, 2003 and 2002, respectively:

	Wireline	Wireless	Total
Goodwill January 1, 2003	30,795	559,932	590,727
Acquisitions	1,000	11,774	12,774
Translation adjustment.....	(376)	(5,548)	(5,924)
Goodwill December 31, 2003	<u>31,419</u>	<u>566,158</u>	<u>597,577</u>

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	Wireline	Wireless	Total
Goodwill January 1, 2002	60,244	-	60,244
Acquisitions	9,824	563,153	572,977
Impairment	(40,893)	-	(40,893)
Translation adjustment	1,620	(3,221)	(1,601)
Goodwill December 31, 2002	30,795	559,932	590,727

In 2002 and 2001 impairment charges in the amount of EUR 40,441 and EUR 119,950 were recorded for goodwill originally recorded from the acquisition of Czech On Line ("COL"). The acquisition was based on a business plan assuming the full liberalization of the Czech market. As this remained unsatisfactory with regard to interconnection and limited wholesale offers to alternative operators, the business of COL had not developed as originally expected. The valuation of the reporting unit in 2002 was based on forecasted cash flows and used the weighted average cost of capital employed of 13.2% as discount rate.

The gross carrying amounts and accumulated amortization of intangible assets subject to amortization, by major class, are as follows:

At December 31, 2003

	Acquisition cost	Accumulated amortization	Carrying value
Wireless and wireline licenses	559,273	(172,301)	386,972
Subscriber base	138,622	(32,088)	106,534
Other	89,355	(44,919)	44,436
Total	787,250	(249,308)	537,942

At December 31, 2002

	Acquisition cost	Accumulated amortization	Carrying value
Wireless and wireline licenses	544,893	(139,043)	405,850
Subscriber base	120,999	(10,083)	110,916
Other	85,052	(34,859)	50,193
Total	750,944	(183,985)	566,959

The following table presents expected amortization expense related to amortizable intangible assets for each of the following periods:

2004	72,080
2005	70,384
2006	68,574
2007	65,374
2008	53,675
Thereafter	207,855

The total carrying amount of intangible assets, other than goodwill, not subject to amortization is EUR 174,046 as of December 31, 2003. This amount relates entirely to the value of brandnames. The value of brandnames increased by EUR 15,728 as a result of the acquisition of the 28% interest in VIPnet in 2003 (see note (2)).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(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. Acquisitions since then have been recorded at cost.

At December 31,	2003	2002
Land	60,281	62,462
Buildings and leasehold improvements	663,044	653,010
Communications network and other equipment	9,381,996	9,358,138
Capital leases	13,963	16,207
Software	376,567	325,387
Construction in progress, network	186,487	235,263
	<u>10,682,338</u>	<u>10,650,467</u>
Less accumulated depreciation (other than capital leases)	(6,214,641)	(5,640,965)
Less accumulated depreciation, capital leases	(10,031)	(8,843)
Property, plant and equipment, net	<u>4,457,666</u>	<u>5,000,659</u>

Total interest capitalized and amortization and depreciation expenses for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Interest capitalized	1,605	2,635	2,893
Depreciation and amortization expense	1,071,633	989,878	875,912
Thereof			
Amortization expense of software	79,059	42,623	24,276
Amortization expense of leased assets	3,663	2,341	1,025

In the period ended December 31, 2003, 2002 and 2001, respectively, impairment charges of EUR 6,825, EUR 977 and EUR 23,181 are included in depreciation. The impairment charges in 2003 primarily relate to long-lived assets as future estimated net cash flows were below the carrying value of related assets. The impairment charges of prior years related primarily to buildings which the Company no longer uses. The impairments recorded relating to these buildings equal the excess of carrying value over estimated fair value.

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(10) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2003	2002
Current portion of long-term debt	530,869	458,995
Short-term debt	-	737,144
Lines of credit	4,962	5,823
Current portion of lease obligations	95,490	107,943
Total	631,321	1,309,905

The weighted-average interest rate on lines of credit was 3.20% and 4.02% in 2003 and 2002, respectively. As of December 31, 2003 the Company has unused committed lines of EUR 500,000 and recorded commitment and servicing fees for these unused lines of EUR 1,543, which represents 0.3% of the committed lines. The credit line commitments will expire between January 2004 and November 2006.

Short-term debts were repaid using part of the funds provided by the long-term bond issued by the Company in July 2003 (see note (14)).

(11) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

At December 31,	2003	2002
Taxes, other than income	9,845	8,517
Employee benefits	69,935	67,384
Customer discounts	47,444	53,240
Customer retention programs	40,161	37,693
Exit costs	6,829	8,363
Bad debt reserve for sold receivables	28,882	62,481
Other	28,682	19,112
Total	231,778	256,790

Other accruals mainly relate to legal fees and lawsuits, audit fees, public fees and consulting services.

In establishing accruals, 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 establishing the accrual.

During the year ended December 31, 2001, the Company formally terminated certain leases, which require the Company to refurbish the properties as they are vacated. Upon termination of the leases, the Company recorded an accrual totaling EUR 1,912. The Company utilized EUR 1,456 and released EUR 456 of this accrual in 2002. As of December 31, 2002, the Company recorded an accrual totaling EUR 8,363 for certain non-cancellable lease contracts related to premises which the Company vacated in 2003. This accrual covers the minimum lease payments until the end of the lease contracts. The Company utilized EUR 3,297 and accrued an additional EUR 1,763 in 2003. As of December 31, 2003, the Company has an accrual of EUR 6,829 that it expects to be fully utilized.

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(12) DEFERRED INCOME

At December 31,	2003	2002
Unearned income	143,266	122,850
Unamortized balance on sale of tax benefits	51,573	58,686
	<u>194,839</u>	<u>181,536</u>
Less non-current portion	(44,461)	(51,573)
Deferred income net of non-current portion	<u>150,378</u>	<u>129,963</u>

The deferred income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are amortized over the period the service is provided.

