TELE
KOM
AUS
TRIA

Fit for the Future

Annual Report 2004

Telekom Austria – Fit for the Future

The "fitness program" which Telekom Austria has put in place in recent years is now showing results: strength, endurance and agility have all improved dramatically and the company's performance is now better than ever. The key operating and financial data presented in this Annual Report are clear proof of this healthy development.

Telekom Austria is a strong, reliable partner with a high level of competence in all aspects of cutting edge communications and information technology. Our relationship with customers, shareholders, employees and all other partners is marked by professionalism, commitment and a strong sense of responsibility. As the market and innovation leader in the domestic telecommunications industry, Telekom Austria plays a major role in safeguarding Austria's standing in business and technology.

Our entrepreneurial initiatives focus upon leveraging potential for development and growth in order to achieve a sustainable increase in shareholder value. As part of these efforts we are strengthening activities beyond the boundaries of our home market, which is demonstrated by our well planned expansion strategy into the southeast European mobile communications markets.

More than 3 million customers in the wireline segment and almost 5 million in the wireless segment at home and abroad now place their trust in the products, services and customer-oriented solutions provided by the Telekom Austria Group.

The wireline segment comprises the fixed line activities of the Telekom Austria Group and concentrates on the Austrian market. The spectrum of customers ranges from business and residential end users to resellers such as alternative fixed line operators, Internet service providers and mobile communications companies.

The wireless segment of the Telekom Austria Group encompasses the mobile communications activities of mobilkom austria, the Austrian market leader, as well as the business operations of VIPnet in Croatia, Si.mobil in Slovenia and mobilkom [liechtenstein]. The conclusion of a call option agreement for the takeover of MobilTel, the leading Bulgarian operator, in 2004 marked another important step toward achieving our growth-oriented expansion strategy.

With revenues of approximately EUR 4.1 billion and more than 13,000 employees Telekom Austria is the largest telecommunications company in Austria and one of the leading corporations in the country. Telekom Austria AG has been listed on both the Vienna and New York Stock Exchanges since November 2000.

Key Figures of Telekom Austria Group

Key Data – Operational	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Wireline			
Fixed access lines (in '000s)	2,906.7	3,010.8	3,097.3
• Thereof ADSL access lines (in '000s)	383.6	261.1	174.1
Fixed access channels (in '000s)	3,570.7	3,684.2	3,762.3
Internet customers in Austria (in '000s)	1,187.0	1,026.6	846.5
Customers Czech On Line (in '000s)	247.1	279.4	275.3
Wireless			
Customers			
• in Austria (in '000s)	3,273.6	3,163.2	3,001.4
• in Croatia (in '000s)	1,308.6	1,210.5	1,097.8
• in Slovenia (in '000s)	363.3	361.5	350.0
• in Liechtenstein (in '000s)	3.5	2.5	2.0
Total (in '000s)	4,949.0	4,737.7	4,451.2
Employees at year-end [1]	13,307	13,890	14,951

Key Data – Financial (in EUR million)	2004	2003	Total managed 2002
Telekom Austria Group			
Operating revenues	4,056.3	3,969.8	3,908.2
Revenues excluding third-party value-added service revenues [2]	4,056.3	3,923.9	3,849.8
Operating income	452.7	369.8	273.1
Net income	227.3	134.2	12.8
Adjusted EBITDA [3]	1,568.8	1,509.8	1,464.4
Cashflow generated from operations	1,304.7	1,219.9	1,171.4 [4]
Capital expenditures	548.2	599.7	683.4
Net debt [3]	1,973.9	2,637.3	3,204.2
Equity	2,741.6	2,639.4	2,509.5
Equity Ratio (in %)	37,9	33,4	29,4
Adjusted EBITDA-margin (in %) [2] [3]	38.7	38.5	38.0
Net debt to equity – net gearing (in %)	72.0	99.9	127.7
Return on capital employed – ROCE (in %) [3]	9.1	6.7	4.8
Return on Equity – ROE (in %) [3]	8.5	5.2	0.5

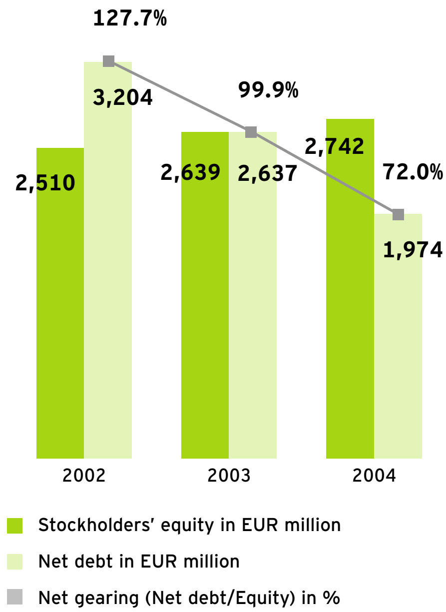
Key Data – Stock Exchange	2004	2003	2002
Market capitalization as of Dec. 31 (in EUR billion)	7.0	4.9	4.8
Stock price as of Dec. 31 (in EUR)	13.95	9.80	9.65
Stock price – high (in EUR)	14.40	11.10	9.95
Stock price – low (in EUR)	9.80	8.79	7.24
Earnings per share (in EUR)	0.46	0.27	0.03
Dividend per dividend-bearing share (in EUR)	0.24 [5]	0.13	

1) Full-time employees.
2) For comparative purposes, prior periods have been adjusted to reflect the change in the accounting for third-party value-added services in the fourth quarter of 2003. Revenues excluding third-party value-added service revenues form the basis for the calculation of the adjusted EBITDA margin.
3) For definitions see glossary.
4) mobilkom austria at equity up to June 28, 2002.
5) According to proposal to the Annual General Meeting.

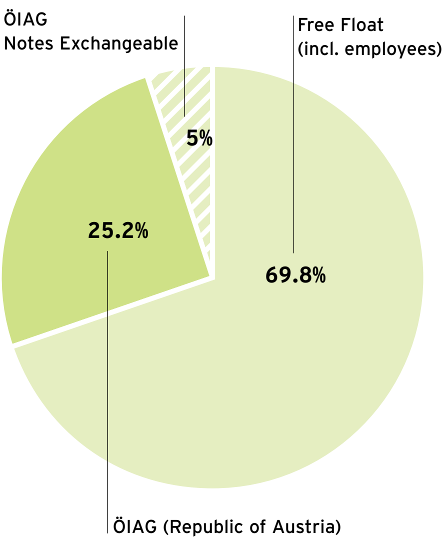
Note: Following the acquisition of the remaining interest in mobilkom austria on June 28, 2002, Telekom Austria consolidated the balance sheet of mobilkom austria for the first time as of June 28, 2002. The consolidated statements of operations for 2002 reflect Telekom Austria's equity in earnings of mobilkom austria through June 28, 2002 and consolidate mobilkom austria's results of operations for the period from June 28, 2002 to December 31, 2002. Total managed figures reported in the Group Management Report include 100% of the wireless business segment for all periods presented and are therefore comparable.

Under
http://ar2004.telekom.at/key_figures
you can find more information about the figures shown here by mouse click and download them as Excel-file for further calculations.

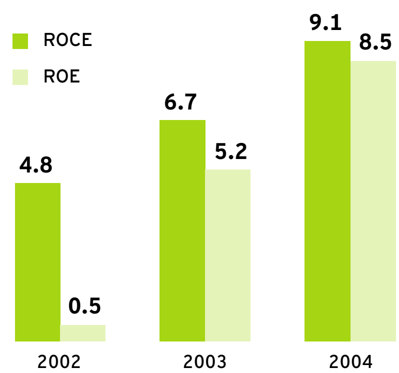
Net Gearing



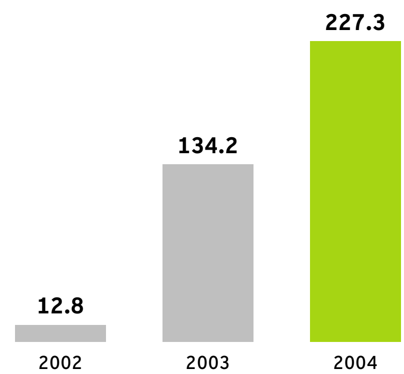
Shareholder Structure
as of Dec. 31, 2004



ROCE[3] and ROE[3]
in %



Net Income
in EUR million



Market Share Wireline


54.4%

Market Share Wireless in Austria


41.0%

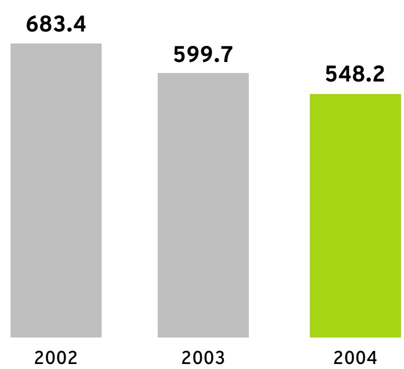
Market Share Wireless in Croatia


46.0%

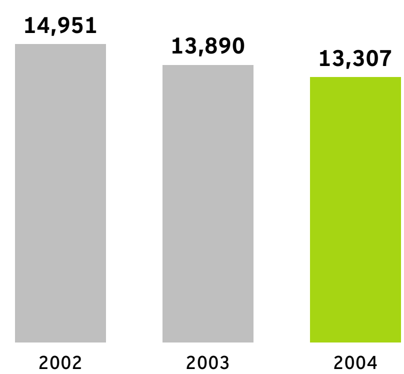
Market Share Wireless in Slovenia


23.3%

Capital Expenditures
in EUR million



Employees
at year-end



Annual Report 2004




Introduction by the Management Board

Dear shareholders, business partners and employees of Telekom Austria,

The business year just ended was of fundamental importance for Telekom Austria in many respects. Our shareholder structure broadened substantially and we prepared for an important expansion. Above all though, we achieved results which surpassed even the ambitious target we had set for ourselves.

Let us briefly review the events and milestones of 2004 together. In January Telecom Italia completed its withdrawal, and in December ÖIAG reduced its stake in the company by 85 million shares, increasing the Telekom Austria free float to 69.8%. The temporary share price turmoil caused by the negotiations between ÖIAG and Swisscom concerning a merger with Telekom Austria died down in the course of the year – indeed, with a price increase of 40% Telekom Austria's shares widely outperformed the industry average. With regard to the merger, I clearly indicated that such a co-operation would be viewed positively under certain well-defined conditions. However, there is absolutely no doubt that the Telekom Austria Group will continue to develop successfully, even without a strategic partner. The conclusion of a call option agreement to purchase 100% of MobilTel, the leading mobile communications provider in the high-growth Bulgarian market, represents yet another promising step in this direction.

Business conditions in 2004 were characterized by a renewed increase in competition. The aggressive price war in the mobile communications segment is also increasingly showing an impact on the fixed line business. The scenario shown in our market analyses is extraordinary not only at national level but also in an international comparison: more than half of the voice traffic in Austria has already migrated to mobile networks.

In light of the aforementioned I am pleased to say that our business performance was remarkable: Applying the changes in accounting for third-party value-added services in the fourth quarter of 2003 also to prior periods for comparative purposes, Group operating revenues rose by 3.4% to EUR 4,056.3 million. Operating income improved by 22.4% to EUR 452.7 million, and the net result increased significantly by 69.4% to EUR 227.3 million, thanks in part to a reduction in interest expenses. The 7% increase in cash generated from operations to EUR 1,304.7 million and the reduction of cash flow used in investing activities by 20.9% to EUR 509.3 million were in keeping with our strategic goal of maximizing free cash flow and allowed us to further reduce our net debt by 25.2% to EUR 1,973.9 million. We will pass on the benefits of this excellent development to you, our shareholders, by proposing to the Annual General Meeting the payment of a dividend of EUR 0.24 per share, equivalent to an 85% increase compared to the previous year.

The new tariff packages introduced in the two business segments in Austria were well received by the market. Furthermore, in the wireline business we were able to achieve substantial increases in the number of ADSL lines, strengthening the basis for new broadband services. Higher revenues from our broadband business, the slower decline in voice telephony and one-off effects in the wholesale business resulted in a 0.9% increase in wireline revenues on a comparable basis to EUR 2,184.7 million. The reduction in depreciation and amortization charges had an increasingly positive impact on

From top left clockwise: Heinz Sundt, Stefano Colombo, Rudolf Fischer, Boris Nemsic operating income, which rose from EUR (34.3) in the previous year to EUR 55.8 million, clearly demonstrating that the operational turnaround had been achieved. Adjusted EBITDA rose by 4.3% to EUR 814.3 million.

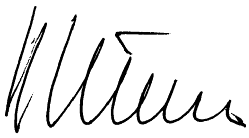
In the wireless segment we boosted our customer base to just under five million, with the winning partnership with Vodafone providing sustainable support for our position as the service and technology leader. Revenues on a comparable basis rose by 5.8% to EUR 2,125.5 million, adjusted EBITDA by 5.3% to EUR 765.4 million and operating income by 1.5% to EUR 407.4 million.

In the coming years we expect the shift of voice traffic from fixed lines to mobile networks to continue. We are responding to the resulting decline in wireline revenues by intensifying our efforts to promote broadband technology: our new content services will help stimulate growth in 2005. In the wireless segment we expect growth to continue, albeit at a much slower pace, primarily due to the positive business development on our foreign markets. In this segment as well the new data services will increasingly contribute to revenues.

After the strong growth in the previous year we are expecting at least flat development in both revenues and adjusted EBITDA throughout the 2005 financial year. The downward trend in the wireline segment will be exacerbated by a lack of positive one-off factors, but this should be counterbalanced by growth in the wireless segment. The continued reduction in depreciation and amortization charges will lead to a further increase in operating income and – together with lower interest and income tax expenses – will also allow for an increase of around 25% in net result. If our expectations are confirmed, we plan to increase the pay-out ratio to 65%, taking into consideration the continued positive development in cash flow. This forecast does not include the impact of a possible first-time consolidation of MobilTel in Bulgaria. We expect this transaction to be completed in 2005 and immediately afterwards we will begin integrating the company into the Group. With regard to further expansion plans, we will continue our concerted efforts to establish ourselves in Bosnia-Herzegovina and Serbia, although from today's perspective the realization of these plans is not yet foreseeable.

In reflection of the company's excellent performance, in the second half of 2004 the Supervisory Board extended the contracts of all four members of the Management Board of Telekom Austria AG. Our achievements in 2004 also clearly reflect the dedication shown by our employees, whom I would like to thank, both in my own name and on behalf of my fellow members of the Management Board.

Sincerely,



Heinz Sundt, Chairman of the Management Board and Chief Executive Officer

Management Board

Heinz Sundt – Chairman of the Management Board and Chief Executive Officer
Heinz Sundt was born in 1947 and attended the School of International Trade in Vienna (Hochschule für Welthandel). He started his career at the Länderbank in 1967. From 1969 through 1986 he held management positions in the marketing and sales departments at IBM Austria, and from 1986 through 1989 he was the head of the telecom and network division. In 1989, Mr. Sundt became head of marketing and sales at Neupack GmbH, a subsidiary of the Mayr-Melnhof packaging group. In January of 1996, Mr. Sundt became the head of mobilkom austria and played a key role in the highly successful development of the wireless segment. Heinz Sundt was appointed Chief Executive Officer of Telekom Austria AG in April 2000.

Boris Nemsic – Vice Chairman of the Management Board and Chief Operating Officer (COO) Wireless
Boris Nemsic, born in 1957, earned his diploma as an electrical engineer at Sarajevo Technical University in 1980. In 1990 he was awarded a doctorate at the Vienna Technical University, where he was also employed from 1988 to 1990 as a scientific assistant at the Institute for Communications and Radio Frequency Engineering. From 1990 until his employment with mobilkom austria he headed the departments for mobile communications development at Ascom and Bosch Telecom in Vienna, Solothurn (Switzerland) and Berlin. In 1997 Boris Nemsic was hired by mobilkom austria as division manager for network planning. In November 1998 he took over as Managing Director of mobilkom austria's Croatian subsidiary VIPnet d.o.o. In May 2000 Boris Nemsic was appointed CEO of mobilkom austria. As of July 2002 he was also appointed to the Management Board of the Telekom Austria Group, where he is responsible for the wireless segment. On April 11, 2005 he was appointed Vice Chairman of the Management Board.

