

Financial Statements as of December 31, 2004 of Telekom Austria AG

**(according to Austrian
Commercial Code – HGB)**

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Telekom Austria Aktiengesellschaft, Vienna, Austria
Annex I/1
Balance Sheet as of December 31, 2004
Assets

	Dec 31, 2004 EUR	Dec 31, 2003 TEUR
A. Fixed assets		
I. Intangible assets		
1. Licenses, industrial property rights and similar rights	44,493,290.00	43,633
2. Goodwill	533,336.00	588
	45,026,626.00	44,221
II. Property, plant and equipment		
1. Land, similar rights and buildings including buildings on non-owned land	382,032,625.22	401,189
2. Technical plants and machinery	2,327,299,497.37	2,806,062
3. Other plants, furniture and fixtures	81,982,399.45	88,371
4. Assets under construction	45,846,530.17	49,658
	2,837,161,052.21	3,345,280
III. Financial assets		
1. Investments in affiliated companies	1,339,861,931.53	1,339,062
2. Investments	4,156,617.42	6,334
3. Securities	4,445,195.58	4,445
4. Other loans	69,676,380.15	78,147
	1,418,140,124.68	1,427,988
	4,300,327,802.89	4,817,489
B. Current assets		
I. Inventories		
1. Raw materials and supplies	35,727,236.12	40,238
2. Merchandise	6,596,008.62	6,060
3. Services not yet chargeable	1,850,896.81	1,478
	44,174,141.55	47,776
II. Accounts receivable		
1. Accounts receivable - trade	386,651,323.23	404,827
2. Accounts receivable - affiliated compani	749,392,241.48	556,954
3. Accounts receivable - associated compa	60,744.56	243
4. Other receivables and assets	104,827,455.37	84,818
	1,240,931,764.64	1,046,842
III. Short-term investments		
1. Treasury stock	71,931,405.16	0
2. Investments in affiliated companies	1,538,850.20	1,164
3. Other securities	0.00	1,621
	73,470,255.36	2,785
IV. Cash and cash equivalents	1,407,123.96	1,920
	1,359,983,285.51	1,099,323
C. Prepaid expenses	14,626,258.86	16,019
	5,674,937,347.26	5,932,831

Telekom Austria Aktiengesellschaft, Vienna, Austria

Annex I / 2

Liabilities and Shareholders' equity

	Dec 31, 2004 EUR	Dec 31, 2003 TEUR
A. Shareholders' equity		
I. Common stock	1,090,500,000.00	1,090,500
II. Additional paid-in capital		
Appropriated	928,000,856.33	928,001
III. Taxed reserves		
1. Reserve for treasury stock	71,931,405.16	0
2. Other reserves (unrestricted reserves)	500,000,000.00	300,000
	<u>571,931,405.16</u>	<u>300,000</u>
IV. Net profit	145,882,551.58	69,710
thereof profit carryforward: EUR 5,131,027.81; prior year: TEUR 0		
	<u>2,736,314,813.07</u>	<u>2,388,211</u>
B. Untaxed reserves		
1. Reserves from special depreciation	2,324,113.91	2,327
2. Other untaxed reserves	8,316,635.90	56,820
	<u>10,640,749.81</u>	<u>59,147</u>
C. Accruals		
1. Accrued severance payments	15,721,999.34	12,597
2. Accrued taxes	22,303,717.01	13,012
3. Other accruals	204,634,781.05	237,855
	<u>242,660,497.40</u>	<u>263,464</u>
D. Liabilities		
1. Bonds	149,601,979.98	151,871
2. Bank loans and lines of credit	1,062,099,963.73	1,512,043
3. Payments received in advance	716,237.02	1,285
4. Accounts payable - trade	202,628,676.54	262,676
5. Accounts payable - affiliated companies	825,228,862.83	835,666
6. Accounts payable - associated companies	3,285,042.51	5,542
7. Other liabilities	333,466,136.97	343,992
thereof due to taxes: EUR 32,704,170.94; prior year: TEUR 31,410		
thereof due to social security: EUR 3,276,378.90; prior year: TEUR 3,064		
	<u>2,577,026,899.58</u>	<u>3,113,075</u>
E. Deferred income	108,294,387.40	108,934
	<u>5,674,937,347.26</u>	<u>5,932,831</u>
Contingent liabilities	1,894,386,000.00	1,769,020

Profit and Loss Accounts for the Business Year 2004

	2004		2003	
	EUR	EUR	TEUR	TEUR
1. Net sales		2,125,204,694.11		2,159,798
2. Change in services not yet chargeable		373,011.54		-1,606
3. Own work capitalized		25,337,665.31		26,240
4. Other operating income				
a) Income from disposal of fixed assets excluding financial assets	7,559,035.03		5,919	
b) Income from reversal of accruals	21,226,726.80		16,654	
c) Sundry	<u>58,500,850.25</u>	87,286,612.08	<u>40,259</u>	62,832
5. Cost of materials and other production services				
a) Cost of materials	73,369,348.52		67,400	
b) Cost of services	<u>481,029,976.80</u>	-554,399,325.32	<u>479,916</u>	-547,316
6. Personnel expenses				
a) Salaries	119,496,164.68		101,074	
b) Severance expense and contributions to respective funds	3,062,935.98		2,230	
c) Pension expense	5,337,317.27		4,949	
d) Expenses for statutory social security and payroll related taxes and contributions	30,046,926.66		26,804	
e) Other social benefits	<u>5,004,449.07</u>	-162,947,793.66	<u>3,915</u>	-138,972
7. Depreciation of intangible assets, property, plant and equipment		-733,618,577.13		-786,137
thereof: extraordinary depreciation of fixed assets according to § 204 (2) HGB: EUR 881,645.19; prior year: TEUR 1,807				
8. Other operating expenses				
a) Taxes	5,227,339.19		5,348	
b) Sundry	<u>755,290,910.84</u>	-760,518,250.03	<u>824,312</u>	-829,660
9. Subtotal from line 1 to 8		<u>26,718,036.90</u>		<u>-54,821</u>
10. Income from investments		454,786,856.65		487,473
thereof from affiliated companies: EUR 454,242,064.65; prior year: TEUR 485,723				
11. Income from other long-term securities of financial assets		126,217.00		117
12. Other interest and similiar income		13,268,996.93		15,157
thereof from affiliated companies: EUR 1,097,641.35; prior year: TEUR 1,137				
13. Income from disposal and revaluation of financial assets and short-term securities		5,392,625.69		23,516
14. Expenses for financial assets and short-term securities thereof depreciation: EUR 1,118,400.00; prior year: TEUR 5,114		-859,955.80		-5,516
15. Interest and similiar expense thereof for affiliated companies: EUR 28,806,493.57; prior year: TEUR 30,883		-113,314,534.71		-150,473
16. Subtotal from line 10 to 15		<u>359,400,205.76</u>		<u>370,274</u>
17. Ordinary business result		<u>386,118,242.66</u>		<u>315,453</u>
18. Taxes on income		-21,941,183.00		-8,839
19. Net profit for the year		<u>364,177,059.66</u>		<u>306,614</u>
20. Reversal of untaxed reserves		50,206,806.41		63,096
21. Reversal of additional paid-in capital		-1,700,937.14		0
22. Allocation to taxed reserves		-271,931,405.16		-300,000
23. Profit carried forward from prior year		<u>5,131,027.81</u>		<u>0</u>
24. Net result		<u>145,882,551.58</u>		<u>69,710</u>

**Notes to the Financial Statements
for the Year 2004**

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1. Accounting and Valuation Methods

1.1. General Principles

The annual financial statements were prepared according to the Austrian Commercial Code and generally accepted accounting principles in Austria with the general objective of providing a true and fair view of the balance sheet, the financial position and the operating results of the Company.