Additional information concerning the sale of tax benefits is contained in note (15).

(13) ASSET RETIREMENT OBLIGATION

The Company adopted SFAS No. 143 as of January 1, 2003 and recorded the following additions to long-lived assets, asset retirement obligation and a cumulative change in accounting principles:

	January 1, 2003
Addition to long-lived assets	6,288
Addition to accumulated depreciation	(2,263)
Cumulative effect of change in accounting principle	17,929
Asset retirement obligations	<u>21,954</u>

The roll-forward of the asset retirement obligation starting January 1, 2003 is as follows:

Asset retirement obligations as of January 1, 2003	21,954
Foreign exchange difference	(3)
Liability incurred in the current period	451
Accretion expense	1,336
Settlement	(461)
Release	(15)
Asset retirement obligations as of December 31, 2003	<u>23,262</u>

The Company recorded asset retirement obligations for the retirement and decommissioning of base stations, buildings, booths for public payphones and wooden masts impregnated with tar or salt.

The Company has an obligation to operate a sufficient number of booths to assure that the Austrian population has sufficient access to telecommunications services. As long as the Company stays in business and technology does not materially change, the number of booths operated will be reduced but not eliminated completely for the foreseeable future. The Company estimated the number and timing of booths to be retired from service and estimated the asset retirement obligation based on probability-weighted cash flow estimates.

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The Company has also recorded an asset retirement obligation for masts impregnated with tar or salt. Although the Company stopped setting up tar-masts in 1992, some will be in operation for approximately another 30 years. Masts impregnated with salt are currently in operation and set up for the foreseeable future. The average remaining useful life is 30 years. The Company has recorded an asset retirement obligation based on estimated settlement dates and expected cash flows.

Additionally, the Company recorded asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances that were used in prior decades.

mobilkom austria rents land, rooftops and other premises for an unlimited period of time. As it becomes more difficult to obtain sites because of health concerns and as base stations are crucial to the business of a mobile communications operator, except as discussed below, mobilkom austria does not expect to, and will not give up the majority of its rented sites as long as it stays in business. As mobilkom austria has both the ability and the intent to renew its license indefinitely, the retirement obligation in relation to those base stations is indeterminate. mobilkom austria is therefore unable to estimate the fair value of an asset retirement obligation as potential settlement dates for the retirement obligation are not predictable. mobilkom austria will recognize the obligation as soon as sufficient information exists to estimate the range of potential settlement dates. However, mobilkom austria does estimate that approximately 5% of the base stations will be given up. Therefore, mobilkom austria recorded an asset retirement obligation based on expected cash flows and settlement dates.

Additionally, mobilkom austria recorded asset retirement obligations for buildings and shops under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

Had the Company adopted SFAS No. 143 as of January 1, 2002 and measured the asset retirement obligation using the information, assumptions and interest rates in effect as of the date of the adoption of this Statement, the pro forma asset retirement obligation would have amounted to EUR 20,331.

(14) LONG-TERM DEBT

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

At December 31,	Maturity	2003	2002
Bonds under EMTN Programme.....	2004-2013	745,117	-
Other bonds.....	2004-2013	159,741	175,537
Bank debt.....	2004-2011	1,967,509	2,347,652
Other.....	2008	790	15,691
		<u>2,873,157</u>	<u>2,538,880</u>
Less current portion of long-term debt.....		<u>(530,869)</u>	<u>(458,995)</u>
Long-term debt, net of current portion.....		<u>2,342,288</u>	<u>2,079,885</u>

On June 30, 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (the 100% financing subsidiary of Telekom Austria AG) initiated a Euro Medium Term Note ("EMTN") Programme. The payments of all amounts due in respect of notes issued by Telekom Finanzmanagement GmbH under this framework agreement will be unconditionally and irrevocably guaranteed by Telekom Austria AG. The maximum aggregate nominal amount of all notes outstanding at any time under the programme will not exceed the equivalent of EUR 2,500,000.

Under this programme the Company successfully launched and placed a Eurobond offering which raised EUR 750,000 with a 10-year maturity and a coupon of 5.00% on July 10, 2003. The notes were issued at a discount including issue costs of EUR 9,053 (EUR 8,647 as of December 31, 2003) and were used to refinance existing debt.

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Of the total bank debt, amounts of EUR 1,354,583 and EUR 1,751,264 at December 31, 2003 and 2002, respectively, are guaranteed by the Federal Republic of Austria. From the total long-term debt, as of December 31, 2003 and 2002, respectively, EUR 266,614 and EUR 286,947 are denominated in Japanese Yen and Swiss Francs. The loan of EUR 74,046 denominated in Japanese Yen is due in June 2004. The Company uses cross currency swaps to reduce the exposure to the risks of adverse changes in exchange rates as described in note (19).

The interest rates of the loans vary between 2.2% and 7.3%. The weighted average interest rate for the periods ended December 31, 2003 and 2002, respectively, were 4.6% and 3.7% for bonds and 5.2% for bank debt in both years.

The following bank debt is not guaranteed by the government as they were entered into after the privatization of the Company:

In March 2000, the Company entered into a loan agreement for EUR 145,000 with the European Investment Bank. As of December 31, 2003, EUR 116,000 of the loan is outstanding in accordance with the repayment terms. Under the terms of this agreement, the Company must observe covenants requiring the Company to meet certain financial ratios.

Further, in October 2000 the Company entered into a loan agreement for EUR 232,553. As of December 31, 2003 the loan is outstanding in full in accordance with the repayment terms. Under the terms of the contract the Company has to maintain certain investments, otherwise the loan becomes due. The interest rates vary depending on the rating of the Company.