Stefano Colombo – Chief Financial Officer
Stefano Colombo was born in 1961. After graduating from Luigi Bocconi University in Milan, he started his career in the corporate finance department of Mediobanca in 1986. From 1990 through 1994 he worked for the chemical corporation Enimont. In 1994, he was appointed Chief Financial Officer of Olivetti Telemedia. From 1996 through 1999 he served as Managing Director of Carrera Optyl in Linz, Austria, a sub-division of the Italian eyeglass producer Safilo. In 1999 he became the Chief Financial Officer of the Marcolin eyeglass company, where he also coordinated Marcolin's initial public offering. In April 2000 Stefano Colombo was appointed Chief Financial Officer of Telekom Austria AG.

Rudolf Fischer – Chief Operating Officer (COO) Wireline
Rudolf Fischer was born in 1953. After finishing his studies at the Vienna University of Economics and Business Administration, Mr. Fischer began his career at Alcatel Austria. In 1983 he became head of accounting and taxes at Alcatel Austria, and in 1988 he also took over responsibility for controlling. From 1989 to 1993 Mr. Fischer was the head of AOSA, a joint venture between Siemens AG and Alcatel Austria. In 1994 he was appointed Chairman of the Board of United Telecom Investment B.V. in the Netherlands. Between 1996 and 1998 he was President of LTOA, an association of local telecommunications operators in Hungary. In November 1998 Rudolf Fischer became a member of the Management Board of Telekom Austria AG, where he was responsible for technology and network operations. In November 2001 he was appointed Chief Operating Officer of the wireline segment.

Exercise No. 1:
To be a winner you need drive and a clear target

That's why we focus our strength on the generation of high cash flows. This guarantees attractive dividends for our shareholders in the future, while at the same time allowing us to make value-enhancing acquisitions on fast growing markets. After all, don't we grow through new challenges.

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 § 125 Par. 2 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board approved the consolidated financial statements, which were prepared in accordance with § 245a of the Austrian Commercial Code pursuant to U.S. GAAP, as well as the reconciliation report that was prepared in accordance with § 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 boards [4]

Edith Hlawati [1]
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 boards [4]

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 board[4]

Harald Sommerer [2, 3]
Member since June 4, 2003
Member of the Management Board of Austria Technologie & Systemtechnik AG

Harald Stöber [3]
Member since June 4, 2003
Member of the Management Board of Arcor AG & Co KG

Otto G. Zich
President Sony Europe (ret.)
Member since September 17, 1999

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 Hotz [3]
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)

Strategy and Success Factors

Defending our core business, developing new areas of activity and expanding into new regions safeguard the future success of Telekom Austria.

Telekom Austria Group Strategy

Telekom Austria's strategic orientation is based on a number of key objectives for promoting a sustainable increase in shareholder value. In the wireline segment, the generation of stable cash flow remains the primary goal. The wireless segment will focus on achieving at least moderate growth in revenues and earnings in the domestic mobile communications business. The Group also intends to leverage the growth potential of its wireless activities

Interview with **Heinz Sundt**

"Enhancing Shareholder Value in the Long Term"

Heinz Sundt
Chief Executive Officer

2004 was an eventful year for Telekom Austria – what were the highlights for you, Mr. Sundt?
For one thing, the massive increase in our free float. And of course, I am proud of the exceptionally good result we achieved in the year under review. But one of the things that gave me most pleasure was our first step towards the acquisition of MobilTel in Bulgaria. We worked long and hard for this and had to overcome a number of obstacles along the way. The conclusion of the call option agreement at the end of 2004 was a major step towards achieving our goal of a complete takeover. While our position in Croatia and Slovenia means that MobilTel would not be our first expansion move in the southeast European mobile communications market, it would be our biggest. If this plan succeeds, and I assume it will, our foreign activities will make a significantly greater contribution to enhancing our shareholder value.

The price of the Telekom Austria share rose by 40% in 2004 – what was the driving factor behind this development?
The most important factor for this performance, I believe, was investor confidence in our strategy. Of course, the withdrawal of Telecom Italia and the reduction in the ÖIAG stake also had a positive effect. But we would not be where we are today if over the years we had not consistently proved the reliability of our statements and forecasts to the financial markets by implementing our plans just as we communicate them. I believe it is important to keep the long-term perspective in view and not to blindly follow short-term trends and the expectations of the capital markets, which would be easier at times. And as our results show, we — and consequently our shareholders — have done well by following this strategy so far.

How will Telekom Austria continue this success story?
We certainly cannot afford to rest on our laurels. However, 2004 did show that we have created structures which enable us to succeed amidst even the fiercest competition and in saturated markets. We reacted to these market conditions very early on by reducing our debt level, implementing cost-cutting programs and streamlining our structures. We now generate attractive and reliable cash flows in our core areas of business. On the one hand, we are investing this in growth markets, and on the other we are increasingly returning it to our shareholders. By raising the pay-out ratio in 2005 from 50% to 65% we intend to send a very clear signal in this regard.

abroad. Future value-enhancing expansion steps will concentrate on the mobile communications market in southeast Europe. The consolidation efforts of previous years have provided Telekom Austria with the necessary financial flexibility and strength for these projects. In the next three years Telekom Austria plans to use up to EUR 2 billion for acquisitions in the wireless segment. In the same period, up to EUR 1 billion will be returned to Telekom Austria shareholders in the form of dividends and share buybacks. However, neither the acquisition plans nor the planned increase in payouts to shareholders may pose a threat to Telekom Austria's financial strength. We therefore intend to limit net gearing to less than 120%, while the relation of net debt to adjusted EBITDA should not be allowed to exceed 2.0 in the medium term.

In order to achieve these ambitious goals, the company will devote continued effort to increasing profitability by rigorous cost control in both the wireline and wireless segments. Parallel to this, continuous optimization of key processes will also further enhance efficiency.

Interview with **Stefano Colombo**

"Stable Cash Flows and Growth"

Stefano Colombo
Chief Financial Officer

Mr. Colombo, Telekom Austria has dramatically reduced its debt level in recent years? How was this achieved?
As the market in Austria is so highly competitive we imposed rigid cash flow discipline at a very early date – well before comparable companies. Due to strict cost-cutting measures and continuous reductions in capital expenditures both business segments now have attractive cash flows. In the past we used this mainly to reduce our debt level in order to create a stable financial structure that would enable us to meet the challenges of the future. In the last 18 months alone we have reduced our net debt by some EUR 1 billion. At the same time, there has been a huge improvement in the return on capital employed (ROCE) which rose from 6.7% in 2003 to 9.1% in 2004, and which has almost doubled since 2002. However, we are very much aware that we still have to catch up with our peer companies in this regard. The extremely successful placement of two bonds with a total volume of EUR 1 billion in January 2005 was a clear indicator of Telekom Austria's attractiveness. We have not only strengthened our long-term financial profile, but also achieved financial independence and increased our flexibility.

The financial markets currently prefer companies which make high dividend payments? Will Telekom Austria respond to this wish?
The expectations and demands of the capital markets are also subject to constant change. We have to base our corporate policy on achieving sustainable profit levels. We are therefore striving to achieve a balance between acquisitions and shareholder remuneration. In the years up to 2007 we want to use EUR 2 billion for acquisitions in southeast Europe and return up to EUR 1 billion to our shareholders in the form of dividends and share buybacks. With this strategy we want to protect Telekom Austria's long-term growth perspectives.

What will be the biggest challenges for the Telekom Austria Group in the next few years?
The conclusion of the call option agreement for MobilTel last year paved the way for an important step forward in our expansion into southeast Europe. Others will follow. In my opinion, integrating these acquisitions in the Telekom Austria Group, while maintaining the same determined focus on efficiency and the competitiveness of our existing activities, will pose the biggest challenge in the next few years. Given the positive business development of the Telekom Austria Group in recent years and the challenges we have already overcome, I am confident that we will be able to successfully master the challenges ahead.

Telekom Austria Group*

Wireline	Wireless
Retail	mobilkom austria
Wholesale	VIPnet
	Si.mobil
	mobilkom [liechtenstein]

* A complete list of all group companies is provided in the notes on p. 119.

Strategic Goals: Wireline

In order to achieve the strategic goals for the period up to 2007, implementation steps have been defined for each year. In 2005 these are:

- Stabilize and expand customer relations through product innovation and portfolio adjustments, while simultaneously optimizing market share.
- Increase broadband market share by strengthening the online brand, expand the range of broadband content and applications as well as the XDSL product portfolio.
- Improve efficiency by automating standard processes and optimizing order and service management.
- Reduce costs in technical operations by consolidating platforms and maintenance models and by selectively reducing services.
- Build up competence in the new business areas through further education and professional training of employees as well as intensified co-operation with external partners.

Wireline

The success of the wireline segment and its strategic focus is clearly demonstrated by the increase in market share measured in voice minutes in a highly competitive environment as well as improved revenues from the wholesale business and a general stabilization of sales revenues. Our positioning is focused on our customers, who rated Telekom Austria "best-in-class" in surveys and studies, expressing their satisfaction with our improved processes and optimized service quality.

In conjunction with the enlargement of our broadband product portfolio sales activities were also strengthened, resulting in an increase of over 47% in broadband lines in the year under review. Based on the experience gained with aon.tv, Telekom Austria will roll out "Triple Play" services in 2005. These combine voice telephony, Internet and television as well as features such as digital video recorder and video on demand.

To help meet the company's medium-term goals, in 2004 the wireline segment initiated the program "TOP 2004-2007" (Telekom Austria Outstanding Performance). Five success parameters – customers, markets, technology, operations, efficiency, employee potential – were identified and subsequently analyzed in sub-projects to define safeguarding measures.

Telekom Austria's stated medium-term goal is to become the most profitable telecommunications provider in Europe and to defend its market and innovation leadership in Austria. Furthermore, by 2007 5% of revenues should be generated by new business areas. The company also aims to be the most attractive employer in the domestic high-tech industry by then.

As a part of the TOP program, Telekom Austria focused on optimizing its core business in the reporting year. In 2005 efforts will be devoted to identifying new business areas and promising options for success as well as to examining how the efficiency of internal processes can be improved and employee motivation boosted.

With the migration of existing networks to a Next Generation Network (NGN) over the next few years, Telekom Austria is paving the way to meet future demands in terms of network infrastructure. In addition to the necessary preparatory steps and the development of a technological action plan to expand the VoIP market, the main operational focus in 2005 will be on gradually adapting the process-supporting systems landscapes.

Wireless

In the wireless segment our strategic focus will be to steadily increase customer convenience by offering innovative mobile communications solutions and optimizing value-for-money. Greater cooperation between the individual wireless subsidiaries should allow for more efficient synergies both within the wireless segment as well as within the scope of the partnership with Vodafone, while at the same time creating an ideal basis for further expansion steps.

In 2005 the cross-border integration of technical systems will be pushed ahead with a view to accelerating the introduction of products jointly developed with Vodafone as well as own developments of the mobilkom austria group. In the business segment the introduction of mobile broadband access on the basis of the Vodafone Mobile Connect Card along with mobile office solutions delivered strong impulses. In the residential segment data revenues will mainly be driven by the product Vodafone live!, which is to be expanded in 2005, along with SMS.

Despite the highly competitive environment, mobilkom austria maintains its position as the undisputed market leader in Austria and profits from a high-value customer structure. Thanks to innovative product solutions and quality leadership the company was able to preserve a very high market share in the business segment, serving roughly two-thirds of the market. Moreover, the new tariff structure introduced in 2004 not only offers customers greater transparency, it is also highly competitive.

The scaling-down of investments in the GSM network and the shift in capacities to the UMTS network, together with the streamlining of processes in the core businesses voice and SMS, will result in cost reductions. The combination of EDGE (Enhanced Data Service for Global Evolution) and UMTS will lead to a 95% 3G population coverage by the end of June 2005, thus providing the basis for the optimal use of mobile high-speed multimedia services across the country.

The wireless segment is well positioned in the classic prepaid market of Croatia with VIPnet and is profiting from the dynamic development of the market and integration in the partnership with Vodafone. To meet the market's future quality demands UMTS will be implemented alongside EDGE in 2005. Furthermore, VIPnet will examine the option of purchasing a license for fixed line services to enable the company to position itself as a one-stop-shop provider of communications services.

In Slovenia Si.mobil is increasingly developing into the price leader, offering cost-efficient innovative services by introducing carefully selected products from the Vodafone portfolio. In 2005 activities to target young customers will be intensified and Vodafone live! services will be expanded.

Efforts to achieve greater internationalization will also be continued in 2005 with additional selected and value-enhancing expansion projects in southeast Europe. The conclusion of the call option agreement in December 2004 for the takeover of the leading Bulgarian mobile communications operator MobilTel in 2005, was an important milestone in this regard.

Strategic Goals: Wireless

The challenges of the coming years are clear: protect existing markets and expand into new growth areas!

- Detailed analysis of the call option agreement and integration of MobilTel. Examination of other selected value-enhancing expansion projects.
- Increase efficiency by reducing capital expenditures in the GSM area and shift capacity into the UMTS network.
- Strong revenue growth from data communications with a proportionally low development of costs.
- Joint procurement of handsets, joint product development and harmonization of technologies increase synergies within the mobilkom austria group and with Vodafone.

Corporate Governance

Telekom Austria has continued its efforts to steadily improve corporate governance and is implementing new control mechanisms.

Quick Info

- Compliance with the Austrian Corporate Governance Code confirmed by external audit
- Continuing efforts to improve compliance
- Implementation of the internal control system as required by the Sarbanes-Oxley Act

The complete withdrawal of Telecom Italia at the start of the year was followed on December 2, 2004 by the placement of 17% or 85 million Telekom Austria shares by Österreichische Industrieholding AG (ÖIAG). As a result, the free float of Telekom Austria rose from 38% to 69.8% in 2004.

Telekom Austria takes full responsibility towards its shareholders to position itself as an attractive investment on the capital market. Telekom Austria regards corporate governance as a value-creating and effective framework for corporate management and monitoring and has therefore committed itself to compliance with the Austrian Corporate Governance Code.

Due to its listing on the New York Stock Exchange, Telekom Austria is also subject to the legal requirements of the Sarbanes-Oxley Act. Implementation of the provisions of the Austrian Corporate Governance Code therefore had to be closely coordinated with US regulations.

Sarbanes-Oxley Act

The US Congress enacted the Sarbanes-Oxley Act in July 2002 in order to restore investor confidence, which had been shaken by a series of financial scandals. The law will be implemented in stages, starting in 2003. Numerous provisions such as those requiring the establishment of an Audit Committee, procedures for auditing the annual financial statements and the creation of a Code of Ethics are designed to protect investors' interests.

Audit Committee

The Audit Committee, established by Telekom Austria in December 2003, is responsible for monitoring the integrity of the financial statements, the work of the auditors and preparations for the introduction of International Financial Reporting Standards (IFRS). The Audit Committee also plays an important role in implementing the internal control system for financial reporting and risk management at Telekom Austria. The result of the in-depth examinations of these sensitive issues is then submitted to the Supervisory Board in the form of a report, making a valuable contribution to good corporate governance at Telekom Austria.

Code of Ethics

The Code of Ethics published under Investor Relations on our website at www.telekom.at requires members of the Management Board and executives who fall under the scope of the Code, i.e. primarily those involved in financial reporting, to follow the highest standards of ethical behavior in all the company's business activities.

Disclosure Committee

Telekom Austria has an obligation to its shareholders to attach particular importance to correct and exhaustive reporting which reflects the actual development of the company. A Disclosure Committee comprising senior members of the accounting, legal and investor relations departments of Telekom Austria and the Chief Financial Officer of mobilkom austria was therefore established to optimize and monitor the relevant means of communication such as annual or quarterly reports.

Internal Control System

Among the most important provisions of the Sarbanes-Oxley Act are those concerning the establishment and monitoring of the internal control system for financial reporting (SOA-ICS), which must be implemented by the end of 2006. The purpose of this system is to ensure the absolute integrity of internally generated data, and both the company and the auditor must verify the effectiveness of controls to uncover possible financial reporting risks. Any weaknesses which are identified must be reported to both the Management Board and the Audit Committee depending on their significance. A pilot project in accordance with the international rules for internal control systems (COSO) in the accounting department was successfully carried out in the year under review and its implementation throughout the Telekom Austria Group will start in 2005.

Detailed information about the financial results and the risks associated with business operations as well as legal and regulatory aspects is provided in the Form 20-F, a publication similar to the annual report, which is required by the US Securities and Exchange Commission — SEC. It is available on our website under www.telekom.at. Moreover, as of spring 2007, the annual report and the auditor's certificate for the SOA-ICS will also be included in the 20-F and forwarded to the SEC.