The principle of completeness was observed in preparing the annual financial statements.

The principles of individual valuation and going concern were observed in valuing the Company's assets and liabilities.

The principle of prudence was observed in so far as only those profits were recognized that were realized and earned as of the reporting date. All identifiable risks and contingent losses were taken into account.

The statement of operations was prepared in accordance with the total expenditure format. All figures presented in the notes to the financial statements are shown in thousand euros (TEUR). The reporting date is December 31.

1.2. Long-lived assets

Intangible assets are valued at cost and are amortized according to the straight-line method. The useful lives of intangible assets range from 3 to 15 years; fixed line rights are amortized over the terms of the relevant agreements. No impairment charges were recorded for intangible assets and property, plant and equipment in 2004. According to its future economic use, the useful life of goodwill is amortized over a period of 3 to 15 years using the straight-line method.

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation. The production cost of plant and equipment manufactured by the Company includes both direct costs and a proportional share of overheads, but excludes social security expenses as defined under Sec. 203 Par. 3 of the Austrian Commercial Code as well as directly allocated interest expense on borrowed capital.

Depreciation was calculated in accordance with the straight-line method based on the following useful lives and depreciation rates:

	Useful life in years	Depreciation rate in %
Buildings	20 – 50	2 – 5
Technical plants and buildings	3 – 20	5 – 33
Tools, measuring and testing equipment	5 – 10	10 – 20
Computer equipment	4 – 5	20 – 25
Motor vehicles	4 – 8	12.5 – 25
Warehouse and shop fittings and equipment	10	10
Office machines and other small machinery	5	20

In accordance with Sec. 7 Par. 2 of the Austrian Income Tax Act, full-year depreciation was applied for additions made during the first half-year, and half of a full-year's depreciation for additions made during the second six months. With the exception of low value items, measuring and testing equipment and ADSL modems, all low value assets with an individual purchase price of up to TEUR 0.4 were expensed as incurred in the year of acquisition in accordance with Sec. 13 of the Austrian Income Tax Act. These items are shown as additions and retirements in the table of fixed assets. The constant value set for office equipment pursuant to Sec. 209 Par. 1 of the Austrian Commercial Code amounted to TEUR 6,196 as of the reporting date. Based on the results of stockcounts in 2004, the previous year value of TEUR 8,988 was adjusted by TEUR 2,792.

In 2004 impairment charges of TEUR 882 (2003: TEUR 1,807) were recorded on property, plant and equipment.

In 1998 and 1999 the Company entered into a number of contracts with US trusts for the sale of digital switching equipment. These assets were subsequently leased back by Telekom Austria Aktiengesellschaft. Telekom Austria Aktiengesellschaft is entitled to re-purchase the assets at a contractually fixed price after approximately 10 years.

In 2001, the Company leased digital switching equipment to a US trust. This equipment was subsequently leased back by the Company. Telekom Austria Aktiengesellschaft remains the beneficial owner of these assets.

Interests in affiliated companies and securities recorded as long-lived assets are generally recorded at cost. Impairments are recorded if the fair value on the reporting date is lower than

the carrying amount of the asset, and the decrease is assumed to be permanent. Impairments totaling TEUR 1,118 (2003: TEUR 3,863) were recorded in 2004.

1.3. Current assets

Inventories are valued at acquisition or production cost, based on the lower of cost or market principle. The value of inventory is determined according to the moving average method.

Impairments were required, in particular, due to the limited possibilities for use or unusually slow turnover, and reflect decreased market prices of inventory as of the reporting date.

Services not yet invoiced are recorded at production cost. Production costs include direct material and labor as well as a proportional share of material and production overheads.

Accounts receivable and other assets are stated at net realizable value. General credit risk is accounted for by recording allowances on an individual or lump sum basis. Where necessary, the later maturity of receivables is reflected through discounting them to present value.

Foreign currency receivables are stated at the average exchange rate as of the transaction date or at the lower average exchange rate as of the reporting date.

Foreign accounts receivable due from and foreign accounts payable due to the same international carrier are netted. The resulting balance is valued at the exchange rate at the acquisition or the lower exchange rate on the reporting date.

1.4. Accruals

Accruals for severance payments are recorded for legal and contractual obligations to members of the Management Board and for employees transferred back to the Company from Telekom Austria Personalmanagement GmbH as of December 31, 2004. The calculation is based on the principles of financial mathematics using the accumulated benefit obligation method ("Teilwertverfahren") applying a discount rate of 4% and a fluctuation discount of 4%.

Other accruals are recorded at the amount of expected utilization. They reflect all identifiable risks and undetermined liabilities as of the reporting date.

1.5. ABS – Asset backed securitization

In 2002, Telekom Austria Aktiengesellschaft sold receivables due from domestic telephone customers to a "master purchaser" (trustee) in Ireland within the framework of an asset backed securitization transaction. This master purchaser holds the receivables in trust for Telekom Austria Aktiengesellschaft and, on the other hand, for an investor.

The total volume of receivables sold is limited to a combined maximum of TEUR 290,000 for Telekom Austria and mobilkom austria, which also carried out a similar transaction. The maximum individual limit for Telekom Austria is set at TEUR 250,000. In December 2003, the total volume was increased to TEUR 350,000 with a maximum individual limit of TEUR 300,000 for Telekom Austria.

This transaction represents a certain type of factoring, since the risk of default remains with the seller and the seller therefore remains the economic owner of these assets. For this reason, accounts receivable and related allowances are reported unchanged on the balance sheet. Since Telekom Austria Aktiengesellschaft, as the seller, is responsible for the creditworthiness of the receivables, this transaction is classified as a secured borrowing. Net financial liabilities to the trustee are comprised of the Initial Purchase Price (IPP) less the Deferred Purchase Price (DPP). These amounts are netted because of their similarity, identical terms, and identical creditor and debtor, and are reported in other financial liabilities. The discount is reported in prepaid expenses.

1.6. Liabilities

Liabilities are recorded at their repayment amount in accordance with the principle of prudence. Foreign currency liabilities are recorded at the average exchange rate on the reporting date, if this value exceeds the carrying amount. Foreign accounts receivable due from and foreign accounts payable due to the same international carrier are netted. The resulting balance is valued at the exchange rate at the acquisition or the higher exchange rate on the reporting date.

1.7. Deferred income

This item includes primarily deferred revenue and deferred income from cross-border lease contracts.

2. Notes to the Balance Sheet

2.1. Long-lived assets

The development of individual items recorded under long-lived assets and the classification of annual depreciation by category is reported as part of the fixed assets table (Annex 1).