As of December 31, 2003, EUR 295,160 of a syndicated loan granted to mobilkom austria was outstanding. The original loan totaled EUR 305,000 and was guaranteed by Telekom Austria AG.

In December 2002 VIPnet entered into a syndicated loan of EUR 150,000 of which EUR 96,200 were drawn. Outstanding debt is EUR 93,240 as of December 31, 2003. The loans become due between 2003 and 2008 and carry an interest rate of three month EURIBOR plus a margin that depends on operating performance and indebtedness and 0.375% commitment fees. The loan was used for the refinancing of the loans to VIPnet.

In March 1999, Si.mobil entered into a loan agreement amounting to EUR 36,000 (original currency: Deutsche Mark 71,000) to finance the construction of the GSM network in Slovenia. The interest rate is three month LIBOR plus 1.075 %. The loan is secured by bills of exchange, property, receivables and shares of Si.mobil. The loan is repayable until March 2007.

As of December 31, 2003, the Company was in compliance with all covenants agreed to in the loan agreements mentioned above.

As of December 31, 2003, outstanding debt to VIPnet's minority shareholders is EUR 450.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Bonds	4.57%	5.32%
Bank debt	4.96%	3.49%

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

2004	530,869
2005	581,093
2006	492,099
2007	171,789
2008	290,990
Thereafter.....	806,317

(15) LEASING

The Company leases equipment used in its operations. The leases are classified as either operating or capital leases. The lease contracts expire on various dates through 2015.

Future minimum lease payments for noncancelable operating leases, capital leases and cross border leases as of December 31, 2003 are:

	Cross border leases	Capital leases	Operating leases
2004	93,725	1,898	71,430
2005	101,542	166	64,686
2006	114,603	25	61,680
2007	135,375	6	60,211
2008	119,214	8	59,431
after 2008	752,090	-	54,271
Total minimum lease payments.....	1,316,549	2,103	<u>371,709</u>
Less amount representing interest	<u>(361,846)</u>	<u>(16)</u>	
Present value of lease payments.....	954,703	2,087	
Less current portion.....	<u>(93,725)</u>	<u>(1,765)</u>	
Non-current lease obligations.....	<u>860,978</u>	<u>322</u>	

Total rent expense was EUR 74,358, EUR 67,666 and EUR 52,130 in 2003, 2002 and 2001, 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 counterparties agreed to make lease payments on behalf of the Company in exchange for a deposit. The counterparties in the PUAs received upfront payments totaling EUR 509,285 and EUR 113,763 for a portion of the debt assumed in 1999 and 1998, respectively. Interest accruing on the cash deposits matches interest on the debt portion financed through the deposit. In addition to the cash deposits, 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

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deposit made by the Company. The Company then also entered into a swap agreement with that same counterparty swapping the entire cash flows from the securities for cash flows from the portion of the lease payments that the counterparty 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.

In 1999, mobilkom austria entered into similar 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.

In 2001, the Company entered into a cross border lease transaction whereby certain equipment items, mainly switches were leased to a U.S.-based trust and leased back over certain terms. Concurrent with the inception, the Company entered into PUAs with several counterparties whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for the upfront lease payments received under the head lease. The counterparties in the PUAs received upfront payments totaling EUR 200,526 for a portion of the debt assumed in 2001. In addition to the PUAs the Company provided a loan of EUR 66,554 to the U.S.-based trust. Interest accruing on the PUAs and the loan match interest on the debt portion.

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 EUR 14,547, EUR 44,437 and EUR 7,337 in 2001, 1999 and 1998, respectively. The Company is amortizing these amounts over the term of the lease. The cash deposits, the securities purchased in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the balance sheets as the Company has not been released from their obligation under the lease and a legal right to offset does not exist. Accordingly, interest income and expenses in an equal amount totaling EUR 65,669, EUR 70,634 and EUR 58,598 have been recognized in 2003, 2002 and 2001, respectively.

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

At December 31,	2003	2002
Securities held-to-maturity, non-current.....	119,793	138,454
Other assets	834,910	1,038,580
Total assets in connection with cross border leases.	954,703	1,177,034
Of which current	94,517	103,978
Lease obligations.....	954,703	1,177,034
Of which current	93,725	102,719

In 2001, two banks issued letters of credit to the trust for the liabilities of the Company. As of December 31, 2003, these letters of credit totaled EUR 108,497.

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(16) EMPLOYEE BENEFIT OBLIGATIONS

Long-term liabilities for employee benefits consist of the following:

At December 31,	2003	2002
Contractual termination benefits	31,932	132,346
Service awards	46,870	57,862
Severance	67,606	32,612
Pensions	9,552	9,709
Total	155,960	232,529

Contractual termination benefits

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs ("VRIPs") to civil servants who cannot be terminated involuntarily. An obligation for VRIPs was recognized when the eligible civil servant accepted the offer. The present value of the obligation is determined based on current compensation levels and the law. An annual increase of 2.5% for future years and a discount rate of 4.5% are used. VRIPs are not funded.

On January 1, 2002 a law was enacted that covers civil servants after the age of 55 by a governmental retirement plan with the effect of reducing the Company's obligation under the VRIPs. Following that law the Company reversed EUR 26,802 and EUR 57,366 of these accruals in 2003 and 2002, respectively. As of December 31, 2003, the accrual for the VRIPs relate to 120 employees. In connection with VRIPs the Company made payments of EUR 69,634, EUR 95,262 and EUR 68,456 during 2003, 2002 and 2001, respectively.

Expenses as well as the reversals of accruals are reflected as a reduction of employee costs in the accompanying consolidated statement of operations.