Austrian Corporate Governance Code

In a resolution adopted by the Management Board in November 2003 Telekom Austria voluntarily committed itself to compliance with the Austrian Corporate Governance Code, starting with publication of the Annual Report 2003.

The following statements refer to the version of the Code on the balance sheet date December 31, 2004. Within the framework of the regular review of the Code by the Corporate Governance working group a number of rules were adapted in 1Q 2005. These amendments will not change Telekom Austria's commitment to the Code.

Under the terms of its compliance declaration Telekom Austria has subjected its adherence to the Austrian Corporate Governance Code to external verification. The external audit carried out by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft found nothing which contradicted the statements made by the Management Board and Supervisory Board of Telekom Austria regarding compliance with the provisions of the Austrian Corporate Governance Code. A summary of the audit report and the complete text of the Austrian Corporate Governance Code are available on our website under www.telekom.at.

The Austrian Corporate Governance Code comprises 79 rules. Of these, 23 ("L rules" – legal requirements) refer to existing mandatory requirements such as stock exchange or stock corporation law. A further 45 rules are classified as comply or explain laws ("C rules"), and details must be provided on any deviations.
The remaining 11 rules ("R" rules) are recommendations, and non-compliance need neither be disclosed nor explained.

Telekom Austria meets all legal requirements of the Corporate Governance Code in full. However, it is not possible to comply with certain provisions of the following C Rules, due to the regulations of the Sarbanes-Oxley Act among other things.

Rule 4:
Countermotions are not published on the company's homepage because the Annual General Meeting is the forum for such proposals.
Rule 28:
Resolutions concerning stock option plans for the Management Board are passed by the Supervisory Board. The parameters of the new stock option plan were presented to the Annual General Meeting on June 3, 2004.

Rule 39:
A committee with authorization to take decisions in urgent cases has not been established as the standing rules for the Supervisory Board allow the entire Supervisory Board to make decisions at short notice.

Rule 40:
The Financial Committee serves concurrently as an Audit Committee in accordance with the provisions of the Sarbanes-Oxley Act, the standards relating to Listed Company Audit Committees of the Securities Exchange Commission (SEC) and the relevant regulations that govern Telekom Austria as a foreign issuer.

Rule 42:
A Strategy Committee has not been established since the entire Supervisory Board deals with the strategy of the company.

Rule 43:
The Chairing Committee of the Supervisory Board assumes the functions of a Personnel Committee.

Rule 49:
Consulting contracts with individual members of the Supervisory Board or companies closely related to such persons as well as the relevant fees are published in the annual report in accordance with U.S. GAAP (see Appendix page 82 – Related Party Transactions).

Rule 51:
The members of the Supervisory Board were elected by the Annual General Meeting on June 4, 2003. The first priority was to create an expert Supervisory Board; a representative was not elected for free float shares.

Rule 54:
A proposal suggesting the inclusion of an age limit for the last possible election to the Supervisory Board will be submitted to the Annual General Meeting 2005.

Rule 63:
The outlook covers the current business year. If there are any major differences to previous statements, we inform our stockholders.

Rule 66:
The information provided in the notes to the annual financial statements is based on U.S. GAAP and includes an explanation of the risks associated with financial instruments. In addition, we also provide extensive information in our annual report to the SEC (20-F) on risks associated with business operations and the development of the company's share. This report is published on our website www.telekom.at.

Rules 77 and 78:
The management letter and auditor's report on risk management are presented to the Chairman of the Financial Committee/Audit Committee, who ensures corresponding discussion and actions by the Financial Committee/Audit Committee.

Compliance Guidelines

On January 1, 2005 a strict, Europe-wide uniform legal framework to prevent and combat misconduct by insiders and market manipulation also came into force in Austria. This new legal framework has been incorporated into the amendment of the Austrian Corporate Governance Code in 2005.

Telekom Austria has issued compliance guidelines for the group to prevent the misuse or distribution of insider information that meet both current Austrian and US capital market rules.

Twenty-six classified units have been defined within Telekom Austria AG. The members of the Supervisory Board and Telekom Finanzmanagement GmbH, which is responsible for issuing corporate bonds, each form a separate unit.

In the reporting year Telekom Austria strengthened its efforts to promote a strong understanding of compliance by holding regular workshops and training programs. Employees working in classified areas are notified of specific blocking periods and trading prohibitions prior to the announcement of annual and quarterly results. Furthermore, organizational measures have been put in place in the areas of IT security, documentation and the distribution of sensitive data to prevent the misuse of insider information.

Exercise No. 2:
Lean and fit for greater agility

We have gone through a rigorous training program which helped us to slim down. As a result we have been able to reduce debt by roughly EUR 1 billion over the last 18 months. That not only cuts a good figure, it also paves the way for a flexible capital structure with greater financial agility.

Investor Relations

Quick Info

- Free float rises to 69.8%.
- Telekom Austria share clearly outperforms other branch stocks: + 42.3%
- Sharp increase in the dividend and start of stock buybacks

Positive Stock Market Conditions

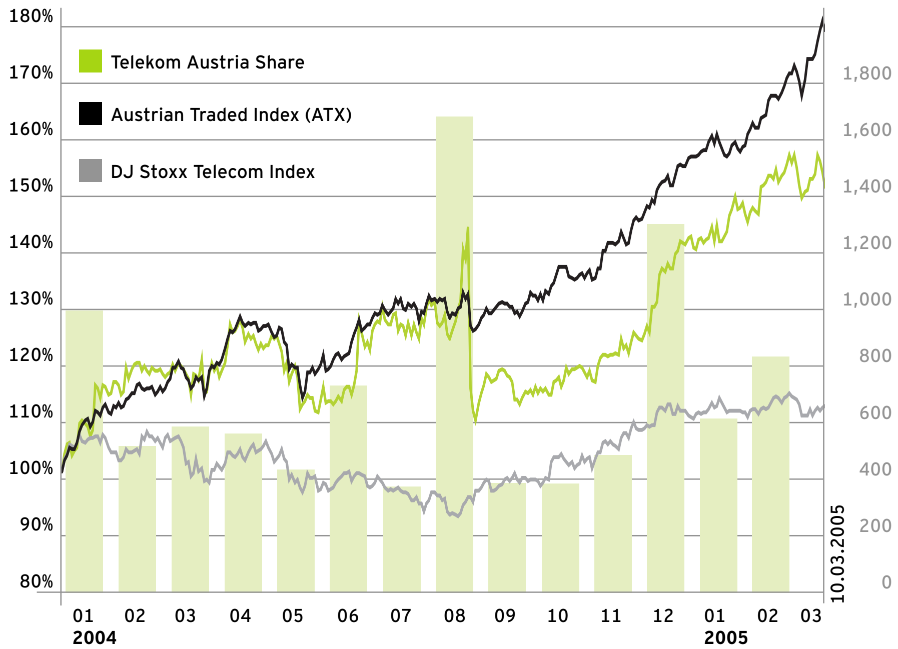
Massive increases in the price of crude oil and uncertainty about economic trends and interest rate fluctuations prompted a general sideways movement on the leading international stock exchanges in 2004. However, following a clear upturn in the 4th quarter, the most important stock indices closed with a slight gain in a year-to-year comparison: The Dow Jones rose by more than 3%, and the DAX by approximately 7%. Measured against the FTSE 300 Eurotop Index, the European market increased by roughly 9%. Telecommunications stocks recorded slightly stronger growth, with the Dow Jones Stoxx Telecom Index gaining 12%. The Vienna Stock Exchange was the top performer among the EU exchanges in 2004 with an outstanding increase of 57% – closing on the last day of trading at an all-time high of 2,431 points.

Development of Telekom Austria Share Price

indexed as of Jan. 1, 2004

Source: Datastream

Trading volume in EUR mn.



Trading volume of the Telekom Austria share per month in EUR million.

Sharp Rise in Telekom Austria Share Price

Following the successful private placement of the remaining 14.8% of shares by Telecom Italia in January 2004, rumors of a possible takeover by Swisscom accelerated the share price increase in August. The break down of negotiations was briefly followed by a sharp decline in the price. However, thanks to positive interim results, the conclusion of a call option agreement for the takeover of MobilTel and the private placement of a 17% stake by ÖIAG, the Telekom Austria share climbed 42.3% to EUR 13.95 on 31.12.2004, bringing it back close to the record level reached in August. At the beginning of 2005 the stock hit new record highs.

The market capitalization of Telekom Austria rose to approximately EUR 7 billion at year-end 2004 (2003: EUR 4.9 billion). Due to the increase in the free float the average trading volume of the Telekom Austria share rose to some EUR 1.4 million shares per day. With an annual stock exchange turnover of approximately EUR 8.5 billion (double count without OTC), the Telekom Austria share was by far the most heavily traded stock on the Vienna Stock Exchange.

Turnover from over-the-counter trading (OTC turnover) amounted to EUR 1.6 billion or approximately 27% of Telekom Austria's total stock market turnover in Austria. On the New York Stock Exchange the average number of ADS traded daily rose to about 5,000 (2003: 1,300). There was also a massive increase in the number of ADS issued by the Bank of New York, which soared from 378,000 at the end of 2003 to 3.7 million as of December 31, 2004. The weighting of the Telekom Austria share in the ATX index of the Vienna Stock Exchange increased by

Financial Calendar and Contacts

May 18, 2005	Results for the First Quarter 2005
May 25, 2005	Annual General Meeting
August 24, 2005	Results for the First Half 2005
November 16, 2005	Results for the First Nine Months 2005

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2 percentage points to 17% compared to the previous year and thus remains the second heaviest weight. In addition to its listing on the ATX, the Telekom Austria share is included in the DJ Stoxx Telecom, MSCI-World, MSCI-Europe and FTSE 300 Eurotop indices, among others.

Corporate Bonds

Following the placement of the first corporate bond in summer 2003, the leading rating agencies Standard & Poor's and Moody's Investors Service classified Telekom Austria as BBB and Baa2 respectively. In the second quarter of 2004 the two agencies recognized consistent operational success and, including the possible acquisition of the Bulgarian operator MobilTel in their assessment, improved the rating outlook from "stable" to "positive."

In January 2005 Telekom Austria issued two corporate bonds with maturities of five and twelve years and a volume of EUR 500 million each through its subsidiary Telekom Finanzmanagement GmbH. The successful placement of the bonds, which were oversubscribed by considerable margins, enabled Telekom Austria to improve its financial flexibility at attractive conditions (3.375% resp. 4.25% coupons) on a lasting basis. The bonds are traded in Luxembourg and Vienna.

Stock Data

Stock number (Austria)	72000
SYMBOL	TKA
ISIN	AT0000720008
REUTERS	TELA.VIE
BLOOMBERG	TKA AV
Traded on	Vienna Stock Exchange
	New York Stock Exchange (NYSE)
American Depositary Shares (ADS)*	1 ADS = 2 shares of common stock
Number of shares issued	500,000,000 shares
Number of outstanding shares as of Dec. 31, 2004	493,744,306 shares
Common stock	EUR 1,090,500,000
Stock price as of Dec. 31, 2004	EUR 13.95
Stock price – low (Jan. 2, 2004)	EUR 9.80
Stock price – high (Aug. 18, 2004)	EUR 14.40
Market capitalization as of Dec. 31, 2004	EUR 6.98 bn.

* Contact for ADS owners:
Bank of New York, Jim Kelly, Tel.: +1 212 815 2368, e-mail: jkelly@bankofny.com

Increased Analyst Coverage

Following first-time analyses by ABN AMRO, HSBC, Execution Limited and MainFirst the number of investment banks covering Telekom Austria increased to 25. At a number of roadshows (27 days in all) in Europe and the USA, and at a Capital Markets Day held in Vienna in June 2004 the Management Board of Telekom Austria provided information to institutional investors. In some 200 one-on-one meetings and telephone conferences plus ten international investor conferences, management answered questions on a wide variety of issues. Communication towards private investors was also strengthened: In addition to a free hotline for shareholders and a Management Board presentation for investment consultants, we intensified direct dialogue with investors by participating in eight events organized by investment clubs.

Relaunch of www.telekom.at/ir

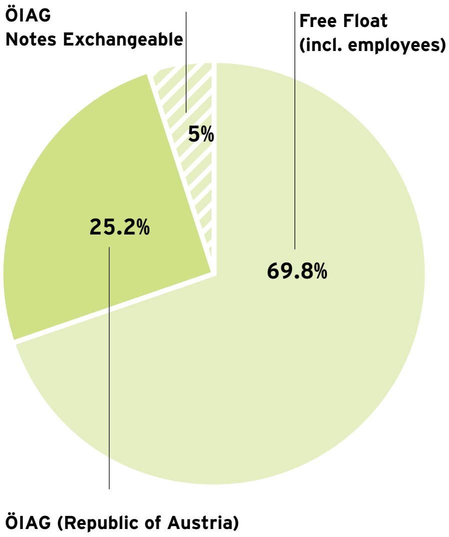
In 2004 our web presence under www.telekom.at/ir was enhanced with additional information services along with a comprehensive relaunch of design and usability in order to further facilitate access to information about Telekom Austria while making it more attractive. The newly introduced web newsletter, for example, bundles the most important Telekom Austria highlights and initiatives on a quarterly basis. Top priority, however, is given to the continuous updating of the online information services. The high quality and professionalism of Telekom Austria's web presence won a number of awards in 2004.

Dividend Policy

For the first time since the initial public offering in 2000 Telekom Austria paid out a dividend in 2004 for the financial year 2003 amounting to 50% of net income. In keeping with the positive development in the financial year 2004 the Management

Analyst Coverage
ABN AMRO
Bank Austria Creditanstalt
Berenberg Bank
CAI Cheuvreux
Citigroup
Credit Suisse First Boston
Deutsche Bank
Dresdner Kleinwort Wasserstein
ERSTE Bank
EXANE BNP Paribas
Execution Limited
Goldman Sachs
Helvea
HSBC
JP Morgan
Lehman Brothers
MainFirst
Merrill Lynch
Morgan Stanley
New Street Research
Raiffeisen Centrobank
Sal. Oppenheim
UBS Warburg
Volksbank IB
West LB Panmure

Shareholder Structure
as of Dec. 31, 2004



Board will ask the Annual General Meeting to approve the payment of a dividend of EUR 0.24 per share, an increase of about 85% on the previous year. The company plans to increase the pay-out ratio for the financial year 2005 to 65%.

Resolutions Passed by the Annual General Meeting

The Annual General Meeting was held on June 3, 2004 in the Austria Center Vienna and the Management Board's presentation was streamed live over the Internet. In addition to discharging the members of the Management and Supervisory Boards for the financial year 2003 and approving compensation for members of the Supervisory Board at the previous year's level, shareholders also voted to hire KPMG Alpen-Treuhand GmbH as the auditors for the financial year 2004. Other important resolutions passed by a majority of votes included the following:

- Authorization of an amendment to the Articles of Association to introduce an age limit for Members of the Management Board, according to which appointment would be permissible until the age of 65.
- Authorization of the Management Board to increase share capital by up to EUR 109,050,000 by issuing 50 million new bearer shares to serve holders of convertible bonds who choose to exercise their subscription right and/or their conversion right (conditional increase of share capital).
- Authorization of the Management Board to issue convertible bonds, which grant the right of subscription and/or conversion of up to 90 million shares of the company.
- Authorization of the Management Board to acquire own shares up to the maximum extent legally permitted, for a period of 18 months at a minimum price of EUR 9 and a maximum price of EUR 18 per share.

Share Buyback Program

In accordance with a resolution adopted by the Annual General Meeting, Telekom Austria started a program on August 26, 2004 to repurchase a maximum of 30 million shares (6% of share capital). By the end of 2004 3.02 million shares had been purchased through the stock exchange for an average price of EUR 11.34. Detailed information about the buyback program is available under www.telekom.at/ir.

Shareholder Structure

In January 2004 Telecom Italia sold 14.8% of the common stock of Telekom Austria to institutional investors in a private placement at EUR 10.55 per share. Early in December, ÖIAG disposed of 17% of the common stock at EUR 13.05. These two transactions increased the Telekom Austria free float to 69.8%. Prior to this, in July 2003, ÖIAG had placed notes exchangeable with a maturity in 2006, which are exchangeable for 25 million existing shares (5% of common stock). The exchange price was set at EUR 13.

As Telekom Austria stock is comprised of bearer shares it is not possible to identify the structure of the free float exactly. The most recent analyses which were able to identify roughly three quarters of free float shareholders, however, produced the following general picture: Investors from the USA and the United Kingdom probably hold one third of the shares each, some 4% is owned by Austrian investors, while about 0.6% of the free float is held by employees of Telekom Austria. As of December 31, 2004 the following shareholders had disclosed their share holdings: Capital Research & Management (Delaware) 7.2% and Capital International (California) 5.6%. As the managers of the funds controlled by these companies make their investment decisions completely independently of one another, these shares are regarded as free float.