Property, plant and equipment includes land, similar rights and buildings including buildings on non-owned land with a total value of TEUR 56,612 (December 31, 2003: TEUR 57,487).

Loans with a remaining maturity of up to 1 year amount to TEUR 6,043 (December 31, 2003: TEUR 6,043).

Liabilities in connection with the use of fixed assets not reported in the balance sheet amount to:

	Dec. 31, 2004 TEUR	Dec. 31, 2003 TEUR
Rental and lease commitments for the next 5 years	121,628	127,611
Thereof rental and lease commitments in the following year	24,619	28,739

The financial assets contain 66,430 commercial papers with a carrying value of TEUR 4,445 and a fair market value of TEUR 4,416. As the fair market value has continually increased since 2002 and the Company expects a further rise, no impairment was recorded.

Telekom Austria Aktiengesellschaft, Vienna
Appendix III/6

Affiliated companies and equity investments of Telekom Austria Aktiengesellschaft with a holding of 20% or more are as follows:

Name and corporate seat	Share in capital as of Dec. 31, 2004 %	Book value of equity as of Dec. 31, 2004 TEUR	Net income/ loss 2004 TEUR
Affiliated companies			
mobilkom austria AG & Co KG, Vienna	74.999	1,279,923	251,003
mobilkom austria AG, Vienna	75.0 ¹	116	75
Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesell- schaft mbH, Vienna ²	100.0	447	342
Telekom Projektentwicklungs GmbH, Vienna	100.0	332	18
Telekom Austria Personalmanagement GmbH, Vienna	100.0	624,536	0
Jet2Web Stream Slovakia s.r.o, Bratislava ³	100.0	403	36
Jet2Web Stream Hungary Kft, Budapest ³	100.0	381	94
Telekom Austria Beteiligungen GmbH, Vienna ³	100.0	20,556	-3
TA Mreza d.o.o., Ljubljana ³	100.0	11	39
World-Direct eBusiness Solutions GmbH, Vienna ³	100.0	316	35
Other investments			
Omnimedia Werbegesellschaft mbH, Vienna ⁴	26.0	2,621	2,068
Output Service GmbH, Vienna	25.1	49	2

Telekom Austria Personalmanagement GmbH is bound by contract to transfer its profit to the Company.

2.2. Receivables and other assets

The maturity and structure of accounts receivable are shown in the accounts receivable table (Annex 2).

At year-end, lump sum valuation allowances of TEUR 2,924 (December 31, 2003: TEUR 3,057) were recorded for trade accounts receivable.

¹ 75% less one share

² Figures as of December 31, 2004

³ Figures according to package at December 31, 2004, "local GAAP"

⁴ Reporting date June 30, 2004

Other receivables include accrued interest income of TEUR 10,677 (December 31, 2003: TEUR 12,528) that will become due and payable after the reporting date.

2.3. Prepaid expenses

This item consists primarily of discounts (EMTN program) and deferrals related to maintenance expenses.

Taking into account the decrease of the corporate tax rate to 25%, non-recorded deferred tax assets totaled TEUR 47,282 as of December 31, 2004 (December 31, 2003: TEUR 79,659). These tax assets are expected to be realized in future periods.

2.4. Shareholders' equity

The common stock of Telekom Austria Aktiengesellschaft remained unchanged at TEUR 1,090,500 and is divided into 500,000,000 bearer shares. ÖIAG holds 25.2% and a convertible bond entitling the holder to convert the bond to 5% of the shares of Telekom Austria Aktiengesellschaft. A total of 68.6% of the shares represent a free float, whereas the remaining 1.2% are held as treasury stock by Telekom Austria Aktiengesellschaft.

Dividend payout

With the consent of the Supervisory Board, the Management Board will propose at the shareholders' meeting on May 25, 2005 to distribute a dividend of EUR 0.24 per entitled share. The remaining retained earnings will be carried forward.

Authorized capital stock

According to Sec. 159 Par. 3 of the Austrian Stock Corporation Act, the Management Board was authorized at the shareholders' meeting on June 4, 2003 to increase the share capital of the Company by up to EUR 21,810,000.00 by issuing up to 10 million new ordinary bearer shares or new ordinary registered shares with no par value in order to serve options. This authorization is valid for 5 years. Upon authorization by the Supervisory Board, the Management Board approved a conditional capital increase of up to EUR 6,543,000.00 on March 23, 2004 in order to serve stock options granted in 2004 in the course of ESOP 2004+.

Furthermore, on December 13, 2004 the Management Board approved a conditional capital increase of up to EUR 7,415,400.00 in order to serve stock options to be granted in 2005 in the course of ESOP 2005+. The conditional capital increases will only be carried out provided that obligations from stock options are settled by issuance of new shares.

Conditional capital increase

According to Sec. 159 Par. 2 no. 1 of the Austrian Stock Corporation Act, the Management Board was authorized at the shareholders' meeting on June 3, 2004 to increase the share capital of the Company by up to EUR 109,050,000.00 on condition of granting subscription rights and/or conversion rights to holders of convertible bonds.

2.5. Untaxed reserves

Reserves from special depreciation

	Balance on Jan. 1, 2004 TEUR	Release TEUR	Balance on Dec. 31, 2004 TEUR
Continuation of special depreciation as per Sec. 8 and 122 of the Austrian Income Tax Act 1972	2,085	0	2,085
Transfer of hidden reserves as per Sec. 12 of the Austrian Income Tax Act	242	3	239
	<u>2,327</u>	<u>3</u>	<u>2,324</u>

Other untaxed reserves

Year	Balance on Jan. 1, 2004 TEUR	Release TEUR	Balance on Dec. 31, 2004 TEUR
Investment allowance as per Sec. 10 of the Austrian Income Tax Act			
1997	1,410	1,410	0
1998	2,790	2,237	553
1999	5,068	4,806	262
2000	47,552	41,751	5,801
	<u>56,820</u>	<u>50,204</u>	<u>6,616</u>

	Balance on Jan. 1, 2004 TEUR	Release TEUR	Balance on Dec. 31, 2004 TEUR
Allowance for hidden reserves as per Sec. 12 Par. 7 of the Austrian Income Tax Act	0	1,701	1,701

2.6. Accrued liabilities

Accrued tax liabilities as of December 31, 2004 relate primarily to income tax, municipal duties and fees to the chamber of commerce.

Other accrued liabilities include provisions for:

	Dec. 31, 2004 TEUR	Dec. 31, 2003 TEUR
Outstanding purchase invoices	72,187	66,059
Customer discounts	39,676	41,766
Estimated real estate devaluations	36,699	37,581
Miscellaneous	32,655	39,545
Estimated losses from retirement of local telephone network	17,034	39,000
Unused vacation	5,651	6,349
Operating and maintenance costs for vacant and terminated objects	733	7,555
	<u>204,635</u>	<u>237,855</u>

2.7. Liabilities

The maturity and structure of liabilities is shown in the table of liabilities (Annex 3).