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,	2003	2002	2001
Actuarial assumptions:			
Discount rate	5.0%	5.0%	5.0%
Rate of compensation increase – civil servants	4.0%	3.7%	3.6%
Rate of compensation increase – other employees	2.5%	3.7%	3.6%
Rate of increase of pensions	1.8%	1.1%	1.1%

Service awards

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two months salary after 25 years of service and four months salary after 40 years of service. Employees with at least

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35 years of service when retiring are also eligible to receive a bonus equal to four months salary. 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. All actuarial gains and losses are recognized immediately in the period realized.

The following table provides the components and a reconciliation of the changes in service awards for the years ended December 31, 2003 and 2002, respectively:

	<u>2003</u>	<u>2002</u>
Accrual at the beginning of the year.....	57,862	59,186
Change in reporting entities	-	2,744
Service cost	2,301	2,348
Interest cost	2,814	3,024
Recognized actuarial gains.....	(12,125)	(6,930)
Benefits paid	(3,982)	(2,510)
Accrual at the end of the year.....	<u>46,870</u>	<u>57,862</u>

Severance

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans as described below. Following a legal change, obligations for employees starting to work for the Company after January 1, 2003 are covered by a defined contribution plan and the Company paid EUR 119 to this deferred contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2003.

Eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime and bonuses. Maximum severance is equal to a multiple of twelve times eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid 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.

The following tables provide the components of the net periodic benefit cost and a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2003, 2002 and 2001, respectively:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Service cost.....	4,218	3,926	1,893
Interest cost.....	1,784	1,311	924
Amortization of unrecognized net obligation.....	308	221	29
Curtailed loss / settlement.....	1,090	683	1,876
Net periodic benefit cost.....	<u>7,402</u>	<u>6,141</u>	<u>4,722</u>

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	2003	2002
Projected benefit obligation at the beginning of the year.....	36,849	22,415
Change in reporting units.....	(587)	4,249
Service cost.....	4,218	3,926
Interest cost.....	1,784	1,311
Actuarial (gains) losses.....	(11,004)	7,459
Curtailment loss / settlement.....	1,090	683
Benefits paid.....	(2,723)	(3,194)
Projected benefit obligation at the end of the year.....	29,627	36,849
Unrecognized net actuarial losses.....	(4,782)	(16,093)
Accrued liability at the end of the year.....	24,845	20,756
Voluntary severance obligation.....	42,761	11,856
Total accrued severance liabilities at the end of the year.....	<u>67,606</u>	<u>32,612</u>

The liability for voluntary severance payments relates to individuals who are generally not entitled to severance payments, but have accepted a special offer by the Company to receive severance payments for voluntary termination of employment.

Until November 28, 2003, the government offered to civil servants at a certain age an early retirement at reduced future pension payments. The Company offered these eligible employees additional severance payments to further encourage the acceptance of the government offer. The Company incurred a legal obligation to civil servants making use of this opportunity and accrued severance costs of EUR 39,630 and other costs of EUR 7,678 in 2003. Telekom Austria does not expect any future liabilities in addition to these accruals. Due to this one-time offer the Company's workforce was reduced by 650 civil servants in 2003.

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 was legally obligated to make annual contributions to the Austrian government for active civil servants. These contributions gradually increased from 27.5% in 2000 to 30.1% in 2003. Beginning in October 2005 the contribution will be reduced to 28.3%. Contributions to the government, net of the share contributed by civil servants, were EUR 51,520, EUR 52,647 and EUR 56,380 in 2003, 2002 and 2001, respectively.

In 2000 and 1999, the Company sponsored a defined contribution plan covering substantially all employees of one subsidiary. In 2001, this plan was also offered to the employees of Telekom Austria and all its other Austrian subsidiaries. The Company's contributions to this plan are based on a percentage of the compensation not exceeding 5% of the salaries. The annual cost of this plan amounted to approximately EUR 9,082, EUR 6,961 and EUR 4,669 in 2003, 2002 and 2001, respectively.

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Defined benefit pension plan

The Company provides defined benefits for certain former employees. All of such employees are retired and were employed prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of the salary and 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 pension benefits for 2003, 2002 and 2001 are shown in the following table:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Interest cost	396	424	504
Amortization of actuarial gain.....	(64)	(50)	(59)
Amortization of unrecognized transition obligation.....	343	343	343
Net periodic pension benefit cost.....	<u>675</u>	<u>717</u>	<u>788</u>

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2003 and 2002, respectively:

	<u>2003</u>	<u>2002</u>
Projected benefit obligation at the beginning of the year	8,327	8,926
Interest cost	396	424
Actuarial gains	(273)	(128)
Benefits paid	(832)	(895)
Projected benefit obligation at the end of the year	7,618	8,327
Unrecognized net gain.....	1,934	1,725
Unrecognized transition obligation	-	(343)
Accrued pension liability	<u>9,552</u>	<u>9,709</u>

(17) STOCK BASED COMPENSATION

Stock option plan

On October 4, 2000, the shareholders of Telekom Austria approved stock option plans for employees of the Company and mobilkom austria. Under this plan, the Company may grant a total of 4,686,881 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 Euro 9 or shares at an exercise price of Euro 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.

On November 21, 2000, the Company granted all 4,686,881 options. In 2003, 2002 and 2001, respectively, 164,077, 520,766 and 733,188 options were forfeited, therefore; 3,268,850, and 3,432,927 options are outstanding as of December 31, 2003 and 2002, respectively.

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As the stock option plans are 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, 2003, 2002 and 2001 did not exceed the hurdle and was not deemed "probable", no compensation expense was recorded in 2003, 2002 and 2001 (see note (27)).