Exercise No. 3: Moving higher and higher with a strong partner

mobilkom austria, VIPnet, Si.mobil and Vodafone have been a winning team since 2003. This partnership also provides the wireless segment with a decisive competitive advantage in the field of 3G telecommunication networks. Joint product development, synergies in procurement and international roaming are important milestones in the race to the top.

Human Resources

Telekom Austria wants to become Austria's most attractive employer in the high-tech industry by investing in continuing education and professional training programs and encouraging employee performance and responsibility.

Quick Info

- Investment of roughly EUR 11.5 million in further education and professional training
- Telekom Austria Group workforce totals 13,307, down by 583 compared to the previous year
- Performance management expanded for all employees, Stock Option Program for key managers reissued

Attractive Employer

Telekom Austria continuously invests in training and education programs for its employees and strives to create an optimal framework for fostering individual skills, strengthening employees' identification with the company and a performance-oriented work ethic.

In the wireline segment a detailed analysis of management development and succession planning was started as part of the Top TeamUp project. The results of a subsequent benchmarking process were integrated into a catalogue of measures to be implemented in a number of sub-projects. In 1Q 2005 a detailed employee survey was carried out to ascertain individual needs and wishes. Regular performance reviews are carried out in all segments of the Telekom Austria Group in order to identify individual development potential and internal career opportunities. The wireless segment has refined the 360 degree feedback method as a human resources development tool and it is now used in both Austria and at VIPnet in Croatia.

Telekom Austria is strongly committed to improving career opportunities for women. In addition to a broad range of seminars, specialist lectures and internal discussion groups some 80 female managers completed a special training course as part of the Managing Diversity program.

Telekom Austria has used teleworking to create a model designed to improve the flexibility of the work environment based upon mutual agreement between the individual employee and the company. The "mobile working" project which was introduced in the wireless segment in 2004 not only introduced greater flexibility in terms of where work is carried out, it also allowed the company to test new products such as MOBILE OFFICE and made it possible to optimize contact with customers and business partners.

Increased cross-border cooperation within the Telekom Austria Group and the planned expansion in southeast Europe are creating greater international career opportunities in a challenging environment for our employees. Moreover, greater efforts are being made to fill as many positions as possible through an internal job market. In 2004 the wireline segment successfully filled more than 90% of all new vacancies from within the company while the figure for the wireless segment was 42%.

Under the terms of the collective bargaining agreement all Telekom Austria employees in Austria received a 2.4% wage increase as of January 1, 2005; in addition they also received a one-off bonus payment of between EUR 150 and EUR 200. All members of the Austrian workforce with private-law employment contracts are covered by a pension plan to which the company contributes 5% of the employees' monthly salaries.

Continuing Education and Further Training

In the financial year 2004 Telekom Austria invested some EUR 11.5 million in continuing education and further training for its employees in Austria and abroad. In the wireline segment employees attended a total of 33,500 seminar days focusing on technology, electronic data processing, management and project management skills. 34 young people also commenced their apprenticeship training at the company in the fall. The wireless segment expanded its range of e-learning courses and also focused on customer relation management, and technology and project management training. The wireless segment held a total of 21,000 training days.

Management Development

Telekom Austria attaches great importance to identifying potential managers and developing current executives.
The High Potential Program provides young men and women with numerous opportunities for advancement within the company and more than 100 employees have completed this intensive training program to date. The 12 participants in the MBA program for Telekom Austria executives, which was started in 2003, successfully completed the course in December 2004. An additional 12 employees started a new course in October.
At mobilkom austria management development activities in 2004 focused upon the implementation of a new performance and development system. VIPnet and Si.mobil concentrated on executive coaching.

Personnel Development by Segments

Full-time employees at year-end	**2004**	**2003**	**2002**
Wireline	9,682	10,234	11,359
Wireless	3,625	3,656	3,592
Telekom Austria Group	13,307	13,890	14,951

Productivity Figures per Employee	**2004**	**2003**	**2002**
Total managed revenues per employee	297,400	270,800	248,700
Total managed EBITDA per employee	115,000	103,000	93,200
Fixed lines per employee	300	294	273
Wireless customers per employee	1,365	1,296	1,239

Performance Management

In order to foster a performance-oriented work ethic, performance contracts and bonus schemes have been implemented throughout the company. Such performance contracts have already been concluded with one in four wireline employees, and plans are in place to use them more widely. In the wireless segment the performance management system has been refined and the remuneration system further developed to better reflect market trends. The performance-related goals for employees were defined in line with the corporate strategy.

In April 2004 a multi-year Employee Stock Option Program (ESOP) was started with the aim of increasing the profitability and earning power of the Telekom Austria Group. ESOP links the development of the company's stock market value to management incentives and is an important means of enhancing managers' motivation and loyalty to the company over the long term. The key indicator for the exercise of the option is the earnings per share ratio. ESOP is issued in three separate tranches with option lives of 12 to 14 months and a three-year vesting period. Each tranche must be authorized anew, thus redefining the circle of eligible participants each year. To date, the tranches ESOP 2004+ (in April 2004) and ESOP 2005+ (in January 2005) have been issued to some 200 key managers.

Efficient Personnel Deployment

In keeping with the goals of the Group strategy to increase profitability the number of Telekom employees was reduced to 13,307, down by 583 compared to the previous year. The wireline segment reported a headcount reduction of 552 employees to a level of 9,682 employees, improving the ratio of fixed lines per employee from 294 to 300. All restructuring measures were implemented on a socially responsible basis. Employees affected by the program are able to retrain within the framework of the company's work foundation for a maximum period of four years. In total, 113 employees are currently making use of this facility. In the wireless segment the automation of standard administrative processes led to a headcount reduction of 31 – notwithstanding 4.7% growth in revenue.

Approximately 51% (2003: 54%) of the Telekom Austria workforce had civil servant status at the end of 2004.

Sustainability

Telekom Austria combines its corporate business goals with sustainable growth and progress.

Quick Info

- Campaigns to provide all segments of the population with access to digital technology
- Environmental management system certified in accordance with ISO 14001
- Publication date of the Sustainability Report: Summer 2005

As the largest domestic telecommunications company, Telekom Austria is well aware of its special responsibility towards society and the environment. Details of the efforts and processes that demonstrate this awareness were published for the first time in 2003 in a Sustainability Report. The next biannual Sustainability Report will be published in summer 2005, in the meantime a Fact Sheet provides information about the most recent developments. Both publications are available at www.telekom.at under "Responsibility."

Telekom Austria's commitment to the principles of sustainable corporate management has also been recognized in the positive evaluations of external rating agencies. Since 2001 Telekom Austria has been included in the FTSE4Good index, which lists companies with high corporate social responsibility. The Munich rating agency oekom-research AG has also included Telekom Austria in its list of sustainable investment products.

Environmental Protection

In 2004 an integrated environmental management system was successfully introduced in the wireline segment and certified in accordance with ISO 14001. In addition to the consumption of resources, the main targets focus upon the reduction of telecommunications waste, which registered a considerable decrease of 11.3% in 2003 due to the dismantling of electronic components. In 2004 telecommunications waste increased slightly by 1.2% compared to the previous year as a result of infrastructure measures and the continued centralization of business locations.

Measures such as the printing of bills on both sides of the paper and the opening of a scan center made it possible to cut paper consumption by 10.6% in 2003. In 2004 product launches and mailing campaigns to support the reorientation of the marketing retail unit led to an increase in paper consumption, which thanks to the aforementioned measures was limited to 3.7%. The implementation of the environmental management system was accompanied by the nation-wide internal information campaign "Working for a Better Environment."

In the wireless segment, mobilkom austria continuously supports research projects which investigate the impact of electromagnetic fields. The company actively engages in an open dialogue with members of the community living close to mobile radio communications installations and provides sound scientific information for all those who are interested. The free brochures "Mobile Communications and Health", "Mobile Communications and Infrastructure", "Mobile Communications and Limit Values" and "Mobile Communications and UMTS" can be obtained by sending an e-mail to mobilkom austria's environmental team at umweltteam@mobilkom.at or by calling the free hotline. Detailed information on these topics is also available at www.mobilkomaustria.com/umwelt.

In December 2003 mobilkom austria and the City of Vienna launched a campaign to collect end-of-life mobile telephones free of charge. These are then either recycled or disposed of in an environmentally friendly manner. In spring 2004 the project was extended to the rest of the country. For each mobile telephone returned mobilkom austria donates EUR 3 to fund "Doctors without Borders" – in the year under review this initiative raised some EUR 26,500.

Social Commitment

The Telekom Austria Group demonstrates its sense of responsibility toward society through a large number of carefully selected sponsoring activities. In addition to a 30-year partnership with Light into Darkness, Austria's largest charitable fundraising campaign, and the long standing support provided by mobilkom austria for Doctors without Borders, Telekom Austria also started supporting the Austrian Paralympic Committee (ÖPC) in 2004.

The Telekom Austria Group is committed to offering rapid and unbureaucratic assistance in crisis situations. In the first two weeks after the tsunami disaster in south-east Asia the Group did not charge its customers for fixed line calls to the region or for roaming fees. A toll-free donation hotline and an SMS donation platform for Neighbor in Need and Doctors without Borders were also set up. mobilkom austria also provided the relief organizations with special mobile telephones for use in the crisis region.

Social Sponsoring
Light into Darkness
Doctors without Borders
Austrian Blind Union
Pink Ribbon – Breast Cancer Awareness
mirno more peace flotilla
"Rat auf Draht" children's helpline
Life Ball

Art and Cultural Sponsoring
Ars Electronica Center Linz
Vienna International Festival
Ludwig Foundation at the Museum of Modern Art in Vienna
ZOOM Children's Museum
VIENNALE
Cloud of Sound in Linz
Vienna Children's Theater
Children's University Vienna

Sports
Austrian Ski Federation
A1 Beach Volleyball Teams
aon VolleyLeague and aon hotVolleys
Austrian Paralympic Committee (ÖPC)
Austrian Football Federation
Austrian Sports Aid

Digital Inclusion of all Segments of the Population

As the technology leader in the Austrian telecommunications industry Telekom Austria is committed to providing all segments of the population with access to modern communications technologies. Partnerships with municipalities that have only a low level of telecommunications coverage help counteract the digital exclusion of disadvantaged sections of the community. With the help of the "Seniorkom" campaign, which was launched in co-operation with the Austrian Council of Senior Citizens, training programs and special products facilitate access to electronic sources of information for senior citizens.

Telekom Austria supports institutions such as the Austrian Blind Union (ÖBSV), with self-help measures forming the main focus of efforts. In 2004 the ÖBSV and Telekom Austria bundled their know-how and developed a website, www.derdurchblick.at, which is suitable for the visually impaired and meets all the requirements for barrier-free Internet access.

Exercise No. 4:
To be unbeatable you have to continuously improve your technique

Our fan club is growing all the time thanks to a volley of innovative products geared to market requirements. On the basis of a sales organization that has been optimized to meet customer demands we want to generate some 5% of revenues from new business areas by 2007. Our Next Generation Network will provide the right technology to serve the ultimate ace.

Innovation and Technology

Telekom Austria's research and development activities concentrate on expanding technological expertise and innovation leadership to enhance customer convenience.

Quick Info

- EUR 42.4 million invested in R&D
- Expansion of innovation and technology leadership
- Preparations for implementation of the Next Generation Network

Telekom Austria is the innovation driver for the Austrian telecommunications industry and makes a key contribution to technological progress in Austria. The major objective of research and development, which is carried out within the company and also in numerous partnerships with external organizations, is to maintain innovation leadership in terms of quality, standard of service and product innovation. In 2004 Telekom Austria invested a total of EUR 42.4 million in research and development.

Key Areas in R&D – Wireline

Development activities in 2004 focused upon preparing for the gradual migration of the previously separate communication networks for voice, data and video to an integrated Internet Protocol based Next Generation Network (NGN). NGN combines backbone technologies (fiber optic, WDM), access technologies (xDSL) and IP technologies into an open standard for interactive multimedia services.

With the development of this Next Generation Media (NGM) platform Telekom Austria is responding to the market trend of integrating voice and data communications, mobility and multimedia end-to-end solutions. An NGM pilot installation which demonstrated the merger of TV, Internet, multimedia and interactive video applications was presented at the Technology Forum in Alpbach.

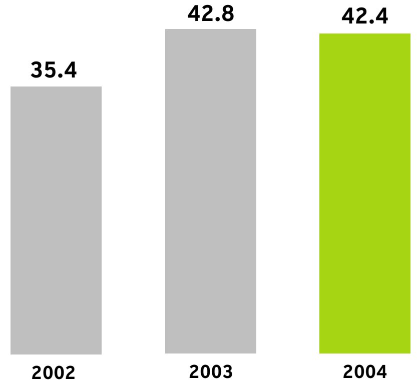
Building on the sound work carried out by the research and development areas innovative applications such as the KomfortBox (virtual, network-centric answering machine for unified messaging) or LIC Plus Voice (MPLS based IP telephony) in combination with other applications were developed and launched on the market. In a field trial in the town of Perg all modern payphones (multimedia stations) and other public locations were equipped with 26 WLAN access points, providing wireless broadband Internet access within a 100 meter radius.

Innovations – Wireless

The wireless segment significantly improved mobile access to the Internet in 2004 with the products Mobile Broadband and the Vodafone Mobile Connect Card. Business customers were offered solutions permitting mobile access to e-mail including attachments and calendar functions under the product name Mobile Office. mobilkom austria was also the first mobile operator in the world to demonstrate the live reception of television news (CNN News) on a handset at the largest international mobile communications conference in Cannes.

Total Managed Expenses for Research and Development

in EUR million



Innovation Highlights in 2004

Wireline

- June: Hot Spots (Public WLAN Access Points)
- August: KomfortBox top (Unified Messaging)
- September: LIC Plus Voice (VoIP)

Wireless

- February: A1 TV (CNN Live)
- April: A1 Signatur (Mobile Electronic Citizens' Card)
- June: First cross-border SMS ticketing service in the world
- September: Vodafone Mobile Connect Card UMTS (mobile broadband)
- November: Video toll ticket for mobile telephones

Thanks to the newly introduced product A1 Signatur all steps required when dealing with official channels – from the electronic submission of applications to electronic forwarding of official documents – can be carried out "online". Combined with the innovative Paybox system of payment, the necessary fees and duties can be transferred safely and easily.

Building on experience with SMS ticketing for local transport in Vienna and Innsbruck, activities were strengthened to encourage the spread of mobile solutions and payment systems. In cooperation with Vodafone Germany, Austrian Railways (ÖBB) and CityNightLine the first cross-border international m-commerce application was presented: a train ticket for routes from Austria to Germany purchased via a mobile handset.

Beside the continuous expansion of the UMTS-network – a coverage rate of 60% has already been achieved – regular controls of network quality guarantee the quality leadership of the A1 network. Independent tests conducted by the Institute for Broadband Technology of the Vienna University of Technology in 2004 again confirmed the stability and high quality of voice and data transmission of the A1 network.

mobilkom austria's innovative strength is also reflected in the company's nominations for the internationally renowned GSM Association Award 2004. m-parking was ranked among the top three solutions in the category Best Mobile Application or Service – Consumer Market.

Innovation through Partnerships

To ensure the market-oriented introduction of increasingly complex products and services Telekom Austria has entered into partnerships with the market leaders in the relevant specialist sectors. At national level Telekom Austria is involved in the pilot project "!TV4GRAZ" – a joint field trial of the Austrian Broadcasting Corporation (ORF), The Austrian Regulatory Authority for Broadcasting and Telecommunications (RTR GmbH), and Siemens Austria – set up to evaluate interactive, digital and terrestrial television on the basis of broadband infrastructure. Individual broadband access allows cost-effective productions tailored to the needs of even small target groups. The "Buntes Fernsehen" pilot project was started in cooperation with the municipality of Engerwitzdorf to test local content productions. Triple Play services (telephone, data, Internet) were also tested for the first time in an innovative Fiber-to-the-Home (FTTH) trial on the basis of a public private partnership with the province of Carinthia and the municipality of Arnoldstein.

Awareness in the ICT industry of the need for the rapid introduction of the Internet Protocol of the future was raised by an IPv6 colloquium and a national joint campaign by the IPv6 Task Force. R&D activities at the Research Center for Telecommunications in Vienna (ftw) focused on access technologies, IP technologies and network management systems. At the international level Telekom Austria also participated in projects within the framework of the European Union Information Society Technologies (IST) program and in a number of competence networks (EURESCOM, ETSI, ITU, OMA and 3GPP).