2.8. Other financial commitments

Contingencies

	Dec. 31, 2004 TEUR	Dec. 31, 2003 TEUR
Guarantee for Telekom Finanzmanagement GmbH in connection with the EMTN program	750,000	750,000
Obligations arising from cross-border lease	632,857	707,726
Bank guarantee for loans of Mobilkom International GmbH & Co KEG	305,000	305,000
Bank guarantees	106,529	5,973
Guarantee for loans to Telekom Finanzmanagement GmbH	100,000	0
Comfort letter for "IVS" INTERACTIVE VIDEO SERVICES GMBH	0	320
	<u>1,894,386</u>	<u>1,769,019</u>
thereof pertaining to affiliated companies	1,255,000	1,055,320

On June 30, 2003, Telekom Austria Aktiengesellschaft (TA) und Telekom Finanzmanagement GmbH (TFG) initiated a Euro Medium Term Note (EMTN) Programme. The payment of all amounts due in respect of notes issued by Telekom Finanzmanagement GmbH under this framework agreement will be unconditionally and irrevocably guaranteed by TA.

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.

On July 10, 2003, TFG successfully launched and placed a Eurobond offering which raised TEUR 750,000 with a 10-year maturity and a coupon of 5.00%.

The notes were issued at a re-offer price of 99.193% and were used to refinance existing debt.

TA guarantees the interest rate swaps entered into by TFG.

	Dec. 31, 2004 TEUR	Dec. 31, 2003 TEUR
Other obligations		
Order purchase obligations for long-lived assets ⁵	39,900	32,000

⁵ statistical survey, to some extent estimated

3. Notes on the Income Statement

3.1. Revenues

	2004 TEUR	2003 TEUR
Switched voice base monthly & other voice revenues	562,255	564,093
Switched voice base traffic	403,363	447,336
Data & IT-solutions	294,124	278,298
Wholesale voice & internet	356,305	311,343
Internet access & media	195,790	185,455
Wholesale data	141,310	160,801
Payphones & VAS	52,651	67,502
Other	119,407	144,970
	<u>2,125,205</u>	<u>2,159,798</u>

3.2. Other operating income

	2004 TEUR	2003 TEUR
Income from the retirement of long-lived assets, with the exception of financial assets	7,559	5,919
Income from the reversal of accrued liabilities	21,227	16,654
Other	58,501	40,259
	<u>87,287</u>	<u>62,832</u>

Other operating income is comprised of the following:

	2004 TEUR	2003 TEUR
Rental and lease income	8,411	8,639
Settlement of damage claims	13,847	8,752
Income from previous periods	21,381	4,651
Miscellaneous	14,862	18,217
	<u>58,501</u>	<u>40,259</u>

3.3. Expenses for material and other purchased manufacturing services

	2004 TEUR	2003 TEUR
Cost of materials	73,369	67,400
Cost of purchased services	481,030	479,916
	<u>554,399</u>	<u>547,316</u>

3.4. Personnel expenses

Personnel expenses are comprised of the following:

	2004 TEUR	2003 TEUR
Salaries	119,498	101,074
Expenses for severance compensation	3,063	2,230
Expenses for pensions	5,337	4,949
Expenses for statutory social security contributions and payroll-related duties and other mandatory contributions	30,046	26,804
Other employee-related expenses	5,004	3,915
	<u>162,948</u>	<u>138,972</u>

As of June 30, 2000, the entire workforce of Telekom Austria Aktiengesellschaft – with the exception of top management – was transferred to Telekom Austria Personalmanagement GmbH. In 2004, a total of 245 (2003: 201) employees had been reassigned from Telekom Austria Personalmanagement GmbH to Telekom Austria Aktiengesellschaft in an ongoing transfer. A comparison with prior year data is therefore only to a limited extent useful. Personnel expenses charged by Telekom Austria Personalmanagement GmbH to Telekom Austria Aktiengesellschaft are included under "other operating expenses" as purchased services.

The average number of full-time employees during the reporting year was:

	2004	2003
Employees	<u>2,625</u>	<u>2,396</u>

On average 41 interns (2003: 10) were employed by the Company during the year 2004.

	2004 TEUR	2003 TEUR
Remuneration for members of the Management Board	2,334	2,103
Remuneration for members of the Supervisory Board	101	94
	<u>2,435</u>	<u>2,197</u>

Remuneration for members of the Management Board does not include benefits in connection with the stock option program 2000; see "4. Other information".

3.5. Expenses for severance compensation

Expenses for severance compensation are classified as follows:

	2004 TEUR	2003 TEUR
Management Board	223	239
Managers	1,795	1,449
Other employees	6,382	5,491
	<u>8,400</u>	<u>7,179</u>

3.6. Other operating expenses

	2004 TEUR	2003 TEUR
Other operating taxes	5,227	5,348
Miscellaneous	755,291	824,312
	<u>760,518</u>	<u>829,660</u>

Other operating expenses comprise losses of TEUR 14,841 (2003: TEUR 75,447) due to the retirement of long-lived assets.

3.7. Income from equity investments

This item includes a withdrawal of TEUR 283,946 (2003: TEUR 346,012) from mobilkom austria AG & Co KG and a transfer of profit totaling TEUR 170,121 from Telekom Austria Personalmanagement GmbH (2003: TEUR 139,112).

3.8. Income taxes

	2004 TEUR	2003 TEUR
Corporate income tax	21,941	8,823
Corporate income tax, prior periods	0	16
	<u>21,941</u>	<u>8,839</u>

Corporate income tax pertains to the ordinary result. No deferred taxes were recorded in 2004.

The reversal of untaxed reserves totaling TEUR 212 leads to an income tax burden of TEUR 72 (without consideration of loss carry-forward).

4. Other Information

Stock Option Program 2000

On October 4, 2000, the shareholders of Telekom Austria Aktiengesellschaft authorized the implementation of a stock option plan. Under this program the Company granted stock options to the management board as well as to managers, each of which gave the recipient the choice of receiving either a cash payment equal to the difference between the average quoted closing price for Telekom Austria stock during the five trading days preceding exercise of the options and the initial public offering (IPO) price of EUR 9.00, or purchasing the stock at an exercise price of EUR 9.00 per share. The options granted were exercisable on specific dates between May 31, 2002 and February 27, 2004, provided that the average closing price of the shares during the last five days before exercise of the options exceeded the IPO price by 30% or more. One option was convertible into one share.

In order to service the stock option plan and also hedge the risk of a stock price increase, Telekom Austria Aktiengesellschaft purchased an American call option from Merill Lynch in 2000 that was exercised in February 2004. Thus, the Company acquired 3,326,881 treasury shares at a price of EUR 9.00 per share.

As the hurdle was met in February 2004, the participants were entitled to exercise their stock options either by acquiring shares of Telekom Austria Aktiengesellschaft at EUR 9.00 per share or by receiving a cash payment of EUR 2.70.

In 2004, the exercise of stock options resulted in personnel expenses of TEUR 4,870 including expenses for social security and payroll-related taxes.