(18) INCOME TAXES

Income (loss) before income taxes, minority interests and cumulative effect of a change in accounting principle is attributable to the following geographic locations:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Domestic	186,197	33,710	(199,049)
Foreign	46,360	10,101	(1,019)
Total	<u>232,557</u>	<u>43,811</u>	<u>(200,068)</u>

As described in note (2), on June 28, 2002 the Company acquired the remaining outstanding interest of mobilkom austria through the acquisition of Autel. mobilkom austria has been consolidated since that date. Prior to the acquisition of Autel on June 28, 2002, the Company held a 74.999% interest in mobilkom austria which was accounted for under the equity method. In the first quarter 2001, mobilkom austria recorded a tax expense of EUR 134,437 due to a change in tax status of mobilkom austria AG from a taxable entity to a nontaxable pass-through entity which occurred in the first quarter of 2001 and which was effective retroactive to July 1, 2000 for tax purposes. Correspondingly, the Company recorded its 74.999% proportional share of mobilkom austria's tax expense and recognized a deferred tax benefit during the three month period ended March 31, 2001. Thus, the direct income tax effects on the Company of the change in tax status of mobilkom austria and the proportional pickup from the income tax expense reported by mobilkom austria essentially offset each other in the income tax expense reported by the Company for the year ended December 31, 2001.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current			
Domestic	8,899	1,097	(292)
Foreign	14,511	5,771	-
	<u>23,410</u>	<u>6,868</u>	<u>(292)</u>
Deferred			
Domestic	52,506	15,627	(94,278)
Foreign	7,120	3,617	(343)
	<u>59,626</u>	<u>19,244</u>	<u>(94,621)</u>
Total	<u>83,036</u>	<u>26,112</u>	<u>(94,913)</u>

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Benefits of operating loss carryforwards of EUR 1,818, EUR 8,641 and EUR 7,799 were included in the deferred tax expense (benefit) for the years ended December 31, 2003, 2002 and 2001, respectively.

Total income tax expense (benefit) was recorded as follows:

	2003	2002	2001
Continuing operations	83,036	26,112	(94,913)
Other comprehensive income	2,787	1,024	(6,683)
Additional paid in capital	451	424	-
	<u>86,274</u>	<u>27,560</u>	<u>(101,596)</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 reported income tax expense (benefit) and the amount of income tax expense (benefit) that would result from applying the Austrian statutory income tax rate to income (loss) before income taxes, minority interests and changes in cumulative effect of a change in accounting principle:

	2003	2002	2001
Income tax expense (benefit) at statutory rate	79,069	14,896	(68,023)
Foreign tax rate differential	(7,053)	(2,125)	31
Non-deductible expenses	3,792	335	150
Tax incentives	(3,673)	(3,626)	(2,105)
Tax free income from investments	(563)	(1,163)	(1,603)
Tax rate differential on equity in earnings of affiliates	-	(1,389)	10,611
Nondeductible goodwill amortization and impairment charges	-	4,388	647
Tax benefit recognized for prior year goodwill amortization and impairment	-	-	(40,080)
Change in valuation allowance	7,724	11,008	5,456
Other	3,740	3,788	3
Income tax expense (benefit)	<u>83,036</u>	<u>26,112</u>	<u>(94,913)</u>
Effective income tax rate	35.7%	59.6%	47.4 %

Non-deductible expenses mainly consist of interest expenses on shareholder loans. Tax incentives principally consist of research incentives.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are shown below.

	2003	2002
Deferred tax assets		
Goodwill	34,846	44,615
Deferred deduction for write downs of investments in subsidiaries	63,219	76,858
Operating loss carryforwards	227,956	207,232
Long-term debt	6,614	13,362
Other liabilities	10,484	5,542
Employee benefit obligations	3,745	-
Other	8,276	12,354
Total deferred tax assets	<u>355,140</u>	<u>359,963</u>
Valuation allowance	(81,639)	(16,214)
Deferred tax assets, net of valuation allowance	<u>273,501</u>	<u>343,749</u>

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	2003	2002
Deferred tax liabilities		
Property, plant and equipment	(30,244)	(39,683)
Long-term investments	(8,690)	-
Other intangible assets	(97,347)	(88,178)
Accrued liabilities	(350)	(4,892)
Other assets	(5,277)	(13,866)
Employee benefit obligation	-	(30)
Other	(8,093)	(12,351)
Total deferred tax liabilities	(150,001)	(159,000)
Net deferred tax	123,500	184,749

At December 31, 2003, the Company had approximately EUR 701,516 of operating loss carryforwards. Thereof, EUR 110,598 relate to foreign subsidiaries. Of these loss carryforwards relating to foreign subsidiaries, EUR 110,114 have expiration dates as follows:

Years	Amount
2004	8,111
2005	28,087
2006	40,214
2007	24,346
2008	8,465
2009	891
2010	-
Total	<u>110,114</u>

The remaining amount of operating loss carryforwards are in Austria and do not expire. In Austria the annual usage is limited to 75% of the taxable income for that year.

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, projected future taxable income and tax planning strategies in making this assessment. As of December 31, 2003 the Company has recognized a net deferred tax asset of EUR 124,138 related to the operations in Austria. In order to realize this deferred tax asset the Company will need to generate future taxable income exclusive of reversing taxable temporary differences of approximately EUR 486,815 over an indefinite period in Austria.

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 the benefits of these deductible differences and operating loss carry forwards, net of valuation allowances. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

During the years ended December 31, 2003 and 2002 deferred tax expenses of EUR 6,560 and EUR 11,008, respectively, were recognized as adjustments to the valuation allowance because of a change in circumstances that caused a change in judgement about the realizability of the related deferred tax asset in future years. In 2003 and 2002 the valuation allowance increased by EUR 65,425 and EUR 10,758, respectively. Thereof EUR 57,701 and EUR 250 had no impact on the income statement in 2003 and 2002, respectively.

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(19) 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.