Closer cooperation with Vodafone in product and technology management has allowed mobilkom austria to become involved in global Vodafone development projects, ensuring the efficient harmonization of specifications and requirements at an early stage, for example in the development of mobile multimedia products.

Group Management Report

Export-Led Recovery

Supported by improved export performance, which increased by 8.3% despite the strong euro, economic activity in Austria picked up notably in 2004 with GDP rising from 0.7% to 1.9% in real terms, although this is lower than the EU average of 2.2%. The massive increase in oil prices pushed inflation up from 1.3% in 2003 to 2.1% in 2004. The unemployment rate (as calculated by Eurostat) remained quite stable at 4.2% (2003: 4.1%).

The favorable growth in Telekom Austria Group's relevant foreign markets – 3.8% in Croatia and the Czech Republic, and 4.0% in Slovenia – provides a clear justification for the expansion strategy in southeast Europe. In addition, EU enlargement had a positive impact on the stability of their currencies

Development of Voice Traffic Market in the Fixed Line and Mobile Networks
in million minutes per month

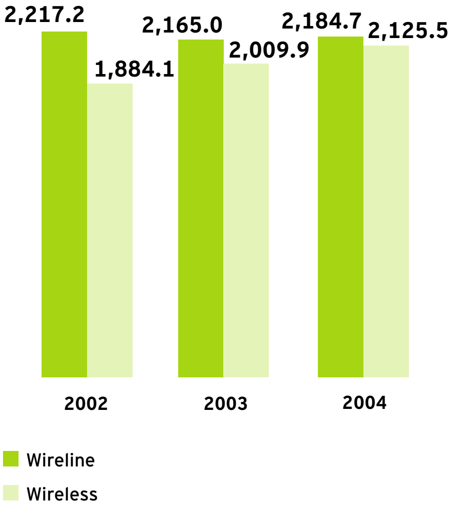
Competition Changes Market Structure

According to calculations by the European Commission, the EU market for electronic communications grew by 4.6% in 2004, due in great part to the increase in fixed line data traffic and mobile services. While in previous years the industry concentrated on reducing debt and cutting costs, the focus has now shifted to achieving growth with innovative solutions in broadband and mobile communications, a trend driven by fiercer competition in all market segments. Although the migration of voice traffic from fixed line to mobile communications is prevalent throughout Europe, the trend was especially evident in Austria in 2004 due to the extremely low price level on the wireless market. According to Telekom Austria's estimates more than half of Austrian voice traffic is carried out within mobile networks.

In 2004 this shift was clearly reflected in the market as a whole: the volume of voice traffic in the wireline segment declined by 6.9% to 10.2 billion minutes, while the mobile penetration rate rose to 98.0% with the number of customers growing by 9.3% to approximately 8 million.

Telekom Austria is responding to these changed conditions by leveraging the potential of new technologies. In the fixed line segment Telekom Austria is devoting concerted efforts to promoting ADSL technology – showing a current household coverage of 86% – in order to increase its share of the domestic broadband market. The relevance of new technologies in

Revenues by Segment
in EUR million



everyday life is demonstrated for example by the increase in PC penetration among households, which rose from 45% to 53% in Austria in a year-on-year comparison. In mobile communications the company is making the necessary infrastructure and technological preparations to meet the challenges of the future. mobilkom austria is investing considerably in the expansion of UMTS technology, underpinning its technology leadership with a coverage rate of more than 60% of the population at the end of 2004.

The migration of voice traffic to the mobile networks considerably increased pressure for consolidation on the Austrian fixed line market, culminating in the merger of the two largest alternative telecom operators Tele2 and UTA in 2004. In a market environment with 31 competitors Telekom Austria was able to slightly increase its share of the fixed line voice telephony market to 54.4% compared to the previous year, with the share of the broadband market (including wholesale customers) amounting to 46.3%.

mobilkom austria is the undisputed leader on the Austrian mobile communications market, which – given its size and seven rival providers – ranks among the most competitive in Europe. Whilst market share in 2004 declined slightly from 43.3% to 41.0%, mobilkom austria's competitive edge over its closest rival grew. VIPnet in Croatia profited from strong domestic economic growth, the flourishing tourist industry in particular had a positive impact on the increase in visitor roaming revenues. However, market share fell slightly to 46.0%. In Slovenia an increase in Si.mobil's current 23.3% market share is expected once a regulatory framework in line with EU legislation has been put into place.

Important Regulatory Decisions

Following the implementation of the Telecommunications Act in 2003, the number of markets subject to sector-specific regulation was increased. Depending on the competition level in the various 17 (telecommunications) markets a range of different regulatory measures such as ex ante approval, cost and price control is provided. The process of market analysis has now been completed for all areas except the broadband market and regulatory measures have already been laid down for most markets. With regard to Telekom Austria the markets "leased lines – backbone segment" and "residential customers – international voice traffic" registered a complete phasing out of regulation. For the mobile operators significant market power was identified in their individual mobile termination markets – consequently a consultation procedure to lay down the future amount of mobile termination charges was established.

The most important regulatory decisions for the wireline segment in the reporting year comprised the closure of the proceedings concerning access to subscriber access lines for alternative providers (wholesale line rental) by the Telekom Control Commission, the approval of the new TikTak tariffs and the lowering of interconnection fees in September.
The most important ordinances in 2004 included the Communications Parameter, Fees and Value-Added Services Ordinance which led to changes in terms of consumer protection in particular. In October 2004 mobile number portability was introduced for the wireless segment allowing customers to retain their old number when they change providers.
In December 2004 the maximum charge for this was limited to EUR 19.

Change in the Financial Statements according to U.S. GAAP

In accordance with a ruling by the Austrian Supreme Court, Telekom Austria is no longer regarded as the primary contract partner for value-added services provided by third parties and therefore ceased reporting revenues on a gross basis as of October 1, 2003. The equal reduction of revenues and costs did not have an impact on adjusted EBITDA or operating income. Where necessary for comparative purposes, data from previous years has been adapted in this group management report.

Financial Highlights (in EUR million)	2004	2003	Change in %
Revenues	4,056.3	3,969.8	2.2
Revenues excluding third-party value-added service revenues*	4,056.3	3,923.9	3.4
Operating income	452.7	369.8	22.4
Net income	227.3	134.2	69.4
Earnings per share in EUR	0.46	0.27	70.5
Adjusted EBITDA**	1,568.8	1,509.8	3.9
Capital expenditures***	548.2	599.7	-8.6
Net debt	1,973.9	2,637.3	-25.2

* For comparative purposes, prior periods were adjusted to reflect the change in the accounting of value-added services in the fourth quarter of 2003. Revenues excluding third-party value-added service revenues form the basis for the calculation of the adjusted EBITDA margin.

** Adjusted EBITDA is defined as the net result before interest, taxes, depreciation and amortization, impairment charges, dividend income, equity in earnings of affiliates, other non-operating income and expenses, minority interests and the cumulative effect of changes in accounting principles. This is equivalent to operating income before depreciation, amortization and impairment charges.

*** At the beginning of 2004 the reporting of capital expenditures was changed. This item no longer refers to "additions to property, plant and equipment" according to the fixed asset register but to "capital expenditures for tangible and intangible assets" as included in "cash flow used for investment activities" in the cash flow statement.

Operating Expenses (in EUR million)	2004	2003	Change in %
Cost of materials	324.5	297.1	9.2
Employee costs	673.7	699.3	-3.7
Depreciation, amortization and impairment charges	1,116.1	1,140.0	-2.1
Other operating expenses	1,489.3	1,463.6	1.8

Development of Results

Telekom Austria Group revenues rose by 2.2% to EUR 4,056.3 million in 2004 compared to 2003. Including the impact of the change in accounting for value-added services in 4Q 2003 for previous periods, the increase amounts to 3.4%. In 2004 this growth was supported not only by the traditionally strong wireless segment, the wireline segment also reported growth in revenues for the first time in several years, largely due to higher revenues from the wholesale business.

Interconnection revenues reported for the wholesale business include EUR 14.9 million charged in 2004 by the wireline segment for universal services provided between 1999 and 2004. Up to December 31, 2004 Telekom Austria was the only provider required to offer a minimum range of public services at reasonable prices and with a specific standard of quality for all end users, irrespective of their place of residence or business location under the terms of the Telecommunications Act 2003. In the year under review an arrangement was reached with the alternative network providers allowing Telekom Austria to charge for these universal services. A total of EUR 14.9 million was reported as operating revenue generated by the wireline segment, as the provision of universal services is part of Telekom Austria's core business. As there were no costs to be set against this revenue in 2004, the wireline operating income was positively impacted by this amount. The wireless segment accounted for EUR 6.4 million while the remaining EUR 8.5 million was generated by third parties and has therefore been included in the consolidated result.

Exercise No. 5: Expansion is the result of strength and endurance

Telekom Austria is also in great shape internationally. VIPnet in Croatia, Si.mobil in Slovenia and mobilkom [liechtenstein] contributed some 21.6% to wireless revenues in 2004. Pushing ahead with our expansion strategy in southeast Europe, e.g. by exercising our call option for MobilTel in Bulgaria, will increase these contributions.

The 9.2% rise in material expenses to EUR 324.5 million was primarily the result of higher subsidies for handsets in the wireless segment due to fierce competition. The reduced size of the workforce in the wireline segment enabled the company to lower personnel costs by 3.7% to EUR 673.7 million. Depreciation and amortization expenses (-2.1% to EUR 1,116.1 million) as well as impairment charges also declined, primarily in the wireline segment. The increase in other operating expenses by 1.8% to EUR 1,489.3 million was almost solely due to higher interconnection expenses for increased call volumes in third-party mobile networks.

The 22.4% rise in Telekom Austria Group's operating income to EUR 452.7 million above all reflected higher operating revenues and the decline in operating expenses. Operating income excluding expenses for depreciation, amortization and impairment charges (adjusted EBITDA) rose by 3.9% in the year under review to EUR 1,568.8 million, with both business segments able to achieve growth at this level. At the same time, Telekom Austria was able to increase its profitability. The adjusted EBITDA margin based on revenues excluding third-party value-added service revenues climbed from 38.5% to 38.7%.

The continued reduction of net debt together with lower interest rates led to a 23.7% decline in net interest expense to EUR 118.8 million. Equity in earnings of affiliates fell due to the one-off effect of the sale of the 26% stake in Herold Business Data AG in 2003 amounting to EUR 18.4 million. The increase in other non-operating income to EUR 15.6 million (2003: EUR -0.5 million) was mainly due to foreign exchange gains.

In 2Q 2004 the Austrian Parliament passed a tax reform which reduced the rate of corporate income tax from 34% to 25% as of January 1, 2005. The resulting revaluation of deferred tax assets and liabilities as well as tax loss carry-forwards led to a one-off tax expense of EUR 21.8 million in the reporting year. The effective tax rate excluding this one-off expense amounts to 28.7%; the difference between this figure and the statutory tax rate of 34% in Austria is attributable to foreign tax rate differentials, tax incentives and a reduction in allowances.

Telekom Austria Group's net profit rose by more than 69.4% from EUR 134.2 million in 2003 to EUR 227.3 million in 2004, exceeding original expectations. Earnings per share rose from EUR 0.27 to EUR 0.46. As the one-off expense incurred as a result of the tax reform was not reflected in the cash flow, it was not taken into account in the calculation of the proposed dividend. The Management Board will recommend that the Annual General Meeting approve payment of a dividend of EUR 0.24 per share, an 84.6% increase on the previous year. Based on the number of issued shares this raises the pay-out ratio to 52%.

Telekom Austria's improved efficiency was reflected in the Return on Capital Employed (ROCE) which rose from 6.7% to 9.1% in 2004 — but even more so in the Return on Equity (ROE) which rose from 5.2% to 8.5%.

Segment Reporting

Revenues (in EUR million)	2004	2003	Change in %
Wireline	2,184.7	2,197.7	-0.6
Wireless	2,125.5	2,030.2	4.7
Other & eliminations	-253.9	-258.1	-1.6
Consolidated revenues	**4,056.3**	**3,969.8**	**2.2**

Impact from change in the accounting of third-party value-added services before October 1, 2003 (in EUR million)	2004	2003
Wireline	-	32.7
Wireless	-	20.3
Other and eliminations	-	-7.1
Total revenues	**-**	**45.9**

Revenues excluding third-party valued-added service revenues (in EUR million)	2004	2003	Change in %
Wireline	2,184.7	2,165.0	0.9
Wireless	2,125.5	2,009.9	5.8
Others and eliminations	-253.9	-251.0	1.2
Total revenues excluding third-party value-added service revenues	**4,056.3**	**3,923.9**	**3.4**

Operating Income (in EUR million)	2004	2003	Change in %
Wireline	55.8	-34.3	-
Wireless	407.4	401.4	1.5
Others and eliminations	-10.5	2.7	-
Consolidated operating income	**452.7**	**369.8**	**22.4**

Adjusted EBITDA (in EUR million)	2004	2003	Change in %
Wireline	814.3	780.5	4.3
Wireless	765.4	727.1	5.3
Others and eliminations	-10.9	2.2	-
Consolidated adjusted EBITDA	**1,568.8**	**1,509.8**	**3.9**

Operational Turnaround in the Wireline Segment

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% (including Internet dial-up 55.2%). The 6.9% decline in voice minutes to 10.2 billion (including the decrease in Internet dial-up traffic by 10.0% to 16.0 billion minutes) was therefore almost exclusively attributable to the overall market development. Telekom Austria responded to this trend, especially in the last quarter of 2004, by intensifying its activities in the broadband area with the result that the number of ADSL lines (including wholesale customers) rose by 46.9% to 383,600. The total number of fixed lines fell by 3.5% to slightly more than 2.9 million.

Revenues adjusted by the impact of the change in the accounting of value-added services from October 1, 2003 rose by 0.9% to EUR 2,184.7 million in 2004. This increase was mainly due to the wholesale business which profited from the temporary increase in transit revenues and the aforementioned one-off gain from charging third parties for the universal service obligation. Operating income in the wireline segment improved from EUR (34.3) million in 2003 to EUR 55.8 million in 2004.

Although this development was mainly attributable to lower depreciation and amortization expenses, the 4.3% rise in operating income, excluding depreciation, amortization and impairment charges (adjusted EBITDA) to EUR 814.3 million demonstrates the continuing success of the cost-cutting program. The costs for further headcount reduction dropped from EUR 47.3 million in 2003 to EUR 19.3 million in 2004. Following a release of provisions for early retirement programs in the previous year amounting to EUR 26.8 million a further small release of EUR 1.4 million was booked in 2004.

Wireless Segment Continues Growth Course

Despite extremely fierce competition on the Austrian mobile communications market the wireless segment successfully held its position in 2004, reporting increased revenues and earnings in all regions. The segment was also able to increase its total number of customers by 4.5% to roughly 4.95 million. Revenues excluding value-added service revenues also for periods prior to October 1, 2003 grew by 5.8% to EUR 2,125.5 million. Despite increased depreciation and amortization expenses operating income rose by 1.5% to EUR 407.4 million; operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) grew by 5.3% to EUR 765.4 million.

In a market environment characterized by an unusually large number of operators and a market penetration of 98%, mobilkom austria was able to record subscriber growth of 3.5% increasing its customer base to 3.3 million. Revenues excluding value-added service revenues also for periods prior to October 1, 2003 grew by 5.0% to EUR 1,678.7 million. The income development was characterized by higher depreciation and amortization expenses and rising customer acquisition and retention costs due to exacerbated competition. At EUR 341.1 million operating income was slightly higher than in the previous year. Excluding depreciation, amortization and impairment charges, operating income (adjusted EBITDA) grew by 2.9% to EUR 593.4 million.

In Croatia, VIPnet profited both from an 8.1% increase in subscriber numbers to some 1.3 million and higher roaming revenues thanks to the booming tourist industry. Revenues grew by 10.0% to EUR 375.4 million, with operating income up by 2.1% to EUR 68.0 million. Operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) rose by 9.7% to EUR 152.7 million.

In view of the high penetration rate and the tense regulatory environment, Si.mobil in Slovenia focused upon increasing profitability in 2004. With a 0.5% increase in the number of subscribers to 363,300 and revenue growth of 7.3% to EUR 87.8 million, the company generated a positive operating result of EUR 0.1 million for the first time in 2004 (2003: EUR -3.6 million). Operating income excluding depreciation, amortization and impairment charges (adjusted EBITDA) grew by 55.7% to EUR 20.4 million, improving the adjusted EBITDA margin from 16.0% to 23.2%.