Number of stock options exercised:

Management board	
Heinz Sundt	145,344
Stefano Colombo	145,344
Rudolf Fischer	145,344
Boris Nemsic	118,920
Managers	1,708,307
Sum Telekom Austria Aktiengesellschaft	2,263,259
Management board, Supervisory board and managers of affiliated companies	967,459

Stock Option Program 2004

In the course of the first tranche of the stock option program 2004 (ESOP 2004+) 1,597,000 options were allotted on April 19, 2004. Each option entitles the holder to receive either shares at the exercise price of EUR 11.92 or cash equal to the difference between the quoted closing price of the Telekom Austria shares on the date of the option's exercise and the exercise price.

The exercise price of EUR 11.92 is defined as the average closing price of Telekom Austria shares at the Vienna stock exchange during a period of twenty trading days ending two days before the granting of options (April 19, 2004).

ESOP 2004+ is based on the profitability of the Company. Thus, options that were allotted in 2004 can only be exercised if the EPS (earnings per share) target value determined by the Supervisory Board for the year 2004 has been reached. If the EPS target value for the year 2004 is not reached, the options can still be exercised, provided that a certain EPS target value for the years 2005 or 2006 determined by the Supervisory Board - which must at least be equal to the EPS target value for 2004 - is met.

The first tranche of ESOP 2004+ that was allotted on April 19, 2004 can be exercised until the end of May 2008 (option life) provided the EPS target value has been reached. The options are subject to a vesting period of 12 months following the grant date and can thus be initially exercised as of April 20, 2005.

On the basis of a valuation method for options, the stock options allotted were valued at EUR 2.73 on grant day. This value provides the basis for calculating the obligation of Telekom Austria Aktiengesellschaft to its employees, which is accrued over the vesting period. In 2004, personnel expenses for ESOP 2004+ amounted to TEUR 2,716.

Allotment of options (ESOP 2004+):

Management board	
Heinz Sundt	96,000
Stefano Colombo	96,000
Rudolf Fischer	96,000
Boris Nemsic	96,000
Managers	1,213,000
Sum Telekom Austria Aktiengesellschaft	1,597,000
Management board, Supervisory board and managers of affiliated companies	942,480

Repurchase of stock

According to Sec. 65 Par. 1 no. 8 of the Austrian Stock Corporation Act, the Management Board was authorized to acquire up to 50 million own bearer or registered shares with no par value, which represent up to 10% of the share capital at the time of passing the resolution. The acquisition must be carried out within a period of 18 months following the day of the resolution at a price ranging between EUR 9.00 and 18.00 per share.

The authorization by the General Assembly of June 3, 2004 to acquire treasury shares is limited to the following:

- to settle obligations from stock options granted to employees, managers and members of the Management Board of the Company or an affiliated company
- to serve subscription rights and/or conversion rights of bearers of convertible bonds
- to be used for acquisitions
- to be sold in every legally possible way, also off-market and by excluding the public from buying

By exercising the American call option, which was a hedging instrument for the stock option program 2000, Telekom Austria Aktiengesellschaft acquired 3,326,881 treasury shares in February 2004. The Company continued its repurchase policy until October 2004 and held a total of 6,255,694 treasury shares at a value of EUR 71,931,405.16 on December 31, 2004.

Acquisition of a call option to purchase MobilTel AD

On December 17, 2004 Telekom Austria Aktiengesellschaft entered into a call option agreement that entitles the Company to purchase a 100% share of MOBILTEL once the purchase price of the options amounting to TEUR 80,000 has been paid. The options will become payable in the first quarter of 2005 provided that MOBILTEL meets certain operating and financial performance criteria for the year 2004. In the event that the conditions have not been fulfilled, the Company has the right to terminate the agreement. The options entitle Telekom Austria Aktiengesellschaft to acquire a 100% share in MOBILTEL during specified periods from July 12, 2005 until August 23, 2005. The expected total purchase price will amount to approximately TEUR 1,600,000, which includes the purchase price of the options.

Derivative financial instruments (according to Sec. 237a Austrian Commercial Code)

Derivative financial instruments are used by the Telekom Austria Aktiengesellschaft 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.

Credit risk

Telekom Austria Aktiengesellschaft constantly monitors its exposure to credit risk. The Company does not have any significant exposure to any individual customer or counterparty or any individual financial instrument.

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.

The following valuation methods are used for derivative financial instruments:

Interest rate swaps are used to hedge the interest rate risk of individual debt and are not valued. Interest receivable as of December 31, 2004 amounts to TEUR 985 (31.12.2003: TEUR 980) and is reported in other receivables and assets. Interest accrued amounts to TEUR 2,877 (31.12.2003: 3,535) and is reported in bank loans and lines of credit.

Foreign currency exchange contracts are entered into to hedge foreign currency liabilities. Foreign currency derivatives themselves are not valued, as the foreign currency liabilities hedged are valued with the hedging rate of the foreign currency derivatives. The exchange rate gain is deferred over the term of the debt. Interest earned until the reporting date amounts to TEUR 6,821 (31.12.2003: TEUR 8,044) and is reported in other receivables and assets. Interest accrued amounts to TEUR 8,667 (31.12.2003: TEUR 11,259) and is reported in bank loans and lines of credit.

In the following table swaps are summarized according to the categories interest rate swap and foreign currency exchange contract. Market values are determined using the net present value method.

	2004	2003
Interest rate swap contracts		
<i>Variable to fixed swaps</i>		
Nominal value in EUR	145,346	219,392
Market value in EUR	-6,094	-14,699
Foreign currency exchange contracts		
<i>EUR – CHF</i>		
Nominal value in CHF	300,000	300,000
Nominal value in EUR	176,635	176,665
Market value in EUR	15,849	14,213

5. Members of the Management Board and the Supervisory Board

Management Board:

Heinz Sundt

(Chairman and Chief Executive Officer)

Stefano Colombo

(Vice-Chairman)

Rudolf Fischer

(COO Wireline)

Boris Nemsic

(COO Wireless)

Supervisory Board:

Peter Michaelis

(Chairman of the Supervisory Board)

Edith Hlawati

(Deputy Chairwoman)

Hans Haider

Stephan Koren

Harald Sommerer

Harald Stöber

Rainer Wieltsch

Wilhelm Eidenberger

Walter Hotz

Michael Kolek

Franz Kusin

Otto G. Zich

Vienna, March 2005

The
Management
Board

Heinz Sundt

Stefano Colombo

Rudolf Fischer

Boris Nemsic

Telekom Austria Aktiengesellschaft, Vienna
Appendix III/20
Development of Fixed Assets
Annex III, 1