The Company uses into various types of financial instruments including derivative financial instruments in the normal course of business 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, 2003 and 2002, 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 concentration of credit risk related to any financial instrument 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 portfolios.

Information with respect to cash flow hedges

Changes in the fair value of interest rate swaps designated as hedging instruments of variability of cash flows associated with variable rate long-term debt are reported in accumulated other comprehensive income. These amounts are subsequently classified into financial income as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affect earnings. In 2003 and 2002, respectively, no hedge ineffectiveness occurred.

Interest rate swap agreements

In the years 1995 to 1997 the Company entered into interest rate swaps to reduce the aggregate exposure to changes in floating interest rates and fair market value fluctuations of the debt portfolio. Fixed interest rate payments as of December 31, 2003, ranged from 6.7% to 3.0%. Floating-rate payments are based on rates tied to different inter-bank offered rates.

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In line with its risk policy the Company entered into fix to floating interest rate swaps in 2003. The floating rate is based on EURIBOR and enables the company to participate from current low short-term interest rates.

The following table indicates the types of swaps in use at December 31, 2003 and 2002, 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:

	2003	2002
Variable to fixed swaps in EUR		
Notional amount in EUR.....	181,682	181,682
Average receive rate.....	2.25%	3.35%
Average pay rate	6.47%	6.47%
Average maturity in years	1.4	2.4
Fixed to variable swaps in EUR		
Notional amount in EUR.....	300,000	-
Average receive rate.....	5.00%	-
Average pay rate	2.96%	-
Average maturity in years	9.5	-
Variable to fixed swaps in Japanese Yen ("JPY")		
Notional amount in JPY	10,000,000	10,000,000
Notional amount in EUR.....	74,047	80,392
Average receive rate.....	0.005%	0.01%
Average pay rate	3.15%	3.15%
Average maturity in years	0.5	1.5

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, 2003, range from 6.4% to 7.7%.

The following table indicates the types of foreign exchange agreements in use at December 31, 2003 and 2002, and if applicable their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

	2003	2002
Cross Currency Swaps EUR – SFR		
Notional amount in EUR.....	176,635	176,635
Notional amount in SFR.....	300,000	300,000
Average receive rate – SFR.....	5.47%	5.47%
Average pay rate – EUR.....	7.65%	7.65%
Average maturity in years	1.4	2.4

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	2003	2002
Cross Currency Swaps EUR – JPY		
Notional amount in EUR.....	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 – EUR.....	6.41%	6.41%
Average maturity in years.....	0.5	1.5
Forward exchange contracts – US \$		
Notional amount in EUR.....	2,862	3,599
Notional amount in US \$.....	3,350	3,600
Forward exchange rate (weighted).....	1.17	1.00
Exchange rate as of the balance sheet date.....	1.26	1.05
Longest term of the contracts.....	February 2004	March 2003

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.

The following table summarizes the fair values of financial instruments:

	2003		2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments				
Cash.....	201,926	201,926	27,337	27,337
Accounts receivable – trade.....	559,872	559,872	451,934	451,934
Balances due from related parties.....	1,549	1,549	6,723	6,723
Accounts payable – trade.....	(589,368)	(589,368)	(649,890)	(649,890)
Payables to related parties.....	(26,657)	(26,657)	(37,198)	(37,198)
Securities held-to-maturity.....	124,951	141,547	138,454	159,469
Securities available-for-sale.....	19,344	19,344	18,948	18,948
Long-term debt.....	(2,342,288)	(2,423,348)	(2,079,885)	(2,203,008)
Derivative financial instruments				
Interest rate swap agreements.....	(19,582)	(19,582)	(20,996)	(20,996)
Cross currency swap agreements.....	13,065	13,065	36,034	36,034
Foreign currency forward contract.....	(180)	(180)	(160)	(160)

(20) SHAREHOLDERS' EQUITY

Accounting for derivative and hedging activities

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

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

For derivatives designed either as fair value or cash flow hedges, changes in the time value of the derivatives are excluded from the assessment of hedge effectiveness and are recorded in earnings. Hedge ineffectiveness, determined in accordance with SFAS No. 133 had no impact on the Company's earnings for the years ended December 31, 2003 and 2002, respectively. No fair value hedges or cash flow hedges were derecognized or discontinued during the years ended December 31, 2003 and 2002, respectively.

The cumulative unrealized gains and losses for hedging activities recorded in other comprehensive income are as follows:

	December 31, 2003	December 31, 2002
Unrealized Losses		
Gross.....	(10,645)	(17,148)
Less income tax	3,498	5,559
Net of income tax.....	(7,147)	(11,589)
Unrealized Gains		
Gross.....	-	1,890
Less income tax	-	(643)
Net of income tax.....	-	1,247
Unrealized net loss	(7,147)	(10,342)

Other comprehensive income

Other comprehensive income consist of the following items:

	Unrealized gain (loss) on securities	Unrealized gain (loss) on hedging activities	Foreign currency translation	Accumulated other comprehensive income
Balance January 1, 2001	1	-	(28)	(27)
Cumulative effect of accounting change, net of income tax	-	(10,959)	-	(10,959)
Changes, net of income tax	(162)	(2,102)	14,630	12,366
Balance December 31, 2001	(161)	(13,061)	14,602	1,380
Changes, net of income tax	(687)	2,719	(6,496)	(4,464)
Balance December 31, 2002	(848)	(10,342)	8,106	(3,084)
Changes, net of income tax	2,214	3,195	(10,690)	(5,281)
Balance December 31, 2003	1,366	(7,147)	(2,584)	(8,365)

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Sale of American call option

On November 21, 2000, Telekom Austria purchased 3,832,248 American call options for a premium of EUR 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 Euro 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. As of December 31, 2003, together with mobilkom austria, the Company holds 3,326,881 options.