The planned expansion in southeast Europe took a major step forward in the 2004 financial year. A call option agreement was concluded in December 2004 for the complete takeover of the Bulgarian operator MobilTel for an estimated purchase price of approximately EUR 1,600 million. This price already takes into account MobilTel's net debt at the takeover date. With 2.75 million customers and a market share of approximately 67% on June 30, 2004 MobilTel is the largest mobile communications provider in Bulgaria. Completion of the transaction is expected for the fourth quarter of 2005.

Exercise No. 6: Champions strike hard and hit the mark

In the ferocious price war Telekom Austria has successfully warded off all attacks against its leading position on the Austrian wireless market. Rivals have been kept at bay and the lead over our main competitor has even increased. A two-third share of the profitable business segment once again demonstrates that our products are right on target.

Development of Balance Sheet

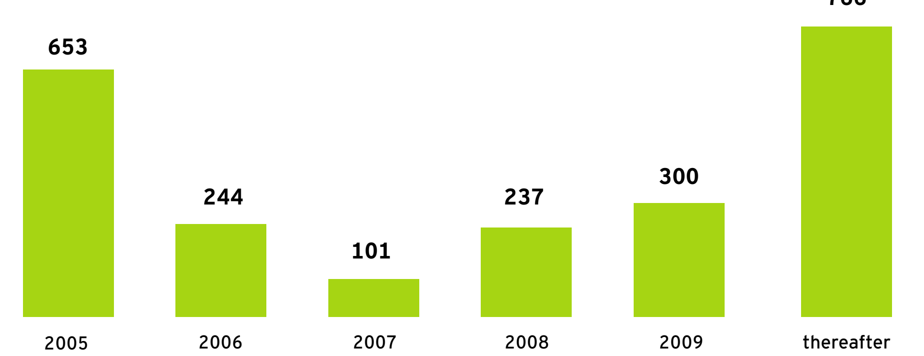
(in EUR million)	Dec. 31, 2004	Dec. 31, 2003
Current assets	1,273.9	1,124.8
Property, plant and equipment	3,888.7	4,457.7
Goodwill	596.6	597.6
Other intangible assets	667.3	712.0
Other assets	816.0	1,004.2
TOTAL ASSETS	**7,242.5**	**7,896.3**
Current liabilities	1,872.1	1,789.7
Long-term debt, net of current portion	1,647.2	2,342.3
Lease obligations, net of current portion	761.1	861.3
Employee benefit obligations	110.0	156.0
Other liabilities	110.5	107.6
Stockholders' equity	2,741.6	2,639.4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**7,242.5**	**7,896.3**

Net debt

(in EUR million)	Dec. 31, 2004	Dec. 31, 2003
Long-term debt, net of current portion	1,647.2	2,342.3
Short-term borrowings	751.1	631.3
- Short-term portion of capital and cross-border lease	-95.3	-95.5
+ Capital lease obligations (short-term and long-term)	1.6	2.1
Cash and cash equivalents, short-term and long-term investments	-312.9	-226.4
Financial instruments, included in other assets	-17.8	-16.5
Net debt of Telekom Austria	**1,973.9**	**2,637.3**
Net debit/Equity	**72.0%**	**99.9%**

Maturity of Long-term Liabilities

in EUR million as of Dec. 31, 2004



Decline in Balance Sheet Total due to Lower Fixed Assets

Property, plant and equipment decreased from EUR 4.5 billion to EUR 3.9 billion in 2004 due to depreciation and amortization but also to reduced additions and was the main factor behind the reduction in the balance sheet total. Other intangible assets also declined by EUR 44.7 million to EUR 667.3 million. Current assets rose by EUR 149.1 million to EUR 1.3 billion due mainly to an increase of EUR 86.3 million in cash and cash equivalents and a rise in accounts receivable of EUR 22.3 million including receivables sold as part of the asset-backed securitization program.

Other assets mainly include other long-term receivables and assets totaling EUR 816.0 million largely from cross-border lease transactions which are offset by US dollar denominated lease obligations of the same amount. The weakness of the US dollar once again led to a decline in receivables and liabilities due to cross border leases of the same amount. Employee benefit obligations declined among other reasons due to the release of obligations from the voluntary retirement incentive programs. Higher current financial liabilities in particular, led to an increase in current liabilities.

The net income of EUR 227.3 million led to an increase in stockholders' equity of EUR 102.2 million despite the dividend payment of EUR 64.6 million for 2003 and the share buybacks. Altogether stockholders' equity increased by 3.9% to 2.7 billion EUR or 37.9% of the balance sheet total (2003: 33.4%).

The Annual General Meeting held on June 3, 2004 authorized the Management Board of Telekom Austria to purchase treasury shares in the maximum extent legally permitted, for a period of 18 months to end on December 2, 2005 at a minimum price of EUR 9 and a maximum price of EUR 18 per share. This authorization entitles the Management Board to use the shares bought back to service the stock option programs, to fulfill obligations resulting from the issue of convertible bonds, but also as consideration for corporate acquisitions and for resale. Shares which are not used for one of these purposes may be retired with the prior consent of the Annual General Meeting.

On the basis of this authorization, Telekom Austria purchased 3,018,561 of treasury shares in the 2004 financial year at an average price per share of EUR 11.34. Prior to this 3,237,133 treasury shares had been purchased within the framework of the stock option program, bringing the total number of treasury shares held by the company to 6,255,694. This reduced stockholders' equity by EUR 63.4 million.

Thanks to a further improved generation of cash flow Telekom Austria was able to reduce net liabilities in the reporting year by EUR 663.4 million to EUR 1,973.9 million, so that the debt-to-equity ratio (net gearing) fell from 99.9% in 2003 to 72.0% as of December 31, 2004.

Development of Cash Flow

The 7% increase in cash flow generated from operations to EUR 1,304.7 million was due to higher net income. The change in working capital decreased by 14.1% to EUR 158.6 million.

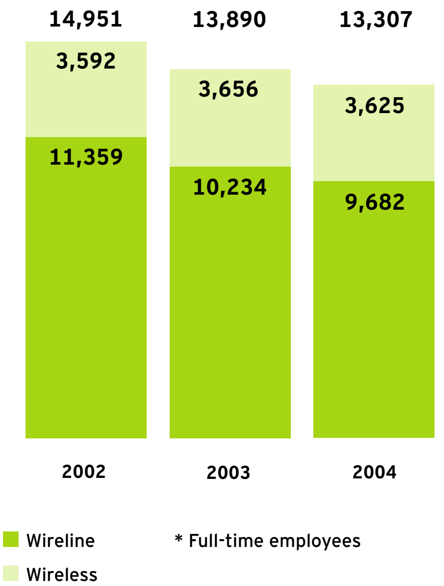
Cash flow used in investing activities declined by 20.9% to EUR (509.3) million due to a reduction in capital expenditures during 2004 and lower spending on acquisitions (increasing the stake in VIPnet) compared to 2003. Capital expenditures for tangible and intangible assets were reduced by 8.6% in 2004 to EUR 548.2 million compared to the previous year. In the wireline segment, which cut capital expenditures for tangible assets by 6.0% to EUR 280.0 million, investments focused on broadband activities, leading to the expansion of switching centers and the ATM infrastructure as well as the purchase of customer equipment. The wireless segment reduced capital expenditures for tangible assets by 22.4% to EUR 225.6 million, focusing its investment activities upon the expansion of UMTS and EDGE in Austria and on EDGE technology in Croatia and Slovenia. The increase in capital expenditures for intangible assets from EUR 11.5 million in 2003 to EUR 42.6 million in 2004 was mainly due to the acquisition of a UMTS license by VIPnet (EUR 17.2 million).

Higher repayments of long-term debt together with the dividend payment and share buybacks were the main reasons behind the increase in cash used in financing activities which rose by 73.3% to EUR (704.9) million.

Cash flow (in EUR million)	**2004**	**2003**
Cash flow generated from operations	1,304.7	1,219.9
Cash used in investing activities	-509.3	-643.9
Cash (used in) generated from financing activities	-704.9	-406.8
Effect of exchange rate changes	-4.2	5.4
Net increase in cash and cash equivalents	**86.3**	**174.6**

Capital expenditures (in EUR million)	**2004**	**2003**
Wireline tangible	280.0	298.0
Wireless tangible	225.6	290.6
Tangible	**505.6**	**588.6**
Intangible	42.6	11.5
Other and eliminations	-	-0.4
Total	**548.2**	**599.7**

Employees at Year End*



* Full-time employees

Workforce

On December 31, 2004 the Telekom Austria Group employed 13,307 people, down by 4.2% compared to the previous year. This decline was largely attributable to the wireline segment which had a total workforce of 9,682 at year-end 2004, following higher-than-expected departures of 552 employees. In the wireless segment the headcount fell by 31 to 3,625. In total, 51.5% of the workforce had civil servant status at the end of 2004 (2003: 54.0%).

Research & Development

Research and development activities of both Telekom Austria's business segments focus on improving the customer convenience of their products and services. In 2004 the wireline segment concentrated on preparing for the gradual introduction of an All-IP technology based network and Internet-based TV services that can be accessed also via the TV set. In the wireless segment the focus was upon utilizing the partnership with Vodafone to introduce new data services such as Vodafone live! or the Vodafone Mobile Connect Card in Austria, Croatia and Slovenia. Telekom Austria invested a total of EUR 42.4 million in research and development in 2004 (2003: EUR 42.8 million).

Risk Management

Telekom Austria is active in various markets (fixed line communications, Internet and mobile communications) and countries: this diversification helps reduce the manifold risks with which it is confronted as a company operating on international markets.

Telekom Austria defines risk management as a systematic process for dealing with possible events and developments which would hinder the implementation of corporate strategy and goals, such as preserving and increasing shareholder value, balance sheet protection or precise corporate planning.

Telekom Austria AG has installed a value-oriented risk management system throughout the Group to ensure systematic, proactive and transparent risk management. In structured interviews with top management risks are identified, evaluated and then compiled in a risk report on the basis of which the Management Board and senior executives draw up company-wide measures to reduce and avoid risks.

The risk strategy of the mobilkom austria group also covers its international subsidiaries and is managed by a committee which includes members of the Management Boards of all wireless subsidiaries. Effective steering and control systems are in place to identify early on and evaluate risks as well as ensure that appropriate action is taken. Furthermore, an internal audit department regularly examines the conduct of business and organizational procedures for their correctness and fairness, security, cost effectiveness and efficiency.

The following description is a summary of the main risk factors listed on Form 20-F, which is the annual report as filed with the US Securities and Exchange Commission (SEC). Form 20-F is available in English from the Telekom Austria Investor Relations department or on the corporate website under www.telekom.at.

Market and Competitive Risks

Given the extensive saturation of the markets in Austria there is no indication that the extremely fierce competition which prevails in the two business segments will ease. In Croatia the market entry of an additional competitor is expected. The development of future revenues therefore depends to a greater extent on the acceptance of new products and services, which cannot yet be regarded as certain

Regulatory and Legal Risks

The need to obtain approval from the regulator for wireline-related customer tariffs and charges prior to commercial launch as well as Telekom Austria's obligation to grant access to its infrastructure and services limit the company's operational flexibility. Legal risks arise above all from unforeseen interventions by regulators and law suits with competitors as well as with private groups and individuals who fear that mobile handsets and radio masts pose a health hazard.

Technical and Financial Risks

Possible insolvency of key customers and suppliers entails the risk of bad debt and non-delivery. Force majeure, human error and faulty materials can cause damage to the company's technical infrastructure. Technological progress increases the risks which arise from the ever-increasing speed with which the infrastructure becomes obsolescent. As slightly more than half the workforce has civil servant status, Telekom Austria is limited in its ability to respond to these risks by adjusting the structure of its personnel costs. Telekom Austria plans to expand into the countries of southeast Europe. The future value of these investments will, however, depend on the political, economic and legal development of these countries.

Implementation of an Internal Control System in Accordance with the Sarbanes-Oxley Act

One of the most far-reaching provisions of the Sarbanes-Oxley Act enacted by the US Congress in July 2002 and to which Telekom Austria is also subject because of its listing on the New York Stock Exchange concerns the auditing, implementation and documentation of the internal control system for financial reporting (SOA, section 404) by the company as well as the role of the auditor. The purpose of this audit is to ascertain whether the correctness of the internally generated data and thus the financial reporting is guaranteed.

In 2004 Telekom Austria started to introduce this control mechanism in the form of a pilot project. In 2005 it will be implemented throughout the entire Group in accordance with the most important set of international rules for internal control systems (COSO). At the end of each year the reliability of the internal control system is evaluated by the Management Board and audited by an external auditor. As of spring 2007 the company's evaluation report and the auditor's opinion of the internal control system must be published in the Form 20-F which has to be submitted each year to the US Securities and Exchange Commission.

A Disclosure Committee comprising senior members of the accounting, legal and investor relations departments of Telekom Austria and the Chief Financial Officer of mobilkom austria AG supports the Management Board of the Telekom Austria Group in ensuring reliable and complete financial reporting.

Major Subsequent Events

In January 2005 two bonds with a nominal value of EUR 500 million each were issued within the framework of the European Medium Term Note program (EMTN). The bonds have maturities of 5 and 12 years and a coupon of 3.375% and 4.25% respectively.

The EPS target value for the first tranche of the stock option program agreed in 2004 was reached. Holders may exercise the options once the results have been published but no earlier than April 20, 2005. A provision amounting to EUR 4.5 million has been included in the financial statements for the year 2004.

On January 19, 2005 3.398.000 options from the second tranche of the stock option program were offered to the eligible employees. These options may be serviced either by cash payment or shares at the discretion of the company, whereby an option includes the right to buy one share. The exercise price is EUR 13.98. The option may only be exercised if the EPS target value determined by the Supervisory Board has been reached. The options have a life of approximately 3 years following a vesting period of roughly 14 months.

Outlook

For the financial year 2005 Telekom Austria Group expects at least a flat development of revenues and adjusted EBITDA, with growth in the wireless segment compensating for the decline in the wireline segment. Operating income is expected to grow further due to the continued decline in depreciation and amortization. Given the lower tax burden as a result of the tax reform and a decline in interest expense, net income is expected to rise by approximately 25%.

Capital expenditures for tangible assets in 2005 will increase by some 10% mainly due to investments in the EDGE infrastructure in Austria and the UMTS network in Croatia as well as because of official requirements in the wireline segment. However, this increase will have only a marginal impact on the amount of cash flow generated. The plan to increase the pay-out ratio to 65% for the financial year 2005 reflects the sustained profitability of the Telekom Austria Group.

This outlook does not take into account the effects that would result from a possible first-time consolidation of MobilTel. This acquisition would lead, at least temporarily, to an increase in debt. Cash flow from operations however, would be considerably higher than the total of capital expenditures and outflows due to the dividend payment and the planned continuation of the share buyback program.

In the wireline segment the migration of voice volumes to mobile networks will continue. The broadband business will be strengthened with new content-related offers, but will still fail to fully compensate for the decline in other areas. The expected decline in revenues and adjusted EBITDA can also be explained by the one-off effects reported in 2004 in the wholesale business. However, a sustained decline in depreciation and amortization expenses will enable a continuation of the turnaround in terms of operating income.

In light of the fact that at the start of 2005 there are still no signs of consolidation on the Austrian mobile communications market, it can be assumed that the price war will continue. Against this background mobilkom austria will focus even more strongly on marketing an unrivaled portfolio of data services developed in cooperation with Vodafone. Nevertheless, the expected increase in revenues, adjusted EBITDA and operating income will largely be attributable to foreign operations. The forthcoming market entry of a third operator in Croatia is also expected to lead to a slowdown in growth.

Vienna, March 2005

The Management Board

Heinz Sundt
Stefano Colombo
Rudolf Fischer
Boris Nemsic

Appendix to the Group Management Report

US stock market law requires Telekom Austria to present a reconciliation of adjusted EBITDA to net income in accordance with U.S. GAAP.