	Jan 1, 2004	Cost of acquisition			Dec 31, 2004	Accumulated	Book Value		Depreciation
	TEUR	Additions	Disposals	Changes	TEUR	Depreciation	Dec 31, 2004	Dec 31, 2003	Fiscal Year 2004
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
I. Intangible assets									
1. Licenses, industrial property rights and similar rights	109,979	16,652	15,578	9,218	120,271	75,778	44,493	43,633	24,440
2. Goodwill	6,889	0	0	0	6,889	6,355	534	588	55
	116,868	16,652	15,578	9,218	127,160	82,133	45,027	44,221	24,495
II. Property, plant and equipment									
1. Land, similar rights and buildings including buildings on non-owned land	660,549	9,048	10,897	13,169	671,869	289,836	382,033	401,189	36,190
2. Technical plants and machinery	7,498,718	167,838	211,370	16,855	7,472,041	5,144,742	2,327,299	2,806,062	637,797
3. Other plants, furniture and fixtures	259,729	30,603	31,720	9,265	267,877	185,895	81,982	88,371	35,136
4. Assets under construction	49,658	44,727	31	-48,507	45,847	0	45,847	49,658	0
	8,468,654	252,216	254,018	-9,218	8,457,634	5,620,473	2,837,161	3,345,280	709,123
III. Financial assets									
1. Investments in affiliated companies	1,340,954	1,202	0	0	1,342,156	2,294	1,339,862	1,339,062	402
2. Investments	10,469	1,260	4,014	0	7,715	3,558	4,157	6,334	716
3. Securities	4,445	0	0	0	4,445	0	4,445	4,445	0
4. Other loans	111,928	3,854	6,651	0	109,131	39,455	69,676	78,148	5,675
	1,467,796	6,316	10,665	0	1,463,447	45,307	1,418,140	1,427,989	6,793
	10,053,318	275,184	280,261	0	10,048,241	5,747,913	4,300,328	4,817,490	740,411

Annex III, 2
Accounts receivable table

amounts in TEUR	balance sheet value	maturity	
		up to 1 year	exceeding 1 year
1. Accounts receivable - trade	386,651	386,651	0
2. Accounts receivable - affiliated companies			
- prepayments	0	0	0
- trade	19,063	19,063	0
- financial	189,651	189,651	0
- other receivables and assets	540,678	540,678	0
	749,392	749,392	0
3. Accounts receivable - associated companies			
- prepayments	0	0	0
- trade	61	61	0
- financial	0	0	0
- other receivables and assets	0	0	0
	61	61	0
4. Other receivables and assets			
- financial	86,214	79,446	3,669
- others	18,613	21,649	63
	104,827	101,095	3,732
Accounts receivable	1,240,931	1,237,199	3,732

Table of liabilities

amounts in TEUR	balance sheet value	maturity		
		up to 1 year	1 - 5 years	exceeding 5 years
1. Bonds	149,602	149,602	0	0
2. Bank loans and lines of credit	1,062,100	474,315	578,338	9,447
3. Payments received in advance	716	716	0	0
4. Accounts payable - trade	202,629	201,801	816	12
5. Accounts payable - affiliated companies				
- payments received in advance	0	0	0	0
- trade	40,232	40,232	0	0
- financial	545,517	15,517	0	530,000
- others	239,480	188,415	50,973	92
	825,229	244,164	50,973	530,092
6. Accounts payable - associated companies				
- payments received in advance	0	0	0	0
- trade	3,285	3,285	0	0
- others	0	0	0	0
	3,285	3,285	0	0
7. Other liabilities				
- financial	212,795	212,795	0	0
- others	120,671	53,579	40,144	26,948
	333,466	266,374	40,144	26,948
Accounts payable	2,577,027	1,340,257	670,271	566,499

Management Report of Telekom Austria Aktiengesellschaft for the Period January 1 to December 31, 2004

Exports Strengthen Economic Growth

Supported by a stronger euro and an 8.3% increase in exports, the Austrian economy grew by 1.9% in real terms in 2004, up from 0.7% in 2003. In comparison GDP in the EU grew by an average of 2.2% in 2004. The rate of inflation rose from 1.3% in 2003 to 2.1% in 2004 largely as the result of higher oil prices. According to Eurostat the unemployment rate in 2004 remained quite stable at 4.2% compared to 4.1% in the previous year.

Growth in a Competitive Market

According to the European Commission the telecommunications market in the EU grew by some 4.6% in 2004. Given increasing competition this growth was mainly driven by innovative solutions in broadband and mobile traffic. Despite this market growth telecommunications companies have concentrated on reducing debt and cutting costs in recent years.

The increasing substitution of fixed line by mobile communications continued to intensify in Austria in 2004 due to the extremely low price level on the mobile communications market. According to estimates by Telekom Austria more than half of Austrian voice traffic is carried out within mobile networks. This shift is reflected in the decline of voice traffic in the wireline segment.

Telekom Austria responded to this trend by successfully focusing on the ADSL business, increasing its market share, including wholesale customers, to 46.3%. The process of consolidation on the fixed line market reached a new level last year with the merger of the two largest alternative telecom operators Tele2 and UTA. Despite the extremely competitive market environment with 31 competitors Telekom Austria was able to slightly increase its share of the fixed line voice telephony market compared to the previous year.

Important Regulatory Decisions

The implementation of the new Telecommunications Act passed in 2003 and the resulting definitions of markets subject to sector-specific regulation in particular created new challenges

for Telekom Austria. The previous classification in four telecommunications markets was replaced by 16 markets each governed by different provisions and regulatory measures. The ordinances published so far indicate that, with a few exceptions, there will be no easing of regulation for Telekom Austria. Only the markets "leased lines—backbone segment" and "residential customers—international voice traffic" registered a complete phasing out of regulation.

The most important regulatory decision for Telekom Austria in the reporting year was the closure of proceedings concerning access to subscriber access lines for alternative providers (wholesale line rental) by the Telekom Control Commission. According to the regulatory authority Telekom Austria's offer meets all legal requirements, is non-discriminatory in all respects and therefore not objectionable. Furthermore, the new TikTak tariff scheme was approved in 2004 and interconnection fees lowered in September 2004.

Affiliates

At year-end 2004 mobilkom austria AG & Co KG was the largest affiliate of Telekom Austria.

Despite extremely fierce competition as a result of the unusually large number of operators and a penetration rate of 98% in Austria at year-end 2004, mobilkom austria was able to increase the number of its customers by 3.5% to 3.3 million. With a market share of 41% mobilkom austria remains the undisputed market leader.

VIPnet in Croatia profited from both an increase in subscriber numbers (+ 8.1% to 1.3 million) and from the flourishing tourist industry. At the end of the financial year 2004 mobilkom austria increased its stake in the company to 100%.

Due to the relatively high penetration rate and difficult regulatory environment in Slovenia Si.mobil focused upon improving profitability and was able to increase subscriber numbers by 0.5% to 363,300.

Including all subsidiaries the number of subscribers rose by 4.5% to 4.95 million. mobilkom austria generated net income of EUR 251.0 million in the reporting year.

The planned expansion in southeast Europe was underlined in the reporting year by the signing of a call option for the complete takeover of the Bulgarian operator MobilTel AD. With 2.75

million customers and a market share of approximately 67% on June 30, 2004 MobilTel is the largest mobile communications provider on the Bulgarian market. Current planning envisages completion of the transaction at the start of 4Q 2005.

Development of Results

The financial year 2004 witnessed a turnaround in the operating result to EUR 26.7 million for the first time. This was largely due to declining depreciation and amortization charges, but also to the successful cost-cutting efforts of Telekom Austria AG. In an environment characterized by the continued migration of call volumes to mobile communication networks, the wireline segment was able to slightly increase its share of the voice market to 54.4% at year-end 2004, and to 55.3% including Internet dial-up. The 6.9% decline in voice minutes to 10.2 billion (including the decrease in Internet dial-up by 10.0% to 16.0 billion minutes) was therefore almost exclusively attributable to the overall market development.