In 2003, the Company sold 610,000 American call options for an aggregate price of EUR 957. In 2002, the Company sold 717,701 American call options for an aggregate price of EUR 1,245. As the original acquisition of the options was accounted for as permanent equity under the provisions of EITF 00-19, proceeds from the sale of the options have been credited net of tax directly to additional paid in capital in the accompanying statement of changes in shareholders' equity.

Treasury shares

At the Annual General Meeting on June 4, 2003, the Management Board was authorized to increase the share capital by up to EUR 21,810 in order to provide stock options to be granted to employees, directors and members of the Management Board of the Company or of an affiliated company for a period of five years, ending 2008.

In addition, the Management Board was authorized to acquire up to 50 million treasury shares at a minimum price of Euro 9 and a maximum price of Euro 15 per share during a period of 18 months, ending at the end of 2004, and is empowered to either retire these shares or use them to satisfy the obligation under the stock option program described in note (17).

Restricted earnings

Under the "Austria Stock Corporation Act", retained earnings available for distribution to shareholders are based upon the unconsolidated retained earnings of Telekom Austria AG as reported in its balance sheet determined in accordance with the Austrian Commercial Code.

The net income of Telekom Austria AG including released untaxed reserves of EUR 63,096 amounts to EUR 396,710. According to the Stock Corporation Act, Article 126, the supervisory board and the management board have decided to transfer EUR 300,000 to retained earnings, resulting in unappropriated profits of EUR 69,710. The management board and supervisory board plan to propose to the shareholders at the annual general shareholders' meeting a distribution from unappropriated earnings of Euro 0.13 per zero par value share.

(21) REVENUES

Year ended December 31,	2003	2002	2001
Revenues from services.....	3,726,955	2,931,892	2,555,596
Revenues from sales of merchandise.....	242,795	186,172	104,064
Total.....	<u>3,969,750</u>	<u>3,118,064</u>	<u>2,659,660</u>

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(22) OTHER OPERATING EXPENSES

Year ended December 31,	2003	2002	2001
Interconnection.....	421,787	361,608	562,736
Repairs	178,256	167,496	137,345
Services received.....	201,050	99,395	39,626
Advertising and marketing	198,362	153,737	75,368
Other support services.....	107,079	87,121	59,027
Rental expenses.....	74,358	67,666	52,130
Commission expenses	41,078	25,347	4,531
Bad debt expenses.....	30,629	39,184	15,069
Legal and other consulting	44,451	54,368	55,304
Charges from related parties	15,013	32,980	35,062
Travel expenses.....	23,696	23,363	24,676
Other taxes	7,201	8,665	5,242
Energy.....	21,979	21,285	21,752
Training expenses.....	13,129	11,773	7,131
Other	85,453	51,366	58,931
Total.....	<u>1,463,521</u>	<u>1,205,354</u>	<u>1,153,930</u>

In accordance with SFAS No. 144, as amended, the net loss from retirement of long-lived assets in 2003, 2002 and 2001 respectively, of EUR 41,571, EUR 18,715 and EUR 39,020 is presented in other operating expenses, other.

(23) OTHER, net

Year ended December 31,	2003	2002	2001
Foreign exchange losses.....	(246,883)	(216,261)	(63,632)
Foreign exchange gains.....	242,013	211,422	56,474
Dividend income.....	48	448	2,229
Other	4,255	6,721	2,173
Total.....	<u>(567)</u>	<u>2,330</u>	<u>(2,756)</u>

(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 certainty. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2003. These matters could affect the operating results or cash flows 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 consolidated financial statements.

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(25) CASH FLOW STATEMENT

Following is a summary of supplemental cash flow information:

Years ended December 31,	2003	2002	2001
Cash paid for			
Interest.....	182,836	173,940	180,436
Income taxes	16,246	10,558	10,235
Cash received for			
Interest.....	3,128	11,122	18,176
Tax refunds	-	21	91,255
Non cash investing and financing			
Dividends	-	28,294	267,505
Cross border leasing.....	-	-	86,315

(26) SEGMENT REPORTING

As of January 1, 2003 management reorganized its operations into three segments: wireline, wireless and other activities. The segment reporting for the years 2002 and 2001 was reformatted to provide comparable data.

Wireline includes fixed line, data communications and internet services and focuses on wholesale and retail customers. Wholesale customers including telecommunications operators and service providers are offered network-based services, while retail customers, including business and residential end-users are offered voice telephony, data communications, internet and other services.

Wireless, operated by our mobile communications segment, offers a full range of digital mobile communications services to business and residential customers.

The segment other activities contains the financing activities of the Company.

Adjusted EBITDA is defined by the Company as operating income before depreciation, amortization and impairment charges. The Company uses adjusted EBITDA to measure the performance of segments because it is commonly used in the telecommunications industry as a comparative measure of financial performance. In addition, the Company believes it is a widely accepted indicator of its ability to incur and service debt.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see note (1)).

For the period ended December 31, 2003, the segment totals reconcile to the consolidated financial statements as a result of eliminating transactions and balances between consolidated segments. For the periods ended December 31, 2002 and 2001, respectively, the reconciliation additionally includes the results of operations of mobilkom austria prior to June 28, 2002 (see note (2)).