Reconciliation from adjusted EBITDA to net income (in EUR million)	2004	2003
Adjusted EBITDA	**1,568.8**	**1,509.8**
Impairment charges	-1.3	-6.8
Adjusted EBITDA (including impairment charges)	**1,567.5**	**1,503.0**
Depreciation and amortization	-1,114.8	-1,133.2
Interest income	70.0	75.2
Interest expense	-188.8	-231.0
Equity in earnings of affiliates	0.6	19.1
Other, net*	15.6	-0.5
Income before income taxes, minority interests and cumulative effect of change in accounting principle	**350.1**	**232.6**
Income tax expense	-122.2	-83.1
Minority interests	-0.6	-3.4
Cumulative effect of change in the accounting principle, net of tax	0.0	-11.9
Net income	**227.3**	**134.2**

* The totals in the above tables may differ from the sum of their components as a result of rounding, due to the deployment of automatic calculation methods.

Exercise No. 7:
Improve performance by stretching your opportunities

The dynamic business development in 2004 reflects our customers' desire for more bandwidth with a 46.9% increase in the number of broadband lines. ADSL can already be made available to 86% of households. As the market leader Telekom Austria is the front runner in the race to promote the further rollout of broadband – even if the last miles often require a very special effort.

Wireline

New tariff policy and broadband offensive strengthen market position and stabilize revenue development

Quick Info

- Revenues relatively stable at EUR 2,184.7 million
- Turnaround of operating income from EUR (34.3) million in 2003 to EUR 55.8 million
- Capital expenditures reduced by 6.5%
- Voice telephony market share expanded to 54.4% despite increased competition
- Number of ADSL customers increased by 46.9% to 383.600

The wireline segment comprises voice telephony and the increasingly important business areas of data and IT solutions, Internet access, value-added and whole-sale services. In addition to its operations in Austria, the wireline segment is also represented in the Czech Republic with Czech On Line, a leading Internet service provider.

Relatively Stable Revenues

In the wireline segment revenues showed a nominal decline of 0.6% to EUR 2,184.7 million in the reporting year. However, if the change in accounting for value-added services in 4Q 2003 is applied with respect to previous periods as well, revenues grew by 0.9%.

Key Data Wireline

(Financial data in EUR million)	2004	2003	Change in %
Revenues	2,184.7	2,197.7	-0.6%
Revenues excluding third-party value-added service revenues*	2,184.7	2,165.0	0.9%
Operating income	55.8	-34.3	-
Adjusted EBITDA**	814.3	780.5	4.3%
Adjusted EBITDA margin (in %)*	37.3	36.1	
Capital expenditures***	280.4	300.0	-6.5%
Employees****	9,682	10,234	-5.4%

* Due to a change in the law, since October 1, 2003 Telekom Austria has only reported the percentage of revenues from certain value-added services which are not passed on to the provider of the value-added services. This reduces the revenues by the same amount as the expenses and thus has no impact on adjusted EBITDA. For comparative purposes, figures from previous years were adjusted accordingly. The comparable revenues also form the basis for calculation of the adjusted EBITDA margin.

** See glossary.

*** At the beginning of 2004 the reporting of capital expenditures was changed. This item no longer refers to "additions to property, plant and equipment" according to the fixed asset register but to "capital expenditures for tangible and intangible assets" as included in "cash flow from investment activities" in the cash flow statement.

**** Full-time employees at year-end.

Revenue growth combined with declining depreciation and amortization charges reinforced the operational turnaround. Operating income improved from EUR (34.3) million in the previous year to EUR 55.8 million. Adjusted EBITDA increased by 4.3% to EUR 814.3 million compared to the previous year largely as a result of continued efforts to cut personnel and other operating expenses. The EBITDA margin improved correspondingly by 1.2 percentage points to 37.3%.

In 2004 the lowering of voice telephony tariffs by 3.8% and continued migration of call volumes to mobile networks led to a 5.9% decline in switched voice traffic revenues to EUR 403.4 million. Supported by the discontinuation of the minimum tariff and the relaunch of the TikTak tariff packages, switched voice monthly rentals and other voice telephony revenues improved to EUR 570.1 million despite a 3.5% decline in the number of fixed lines. The drop in revenues from payphones and value-added services is the consequence of declining payphone use. The business area data and IT solutions including whole-sale reported revenues of EUR 441.0 mil-lion, almost the same amount as in 2003. Falling prices, above all for traditional leased lines, were to a large extent offset by growth in network solutions. Revenues from Internet access and media grew by 4.4% to EUR 207.2 million, profiting from a sharp increase in the number of ADSL customers. Some EUR 10.5 million of the Internet revenues were included in the wholesale segment due to changed agree-ments with Internet providers. Revenues from wholesale voice telephony and Inter-net recorded higher than average growth, rising by 18.5% to EUR 369.0 million. This was the result of a temporary increase in international traffic volume – mostly in the second and third quarters – equaling EUR 29.1 million. Wholesale revenues also included an amount of EUR 14.9 million which was charged for universal services rendered between 1999 and 2004 following an agreement with alternative providers. This charge was booked as a one-time item under revenues since the provision of universal services is part of Telekom Austria's core business and was included in full as operating income in 2004. EUR 6.4 million of the total amount is covered by the wireless segment, while the remaining amount of EUR 8.5 million was charged to third parties and was therefore included in the earnings of the Telekom Austria Group. EUR 10.5 million of additional wholesale revenues are attributable to the aforementioned transfer of revenues from the Internet business. Lower revenues from equipment and one-time effects in the previous year depressed other revenues.

Revenues (in EUR million)	**2004**	**2003**	**Change in %**
Switched voice traffic revenues	403.4	428.8	-5.9
Switched voice monthly rentals and other voice telephony revenues	570.1	567.9	0.4
Payphones and value-added services	52.6	57.8	-9.0
Data and IT solutions including wholesale	441.0	442.1	-0.2
Internet access and media	207.2	198.4	4.4
Wholesale voice telephony and Internet	369.0	311.4	18.5
Other	141.4	158.6	-10.8
Total wireline revenues excluding third-party value-added service revenues	**2,184.7**	**2,165.0**	**0.9**
Impact from the change in accounting for third-party value-added service revenues	-	32.7	-
Total wireline revenues	**2,184.7**	**2,197.7**	**-0.6**

Operating expenses (in EUR million)	**2004**	**2003**	**Change in %**
Materials	69.0	63.3	9.0
Employee costs *	494.9	531.9	-7.0
Depreciation, amortization and impairment charges	758.5	814.8	-6.9
Interconnection	333.1	300.9	10.7
Maintenance and repairs	116.5	119.2	-2.3
Services received	41.9	39.0	7.4
Other support services	87.2	72.6	20.1
Other operating expenses	227.8	257.5	-11.5
Total wireline operating expenses excluding third-party value-added service expenses	**2,128.9**	**2,199.2**	**-3.2**
Impact from the change in accounting for third-party value-added service expenses	-	-32.7	-
Total wireline operating expenses	**2,128.9**	**2,231.9**	**-4.6**

* Including benefits and taxes

The 9.0% increase in material expenses to EUR 69.0 million was primarily due to increased purchases of corporate network equipment. Personnel expenses on the other hand fell by 7.0% to EUR 494.9 million in the reporting year mainly due to reductions in the headcount. Personnel downsizing costs declined from EUR 47.3 million in the previous year to EUR 19.3 million. Following a release of provisions for voluntary retirement programs in 2003 amounting to EUR 26.8 million, a further small release of EUR 1.4 million was booked in 2004. A total of EUR 10.7 million was used in 2004 for previous and current stock option programs.

Interconnection expenses rose by 10.7% to EUR 333.1 million in the reporting year due to the aforementioned sharp increase in international traffic volumes. While expenses for repair and maintenance declined slightly as a result of optimization measures in the areas of building maintenance, electronic data processing and network technology, those for services received rose due to increased use of data lines for large projects. Expenses for other support services grew by 20.1% due to additional expenses in the area of customer care and a decline in own work capitalized. Other operating expenses decreased as a result of a reduction in net loss of retirement of long-lived assets, fewer bad debt provisions, one-time effects and savings in the area of facility management.

Reductions in Capital Expenditures

In 2004 capital expenditures for tangible and intangible assets decreased by 6.5% to EUR 280.4 million largely as a result of smaller investments in IT owing to synergy effects and reorganization measures. Given the increasing importance of the broadband business, investments to expand switching centers, purchase customer equipment and optimize the IP infrastructure formed the main focus of capital expenditures, accounting for 50% of the total. In the core network steps were taken to expand broadband-based capacity within the framework of customer projects. The IT business area invested mostly in hardware and software for process and billing systems. Expenses for buildings and infrastructure facilities were related to site optimizations and investments in central services.

Interview with **Rudolf Fischer**

"Wireline is Alive and Kicking"

Rudolf Fischer
Chief Operating Officer Wireline

Mr. Fischer, was 2004 a good year for Telekom Austria's wireline business?
In 2004 we clearly proved that Telekom Austria's wireline segment has great future potential. In the traditional voice telephony business, new tariffs enabled us to expand our market share to over 54% in all customer segments, demonstrating just how successfully we can compete against our rivals. Although the ongoing migration trend toward mobile networks could not be stopped, we were able to accelerate the stabilization of the wireline segment through the strong growth in the area of broadband data communication. Our redesigned product portfolio, which flexibly covers a wide range of user needs, was extremely well received by the market. In addition to measures designed to optimize internal processes and costs, I would also like to mention our technological multimedia campaign. We have gained valuable know-how and experience in a number of projects such as aon.tv and "Buntes Fernsehen" which we will make use of in 2005.

Can the broadband business really compensate for the decline in voice telephony?
Well, we almost succeeded in 2004 and we are only at the beginning of this development. Growth rates in the ADSL business are increasing steadily and the development around the turn of the year in particular was especially pleasing. Telekom Austria possesses the ideal infrastructure in this regard: 86% of Austrian households already have access to an ADSL line, and over the next three years 120 new switching centers will be equipped with this technology annually. Ultimately, however, the success of broadband products will depend upon an optimal combination of content, customer-oriented solutions and user-friendliness.

And what can we expect from Telekom Austria Triple Play, Mr. Fischer?
Triple Play represents a clear paradigm shift for the wireline business. Multimedia, TV and interactive applications are all being brought together on a single platform, combining the previously separate worlds of television, Internet, video and e-commerce. In the future, content will be created and consumed interactively, precisely when the customer wants it. Individualized broadband offers make it possible to provide content tailor-made even for small target groups. As a result, we will be able to create opportunities for new, local content providers – and in a small country like Austria this opens up numerous, extremely exciting opportunities. The way in which modern technological platforms will revolutionize information, interaction and communication with Triple Play products is taking on tangible form at Telekom Austria headquarters: with our prototype of the networked house of the future, the "Future Home."

Development of Voice Telephony Market Share

based on minutes (in %)

Improved Market Position Despite Stronger Competition

Although competition on the Austrian fixed line market continued to intensify toward the end of last year following the merger of Tele2 and UTA, Telekom Austria was nevertheless able to achieve a turn-around with the successful relaunch of the TikTak tariffs and intensive sales activities. Voice telephony market share improved by 1.7% to 54.4% at year-end 2004. Including Internet dial-up, market share grew from 54.1% in 2003 to 55.2%. However, the continued migration of voice minutes to mobile networks led to an overall 5.6% decline in voice telephony call volumes to 5.5 billion minutes despite the growth in market share.

The migration of call volumes to mobile networks also had an impact on the number of fixed lines, which in the reporting year fell by 3.5% to 2.9 million. The number of unbundled lines rose by 171% to 72,900 compared to the previous year. The new broadband products were very well received. The number of ADSL customers increased to 383,600 (+46.9%), so that net-adds rose by 40.9% to 122,600. The wholesale segment accounted for approximately 85,200 ADSL customers. One in every four of Telekom Austria's approximately 1.2 million Internet customers uses broadband technology. According to a recent survey by the Austrian Internet Monitor (AIM) 42% of all private Internet accesses in Austria are provided by Telekom Austria (including mobilkom austria).

Regulation

In terms of regulation it was primarily the market analyses to determine the competitive situation in the individual markets which created challenges and opportunities for Telekom Austria in the 2004 financial year. These analyses will form the basis upon which the regulatory authority will decide to what extent remedies are applied in the individual markets. While overall there was no major phasing out of regulatory intervention in the wholesale and retail markets, Telekom Austria was exempted from regulation in the "leased line-backbone segment" and "residential customer-international voice traffic" markets. The Austrian regulatory authority also classified the market for "transit services in the public fixed line network" as competitive, a decision which was subsequently vetoed by the European Commission.

Telekom Austria fixed line traffic

(in million minutes)	**2004**	**2003**	**2002**
Local traffic	4,174	4,485	4,607
Fixed-to-mobile traffic	854	855	826
International traffic	467	484	472
Total voice telephony	**5,495**	**5,824**	**5,905**
Internet dial-up traffic	3,376	3,953	4,305
Total fixed line traffic*	**8,871**	**9,777**	**10,210**

* Excluding value-added services, emergency calls, coin and prepaid card telephony.

Fixed lines – access channels

(in '000s)	**2004**	**2003**	**2002**
PSTN access lines	2,455.5	2,555.8	2,659.1
Basic ISDN access lines	443.6	447.2	430.1
Multiple ISDN access lines	7.6	7.8	8.1
Total access lines	**2,906.7**	**3,010.8**	**3,097.3**
Thereof ADSL lines	383.6	261.1	174.1
Total access channels	**3,570.7**	**3,684.2**	**3,762.3**

Beside the approval of the TikTak tariff scheme with its attractive tariffs and bonus packages, one of the most important regulatory decisions for Telekom Austria in the reporting year 2004 was the ruling by the Telekom Control Commission to close proceedings concerning the wholesale line rental offer. According to the regulatory authority Telekom Austria's offer meets all legal requirements, is non-discriminatory in all respects and therefore not objectionable.

In addition, interconnection charges were lowered by 3.3%. In a bidding process Telekom Austria acquired WiMax frequencies in the 3.5 GHz range in order to provide wireless broadband services. An arrangement was also reached regarding universal services in the form of bilateral agreements with the alternative providers covering the previous six years which produced a one-time gain of EUR 14.9 million for the wireline segment.

At the Cutting Edge with Broadband Services

At the end of 2004, 22% of Austrian households had broadband Internet access. Telekom Austria has a 46.3% share of the total retail and wholesale customer market, an improvement of 3.4 percentage points compared to the previous year. The goal is to increase this market share to 50% by 2007 by tailoring the product portfolio more closely to customer needs and focusing on active marketing strategies. Following a comprehensive relaunch in the second half of 2004 three different bandwidths, comprising 256/64 Kbit/s, 768/128 Kbit/s and 1024/128 Kbit/s up and down stream, are now offered for first time broadband Internet users, all-rounders and professionals, providing the most suitable transmission speed for their requirements. Especially the starter product for first time broadband users with a download volume of 400 MB perfectly met customer needs. Along with the development of the new aonSpeed products the aon brand was redesigned.

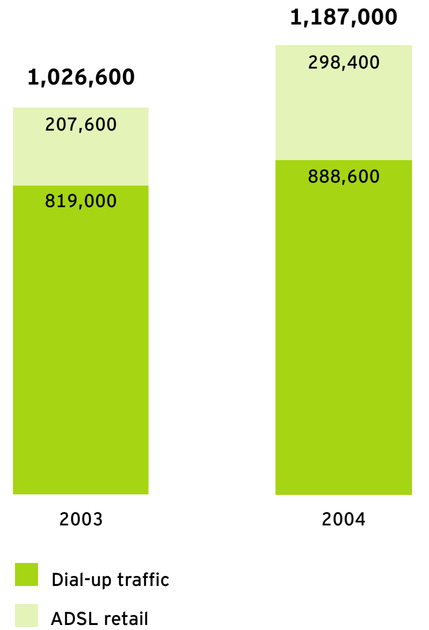
The XDSL office portfolio was relaunched with four different access options to flexibly serve a large variety of requirements in line with the needs of Telekom Austria's business customers.

Telekom Austria is pushing ahead the installation of multimedia stations across the country, which in addition to traditional voice telephony also provide Internet access, SMS and e-mail services as well as the transmission of personal greeting cards. At present 493 stations are available and the goal is to upgrade a total of 1,300 payphones to multimedia stations by 2006.

In 2004 marketing efforts to promote Internet applications such as aonMusic-download or aon.tv were intensified. Music downloads, the most popular application in this area, reported a massive increase in registered users thanks to program expansions and an attractive price policy. In addition to national and international television stations aon.tv also offers movies, news and music clips on demand. This product provides Telekom Austria with valuable expertise for the planned launch of a Triple Play service, which will support the reception of television programs via ADSL on television sets as well. Telekom Austria also offers protection from viruses, worms, Trojans and spam as well as unwanted expensive dialers on the basis of its aonVirenchecker, aonSpamfilter and aonDialerControl products.