To counter this trend activities to market broadband lines were intensified, especially in Q4 of the financial year, with the result that the number of ADSL lines (including wholesale customers) increased by 46.9% to 383,600 compared to the year-end 2003. The total number of fixed lines fell by 3.5% to slightly more than 2.9 million.

Net income in the financial year 2004 amounted to EUR 364.2 million, an increase of 18.8% compared to the previous year. With the approval of the Supervisory Board the Management Board will propose to the Annual General Meeting the payment of a dividend of EUR 0.24 per dividend-bearing share, an increase of 84.6% on the previous year. The remaining profit will be carried forward.

Additions to fixed assets in the financial year 2004 amounted to EUR 275.2 million, with capital expenditures for tangible assets amounting to EUR 252.2 million. The latter focused mainly upon the expansion of broadband technology, investments for IT infrastructure and applications as well as investments in the core network to adapt capacity and optimize the network.

Workforce

At the end of the financial year 2004 Telekom Austria AG had 2,685 employees and 65 apprentices. In 2003, 2,458 employees and 32 apprentices were employed at Telekom Austria AG.

Reporting of Derivative Financial Instruments as Required by Sec. 237a of the Austrian Commercial Code

Telekom Austria AG uses derivative financial instruments 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 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. In order to reduce the risk of nonperformance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

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.

In the years 1995 to 1997 Telekom Austria AG 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. The company entered into foreign currency denominated loans because of low interest rates connected to loans denominated in Japanese yen and Swiss francs. The use of cross currency swaps allows the company to reduce the exposure to the risk of adverse changes in exchange rates.

Innovation and Technology

Research and development activities of Telekom Austria AG focus on improving the customer convenience of our products and services. In 2004 the wireline segment concentrated on the

next steps to introduce an All-IP technology-based network and on preparing for Internet-based TV services that can also be accessed via the TV set. Telekom Austria AG invested a total of EUR 26.6 million in research and development in 2004.

Outlook

Telekom Austria AG expects the migration of voice volumes to mobile networks to continue in 2005. Although growth in the broadband business, which should be stimulated by new content-related offers, is expected to accelerate in 2005 it will still not be able to compensate for the decline in other areas. The expected decline in revenues combined with rising profitability from operations is largely explained by the absence of the one-off effects in the wholesale area reported last year. The sustained decline in depreciation and amortization expenses, however, will allow a continuous improvement in operating income.

Major Subsequent Events

In January 2005 Telekom Austria Finanzmanagement GmbH, a wholly owned subsidiary of Telekom Austria AG, issued two bonds with a nominal value of EUR 500 million each within the framework of the European Medium Term Note program (EMTN). The two bonds are traded in Luxembourg and Vienna. The bonds have maturities of five and twelve years and a coupon of 3.375% and 4.25% respectively and were issued with a discount including issuing costs of EUR 4.5 million and EUR 9.6 million respectively.

Following approval by the Supervisory Board up to 3.4 million options from the second tranche of the stock option program approved in 2004 were issued to the eligible employees on January 19, 2005. Under the terms of the program an option can be converted into a share. The strike price is EUR 13.98 and is the average of the closing prices on the Vienna Stock Exchange during a period of 20 trading days ending on the penultimate trading day before the allocation date. These options may be serviced either by cash payment or shares at the discretion of the company. The exercise of the stock options is based on the achievement of the adjusted earnings per share target value. The options are subject to a 14-month vesting period and have a life of 3 years.

Telekom Austria Aktiengesellschaft, Vienna

Appendix V/1

Telekom Austria Aktiengesellschaft, Wien

Annex V

Affiliated companies and equity investments as of Dezember 31, 2004

	Currency	Share capital	Capital held	Share in capital	Book value of equity as of Dec. 31, 2004 EUR	Book value of equity as of Dec. 31, 2003 EUR	Last reporting date	(Negative) equity TEUR	Net income/ loss TEUR
1. Affiliated companies									
Telekom Austria Personalmanagement GmbH, Wien	EUR	70,000	70,000	100%	709,582,003.5	708,782,003.5	31.12.2004	624,536	0 1)4)
mobikom austria Aktiengesellschaft & Co KG, Wien	EUR	79,940,118	59,954,289	74.999%	605,588,870.1	605,588,870.1	31.12.2004	1,279,923	251,003
Telekom Austria Beteiligungen GmbH (früher: Jet2Web Net Internet Betriebs GmbH), Wien	EUR	35,000	35,000	100%	20,570,000.0	20,570,000.0	31.12.2004	20,556	-3 1)
World-Direct eBusiness solutions GmbH, Wien	EUR	35,000	35,000	100%	2,833,624.0	2,833,624.0	31.12.2004	316	35
Jet2Web Stream Hungary kft, Budapest	HUF	15,000,000	15,000,000	100%	692,160.3	692,160.3	31.12.2004	x	x 3)
Jet2Web Stream Slovakia s.r.o., Bratislava	SKK	2,300,000	2,300,000	100%	473,753.0	473,753.0	31.12.2004	x	x 3)
mobikom austria AG, Wien	EUR	100,000	74,999	75%	75,999.0	75,999.0	31.12.2004	116	75 8)
Telekom Projektentwicklungs GmbH (früher: Telekom Beteiligungs- und Entwicklungs GmbH), Wien	EUR	35,000	35,000	100%	35,000.0	35,000.0	31.12.2004	332	18
TA Mreza d.o.o., Ljubljana	SIT	2,100,000	2,100,000	100%	9,134.4	9,134.4	31.12.2004	x	x 3)
Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft m.b.H., Wien	EUR	37,000	37,000	100%	1,387.2	1,387.2	31.12.2004	447	342
"IVS" INTERACTIVE VIDEO SERVICES GMBH, Pinkafeld	EUR	35,000	23,335	66.67%	0.0	0.0	31.03.2004	0	0 5)
					1,339,861,931.5	1,339,061,931.5			
2. Equity investments									
Omnimedia Werbegesellschaft m.b.H., Wien	EUR	218,000	56,680	26%	3,401,088.6	3,401,088.6	30.06.2004	2,621	2,068
Intelsat Ltd., Washington	USD	500,000,265	950,001	0.19%	0.0	1,538,850.2	31.12.2004	x	x 6)
New Skies Satellites N.V., Den Haag	USD	6,026,000	17,475	0.29%	0.0	1,181,821.7	31.12.2004	x	x 7)
Netz & Plan Leitungsdokumentations GmbH, Linz	EUR	74,000	7,400	10%	138,537.0	138,537.0	31.10.2004	x	x 2)
Internet - Lösungen und Dienstleistungen RIS GmbH, Steyr	EUR	150,000	22,500	15%	64,864.5	64,864.5	31.12.2004	x	x 2)
Output Service GmbH, Wien	EUR	35,000	8,785	25.1%	8,785.0	8,785.0	31.12.2004	49	2
Austrian Research Centers GmbH - ARC, Wien	EUR	470,492	13,081	2.78%	0.4	0.4	31.12.2004	x	x 2)
A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH, Wien	EUR	4,790,013	953,213	19.9%	0.0	0.0	31.12.2004	x	x 2)
Wiener Börse AG	EUR	5,089,000	101,780	2%	543,341.9	0.0	31.12.2004	x	x 2)
					4,156,617.4	6,333,947.4			
					1,344,018,548.9	1,345,395,878.9			

- 1) Preliminary financial statements
- 2) Financial statements not available at time of audit
- 3) Figures according to US-GAAP package as of Dec. 31, 2004
- 4) After transfer of profit to TA (TEUR 170121)
- 5) Merged into TAP in March 2004
- 6) Reclassified into "held for sale"
- 7) Shares sold in November 2004
- 8) Investment: 75% less one share

Auditor's Report

We have audited the accompanying financial statements which have been set up in accordance with the Austrian Commercial Code as of December 31, 2004 of

**Telekom Austria Aktiengesellschaft,
Vienna.**

These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Austrian Generally Accepted Auditing Standards. 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.