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Year ended	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
December 31, 2003						
External revenues.....	2,029,893	1,939,857	-	3,969,750	-	3,969,750
Intersegmental revenues.....	167,758	90,344	-	258,102	(258,102)	-
Total revenues.....	2,197,651	2,030,201	-	4,227,852	(258,102)	3,969,750
Adj. EBITDA (excl. Impairment charges).....	780,508	727,057	(45)	1,507,520	2,277	1,509,797
Impairment charges.....	6,825	-	-	6,825	-	6,825
Adj. EBITDA (incl. Impairment charges).....	773,683	727,057	(45)	1,500,695	2,277	1,502,972
Depreciation and amortization.....	807,935	325,620	-	1,133,555	(407)	1,133,148
Operating Income.....	(34,252)	401,437	(45)	367,140	2,684	369,824
Total assets.....	6,116,105	3,131,630	1,125,178	10,372,913	(2,476,648)	7,896,265
Additions to property, plant and equipment.....	300,991	294,629	-	595,620	(363)	595,257

Year ended	Wireline	Wireless	Other activities	Segment totals	Eliminations	Mobile communications	Consolidated
December 31, 2002							
External revenues.....	2,090,006	1,819,219	-	3,909,225		not provided	
Intersegmental revenues.....	170,005	90,132	-	260,137			
Total revenues.....	2,260,011	1,909,351	-	4,169,362	(144,348)	(906,950)	3,118,064
Adj. EBITDA (excl. Impairment charges).....	807,562	649,487	(73)	1,456,976	7,691	(349,109)	1,115,558
Impairment charges.....	41,871	-	-	41,871	-	-	41,871
Adj. EBITDA (incl. Impairment charges).....	765,691	649,487	(73)	1,415,105	7,691	(349,109)	1,073,687
Depreciation and amortization.....	880,971	268,757	-	1,149,728	(196)	(133,220)	1,016,312
Operating Income.....	(115,280)	380,730	(73)	265,377	7,887	(215,889)	57,375
Total assets.....	6,428,133	2,832,149	1,007,006	10,267,288	(1,732,950)	-	8,534,338
Additions to property, plant and equipment.....	340,710	321,656	-	662,366	(2,300)	(129,100)	530,966

Year ended	Wireline	Wireless	Other activities	Segment totals	Eliminations	Mobile communications	Consolidated
December 31, 2001							
External revenues.....	2,437,429	1,506,026	-	3,943,455		not provided	
Intersegmental revenues.....	222,108	207,153	292	429,553			
Total revenues.....	2,659,537	1,713,179	292	4,373,008	(169)	(1,713,179)	2,659,660
Adj. EBITDA (excl. Impairment charges).....	814,821	564,716	(72)	1,379,465	(7)	(564,716)	814,742
Impairment charges.....	145,126	-	-	145,126	-	-	145,126
Adj. EBITDA (incl. Impairment charges).....	669,695	564,716	(72)	1,234,339	(7)	(564,716)	669,616
Depreciation and amortization.....	904,075	267,784	-	1,171,859	-	(267,784)	904,075
Operating Income.....	(234,380)	296,932	(72)	62,480	(7)	(296,932)	(234,459)
Total assets.....	7,352,012	2,214,101	520,046	10,086,159	(144,736)	(2,214,101)	7,727,322
Additions to property, plant and equipment.....	449,031	363,177	-	812,208	-	(363,177)	449,031

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

	Year ended December 31,		
	2003	2002	2001
Adj. EBITDA - segment totals	1,507,520	1,456,976	1,379,465
Impairment charges.....	(6,825)	(41,871)	(145,126)
Adj. EBITDA - segment totals.....	1,500,695	1,415,105	1,234,339
Depreciation and amortization.....	(1,133,148)	(1,016,312)	(904,075)
Interest income.....	75,167	88,191	82,683
Interest expense.....	(230,979)	(244,628)	(240,986)
Adj. EBITDA - mobilkom austria prior to acquisition.....	-	(349,109)	(564,715)
Equity in earnings of affiliates - mobilkom austria prior to acquisition.....	-	142,906	197,941
Equity in earnings of affiliates - other.....	19,112	(2,363)	(2,491)
Other.....	1,710	10,021	(2,764)
Income before taxes, minority interests and cumulative effect of change in accounting principle.....	232,557	43,811	(200,068)
Income tax expense.....	(83,036)	(26,112)	94,913
Minority interests.....	(3,422)	(4,910)	530
Cumulative effect of change in accounting principle, net of tax.....	(11,858)	-	-
Net income.....	134,241	12,789	(104,625)

In 2003, 2002 and 2001, more than 89%, 90% and 94%, respectively, of the revenues generated by the reportable segments relate to operations in Austria. As of December 31, 2003 and 2002, respectively, 93% and 94% of the long-lived assets were located in Austria.

(27) SUBSEQUENT EVENTS

On January 21, 2004, Telecom Italia International N.V. sold its residual shareholding, corresponding to 73.9 million shares or 14.78% of Telekom Austria's share capital, in a private placement to institutional investors at a price of Euro 10.55 per share. Following completion of this transaction, the free float in Telekom Austria's share capital increased to 52.83%. The remaining stake is owned by ÖIAG, representing the Republic of Austria. ÖIAG and Telekom Austria have each entered into lock-up agreements that end on May 31, 2004.

On February 16, 2004, the Company acquired 33.33% of IVS Interactive Video Services GmbH, Vienna, bringing its total interest to 100%. The purchase price amounted to EUR 202.

As of February 27, 2004, the average share price had exceeded the Initial Public Offering price by 30% or more for five consecutive days. Therefore, the 3,268,850 stock options / stock appreciation rights discussed in note (17) became exercisable. Therefore, compensation expense estimated at EUR 8,832 will be recorded in the first quarter 2004.

On February 27, 2004, the Company exercised its 3,326,881 American call options on treasury shares which were acquired during the Initial Public Offering in November 2000 to limit the Company's exposure under the stock option plan that expired on February 27, 2004. The strike price of each call option was Euro 9. Following the exercise of the options, 3,326,881 Telekom Austria shares, i.e. 0.67% of its share capital, were credited to the accounts of Telekom Austria through an off-market transaction on March 3, 2004.