After completion of our audit we render the following unqualified opinion in accordance with Sec. 274 (1) HGB (Austrian Commercial Code):

"As the result of our due audit we can certify that the accounting records and the financial statements comply with the legal regulations. The financial statements give a true and fair view of the Company's assets, liabilities, financial position and profit or loss in conformity with Generally Accepted Accounting Principles. The Management Report corresponds with the financial statements."

Vienna, March 2, 2005

*KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft*

signed:

Mag. Michael Schlenk Mag. Helmut Kerschbaumer
Wirtschaftsprüfer und Steuerberater
(Austrian Chartered Accountants)

Report by the Supervisory Board

Ladies and Gentlemen,

In 2004 Telekom Austria made important progress in its growth and internationalization strategy, while also expanding its market leadership in Austria despite the increasingly competitive environment. The extremely favorable development of financial results underscores Telekom Austria's earning power and its ability to substantially and consistently increase shareholder value.

The business development and strategic positioning of the Telekom Austria Group was discussed extensively at seven meetings of the Supervisory Board, five meetings of the Audit Committee and one meeting of the Financial Committee. Particular attention was given in the year under review to establishing a structured process for discussing the forthcoming appointment of the Management Board, to handling strategic projects and to monitoring the efficiency of risk management and internal control systems. A separate Supervisory Board Committee was set up to monitor the optimization of the Group structure.

Due to the expiry of the contracts of the Management Board in April 2005, the Supervisory Board thoroughly discussed the future composition of this body at its meeting of October 12, 2004. The reappointment of all four members of the Management Board not only reflects Telekom Austria's outstanding performance, it indicates a commitment to continue on this road of success as Austria's leading telecommunications enterprise.

Our strategic dialogue with the Management Board in the reporting year concentrated mainly on the continuation of the value-oriented expansion strategy of the wireless segment. After thorough analysis of the mobile communications market in southeast Europe, the start of preparations for the acquisition of MobilTel — Bulgaria's largest mobile communications operator — marked an important milestone. By approving the financing concept for the realization of this project the Supervisory Board smoothed the way for the issue of further corporate bonds.

The Supervisory Board of Telekom Austria is strongly committed to compliance with the Austrian Corporate Governance Code. We believe in responsible company management and

control aimed at sustainable value creation. As Telekom Austria is traded on the New York Stock Exchange it is also subject to the strict provisions of the US Corporate Governance rules laid down in the Sarbanes-Oxley Act. Telekom Austria therefore already complies with most of the new regulations to be introduced in 2005 as part of the Austrian Government's efforts to increase investor confidence in the Austrian capital market.

The frequency of meetings of the Audit Committee, which closely monitored the correctness of financial reporting, the internal control system, risk management, the services of the auditors and the preparations for the introduction of IFRS, underlines the importance the Supervisory Board places on effective corporate governance mechanisms. The auditor's interaction with the Audit Committee is regulated by strict, standardized and far-reaching reporting requirements, which meet US capital market regulations. This serves to improve both the transparency and the quality of discussions on Telekom Austria's unconsolidated financial statements and consolidated financial statements. The chairman of the Audit Committee presented regular, in-depth reports to the other members of the Supervisory Board on the Audit Committee's findings.

The unconsolidated financial statements of Telekom Austria AG and the consolidated financial statements were audited by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft and received unqualified opinions. The management report and group management report are consistent with the annual financial statements and consolidated financial statements.

The Supervisory Board approved the annual financial statements for 2004 after extensive discussions and review in accordance with Sec. 125 Par. 2 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board approved the consolidated financial statements, which were prepared in accordance with Sec. 245a of the Austrian Commercial Code pursuant to U.S. GAAP, as well as the reconciliation report that was prepared in accordance with Sec. 245a of the Austrian Commercial Code, the management report and the group management report.

The Supervisory Board agreed with the recommendation made by the Management Board to pay EUR 0.24 per each share that is entitled to a dividend and carry forward the remaining amount.

In conclusion, I would like to express my appreciation to the management and employees of the Telekom Austria Group, whose performance and innovative drive played an important role in the development of the company. I would also like to thank all Telekom Austria customers and shareholders for their confidence and support. Please remain with the company on its successful journey into the future!

Peter Michaelis
Chairman of the Supervisory Board
Vienna, March 2005

Supervisory Board of Telekom Austria AG

Peter Michaelis^{1, 3}

Chairman

Member since June 28, 2001

Spokesman of the Management Board of Österreichische Industrieholding AG (ÖIAG)

Member of four supervisory boards⁴

Edith Hlawati¹

Vice Chairwoman

Member since June 28, 2001

Partner with Cerha Hempel Spiegelfeld Hlawati

Attorneys-at-law

Rainer Wieltsch^{2, 3}

Chairman of the Financial Committee

Member since June 12, 2002

Member of the Management Board of
Österreichische Industrieholding AG (ÖIAG)

Member of six supervisory boards⁴

Johann Haider

Member since June 4, 2003

Chairman of the Management Board of
Österreichische Elektrizitätswirtschafts AG

Stephan Koren

Member since September 17, 1999

Chairman of the Management Board of
Österreichische Postsparkasse AG

Member of one supervisory board⁴

Harald Sommerer^{2, 3}

Member since June 4, 2003

Member of the Management Board of
Austria Technologie & Systemtechnik AG

Harald Stöber³

Member since June 4, 2003

Member of the Management Board of
Arcor AG & Co KG

Otto G. Zich

Member since September 17, 1999

Retired President of Sony Europe

Personnel representatives delegated by the Works' Council in accordance with § 110 (1) of the Austrian Labor Management Act:

Wilhelm Eidenberger

Member since April 30, 2001

Kurt Friedl

Member up to August 6, 2004

Walter Hotz³

Member since December 9, 2003

Michael Kolek^{1, 2, 3}

Member since March 20, 2002

Franz Kusin

Member since August 6, 2004

¹ Chairing Committee

² Financial Committee (Audit Committee)

³ Structural Committee

⁴ Pursuant to Rule 54 of the Austrian Corporate Governance Code, the information on the number of supervisory board mandates refers to publicly traded companies that are not part of the Telekom Austria Group and also excludes Telekom Austria (chairmanship counts twice)