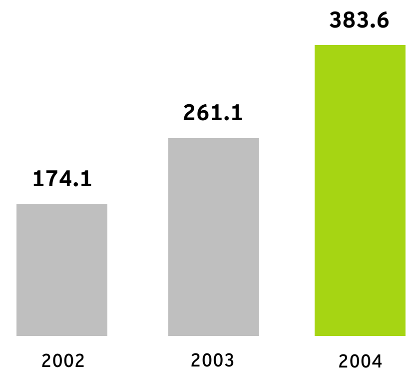
With more than 1.3 million "unique clients" per month Telekom Austria continues to rank second in the Austrian benchmark analysis of popular websites (ÖWA) with its aon.at portal and other online offers.

Internet Customers



Development of ADSL Access Lines

in '000s



Core Business Activities

In May 2004 a comprehensive tariff reform was completed with the introduction of a new structure comprising the three basic models TikTak Privat, TikTak Office and TikTak Business. The significant tariff reduction from the former price of 2 cents to 1.35 cents on evenings and weekends in the local zone positioned Telekom Austria for the first time as the price breaker.

The relaunch of TikTak Privat allows customers to optimize their tariff according to their individual call behavior with special add-on packages, thus improving subjective price perception. Tariffs were also significantly reduced for the TikTak Office and TikTak Business tariff packages. Business customers in particular profited from professional assistance by Telekom Austria's direct sales staff and 49 Telekom shops. This was reflected in the large number of additional bonus packages sold.

Corporate Networks, Network Related IT Solutions and E-Business

The success of the Business Solutions department is based upon customer-specific IT and e-business solutions and a broad customer base. Consequently Telekom Austria is the clear market leader among medium-sized and large enterprises for Wide Area Networks (WAN) and voice services. Telekom Austria was able to reinforce its position as an IT solutions provider in the network related area in the 2004 financial year by expanding its all-IP network infrastructure, thus achieving the highest coverage in Austria. This IP network, which provides top quality IP telephony, will now be extended to international markets in eastern Europe so that Business Solutions can serve its customers as they expand their operations into the new EU Member States. Telekom Austria was also able to establish itself as one of the leading providers in the area of IP telephony.

In the area of standardized IT services Telekom Austria's Business Solutions unit focuses upon guaranteeing stability and increasing productivity while at the same time reducing the work load of the customer's IT department. Crucial for success are individual and customer-oriented models which are implemented in cooperation with renowned specialists. The product range is completed by project developments and is divided into B2B and B2C communication services, as well as housing, hosting, customer relationship marketing, systems for communicating with suppliers, e-business and e-learning products.

Customer-specific solutions are offered for different segments of the market: In the media business segment a micro-payment system for web portals and event tariffing as well as a video transmission system for broadcasting companies were developed. A series of customer-specific e-government applications such as a municipality server in Styria and a municipality network were realized for the public sector in 2004. In the course of implementing the e-card – a chip card-based "electronic healthcare certificate" and the most important milestone in the e-health area – Telekom Austria was among the winners of the tender.

Wholesale

With more than 110 domestic and 280 international customers the wholesale segment once again successfully positioned itself as a wholesale provider of voice and data services in the year under review. The area of international trading of voice minutes recorded growth of 18% to 2.3 billion minutes.

Telekom Austria serves some 100 domestic Internet service providers and alternative network operators with wholesale standard solutions and has also strengthened its position as a reliable outsourcing partner for Austrian UMTS operators, effectively expanding the growing business in the UMTS access segment.

With the aim of expanding voice and data traffic in southeast Europe Telekom Austria is extending its international optical fiber ring Jet2Web Stream. In addition to the existing connections to Germany, the Czech Republic, Slovakia, Hungary and Italy, the most recent expansion plans focus on connecting Slovenia and Croatia. Beside Jet2Web Stream Telekom Austria also has 136 direct connections to international carriers.

Czech On Line

The wireline segment of Telekom Austria also encompasses the results of the Czech alternative Internet service provider Czech On Line. The positive development of ADSL and voice customers was unable to compensate for declines in the number of dial-up customers due to competition. As a result the number of customers fell by 11.6% to 247,100 in the reporting year. Despite this revenues still rose by 9.7% to EUR 20.3 million. The decrease in the profitable dial-up business, however, led to a clear decline in adjusted EBITDA of 39.3% to EUR 3.4 million in 2004, while operating income dropped from EUR 2.7 million in the previous year to EUR 1.0 million. To counter this trend, efforts will be devoted to intensifying the promotion of voice and Internet bundles based on carrier preselection, which were introduced for business and residential customers in 2003. Moreover, the rollout of OFDM radio technology based on 3.5 GHz should also safeguard Czech On Line's position on the access market in the long term.

Outlook Wireline

Due to the lack of one-time revenues from the wholesale area, revenues and adjusted EBITDA in the wireline segment are expected to decline slightly in 2005. Thanks to steady reductions in depreciation and amortization expenses operating income will continue to grow. As explained on page 11 of this Annual Report in the section on Telekom Austria's strategic goals, the wireline segment is pursuing several strategic initiatives within the framework of the TOP program which will run until 2007. In 2005 the focus will be upon further improving customer relations and expanding the portfolio of broadband products. Plans include the launch of a commercial TV broadcasting service over the television via a set-top box.

Capital expenditures will record a slight temporary increase in 2005 due to official requirements. However, despite the gradual migration of infrastructure to an IP-based Next Generation Network (NGN) operating capital expenditures will continue to fall steadily.

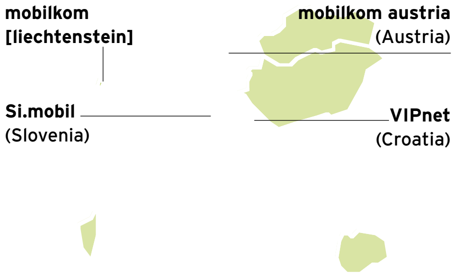
Exercise No. 8:
Attack is always the best form of defense

Despite sustained attacks by competitors we increased our market share in the wireline core business of voice telephony to 54.1%. An optimized tariff policy combined with a communications offensive proved to be the best tactic here. Or to put it differently. Fair play with the customer, no mercy to our opponents.

Wireless

Wireless Activities

mobilkom austria group



Quick Info

- Revenues and profitability improve in all regions
- Number of customers rises by 4.5%
- Capital expenditures reduced by 6.5%
- Expansion into southeast Europe moves a big step forward

Innovative products and strong cost awareness lead to a clear improvement in revenues and results across all regions.

The wireless segment encompasses all mobile communications activities of Telekom Austria: mobilkom austria in Austria, VIPnet in Croatia, Si.mobil in Slovenia and mobilkom [liechtenstein] in Liechtenstein. The further expansion of the mobile communications business in southeast Europe took a major step forward when Telekom Austria concluded a call option agreement on December 17, 2004 for the takeover of MobilTel, the leading Bulgarian mobile communications operator.

Customer and Revenue Growth in all Regions

All of the mobile communications companies within the Telekom Austria Group were once again able to record growth in customer numbers and revenues as well as increases in adjusted EBITDA in the financial year 2004. Total revenues for the wireless segment rose by 4.7% to EUR 2,125.5 million in 2004. Applying the change in accounting for third-party value-added services in the fourth quarter of 2003, also to prior periods for better comparability, revenues rose by 5.8%. Operating income increased by 1.5% to EUR 407.4 million and adjusted EBITDA by 5.3% to EUR 765.4 million. The adjusted EBITDA margin remained stable at 36.0% (2003: 36.2%), despite a strong increase in competition.

Revenue growth in the year under review was mainly attributable to higher traffic revenues and monthly rentals as well as increased revenues from interconnection, roaming and data services. Roaming revenues profited from strong summer and winter holiday seasons; part of this increase was also due to higher visitor roaming traffic and an improved capture rate in mobile communications networks.

In 2004 international subsidiaries contributed 21.6% of total revenues in the wireless segment following a revenue increase of 0.6 percentage points. Operating expenses rose partly due to increased expenses for more sophisticated equipment and partly because of higher interconnection expenses as a result of subscriber growth and greater call volumes in third-party networks. Depreciation and amortization charges rose by 10% due to the high levels of investment in previous years for technical up-grades and the implementation of the GPRS, UMTS and EDGE technologies.

Key Data Wireless (financial data in EUR million)	2004	2003	Change in %
Revenues	2,125.5	2,030.2	4.7
Revenues excluding third-party value-added service*	2,125.5	2,009.9	5.8
Operating income	407.4	401.4	1.5
Adjusted EBITDA**	765.4	727.1	5.3
Adjusted EBITDA margin (in %)*	36.0	36.2	
Capital expenditures ***	267.8	300.1	-10.8
Number of customers (in '000s)	4,949.0	4,737.7	4.5
Employees****	3,625	3,656	-0.8

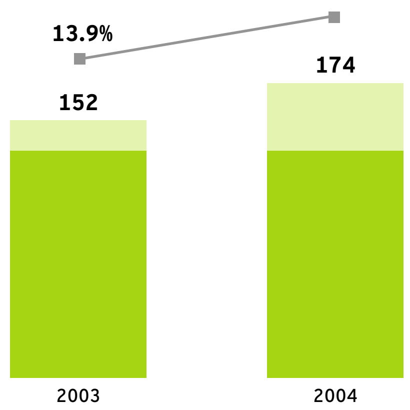
* Due to a change in the law, since October 1, 2003 Telekom Austria has only reported the percentage of revenues from certain value-added services which are not passed on to the provider of the value-added services. This reduces the revenues by the same amount as the expenses and thus has no impact on adjusted EBITDA. For comparative purposes, figures from previous years were adjusted accordingly. The comparable revenues also form the basis for calculation of the adjusted EBITDA margin.

** See glossary.

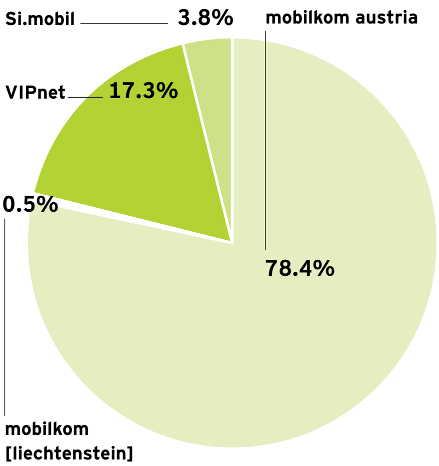
*** At the beginning of 2004 the reporting of capital expenditures was changed. This item no longer refers to "additions to property, plant and equipment" according to the fixed asset register but to "capital expenditures for tangible and intangible assets" as included in "cash flow from investment activities" in the cash flow statement.

**** Full-time employees at year-end.

Development of Data Revenues
in EUR million



Operating Revenues
by mobile communications company
(excluding internal revenues)



Revenues (in EUR million)	**2004**	**2003**	**Change in %**
Traffic revenues	1,141.5	1,077.1	6.0
Monthly rentals	303.9	297.7	2.1
Equipment	180.1	176.3	2.2
Roaming	175.6	153.8	14.2
Interconnection	328.0	303.2	8.2
Other	15.9	18.1	-12.2
Discounts	-19.5	-16.3	19.6
Total wireless revenues excluding third-party value-added service revenues	**2,125.5**	**2009.9**	**5.8**
Impact from the change in accounting for value-added service revenues	-	20.3	-
Total wireless revenues	**2,125.5**	**2,030.2**	**4.7**

Operating Expenses (in EUR million)	**2004**	**2003**	**Change in %**
Materials	276.3	254.7	8.5
Employee costs*	179.8	167.8	7.2
Depreciation and amortization	358.1	325.6	10.0
Interconnection	236.0	203.7	15.9
Maintenance and repairs	63.7	62.0	2.7
Services received	267.9	250.9	6.8
Other support services	24.0	25.3	-5.1
Other operating expenses	312.3	318.5	-1.9
Total wireless operating expenses excluding third-party value-added service expenses	**1,718.1**	**1,608.5**	**6.8**
Impact from the change in accounting for value-added service expenses	-	20.3	-
Total wireless operating expenses	**1,718.1**	**1,628.8**	**5.5**

* Including benefits and taxes

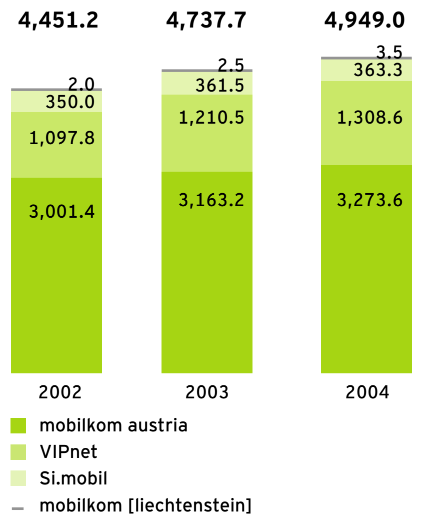
Capital Expenditures

Capital expenditures for tangible assets fell by 22.4% to EUR 225.6 million in 2004. Capital expenditures for intangible assets quadrupled to EUR 42.2 million largely due to VIPnet's purchase of the UMTS license. This led to a decrease in total capital expenditures for the wireless segment of 10.8% to EUR 267.8 million. mobilkom austria concentrated investments on continued measures to ensure the existing quality of the GSM and GPRS infrastructure, and to expand the UMTS and EDGE networks. In 2004 a total of EUR 21 million was spent on equipment for the Austrian UMTS network and by year-end the UMTS network reached 60% of the Austrian population. Whilst VIPnet strengthened its investments in EDGE and information technology for innovative products, parallel reductions in investments for GSM meant that overall capital expenditures for tangible assets remained stable. Si.mobil in Slovenia also reduced investments to expand the GSM network in favor of EDGE technology.

mobilkom austria

With five network providers and two service providers one of which is a Mobile Virtual Network Operator (MVNO), the Austrian mobile communications market is one of the most competitive in Europe. Despite a slight decline in market share from 43.3% in 2003 to 41.0% in 2004, mobilkom austria was able to defend its undisputed market leading position and to increase its edge over its closest competitor. The successful introduction of data services such as the Vodafone Mobile Connect Card UMTS played a significant role in boosting the number of customers with more than one SIM card. Of all mobile telephones sold in the pre-Christmas period in 2004, 60% were equipped with the lifestyle data service Vodafone live!.

Customer Development
by mobile communications company, in '000s



Applying the change in accounting for value-added services in the fourth quarter of 2003 retroactively to previous periods, mobilkom austria was able to increase revenues for the reporting year by 5.0% to EUR 1,678.7 million.

mobilkom austria responded to the fierce price war on the market by introducing simpler and even more transparent tariff models in 2004. Thanks to the successful launch of the new tariffs it was not only possible to further expand the customer base, the average number of call minutes per customer also rose by 1.4%. The increase in revenues from data services and higher roaming revenues more than compensated for the tariff reductions, with average monthly revenues per customer rising to EUR 37.1 from EUR 36.9 in 2003.

Massive customer retention and acquisition activities played an important part in ensuring mobilkom austria's positive business development. Although efforts to reduce administrative costs and network operating expenses were intensified, increased expenses for handset subsidies

Interview with **Boris Nemsic**

"From Vaduz to the Black Sea"

Boris Nemsic
Vice Chairman and
Chief Operating Officer Wireless

There seems to be no limit to competition on the Austrian mobile communications market. How is mobilkom austria defending its position in this environment, Mr. Nemsic?
In 2004 we reported a 3.5% increase in our customer base in Austria. And this was not due solely to our competitive tariffs. We also have a unique portfolio of data services and a state-of-the-art infrastructure that set us apart from our competitors. With Vodafone live! for example, we have created an innovative entertainment service for residential customers which was already used by 200,000 subscribers only six months after it was launched. In the business segment Blackberry and the Vodafone Mobile Connect Card UMTS enable us to offer the most important office applications via mobile phone. As of 2005 business customers will be able to receive e-mails at the office and on their handsets simultaneously thanks to "push-mail" technology – real added value for people who are "on the road" a lot.

Why is it that mobilkom austria is an international leader in the introduction of new technologies?
We do not want price to be the only thing that keeps customers in our network – we want to convince them with our outstanding leadership, both in terms of technology and the services we offer. They benefit from cutting-edge services, we profit from their satisfaction. And that requires tremendous efforts and investments as well. We gained a reputation as an industry pioneer when we launched the first national UMTS network in Europe – we were also one of the first operators to use a combination of UMTS and EDGE. And while other operators are struggling with coverage rates of 30% we will be able to provide 3G coverage for 95% of the Austrian population by mid 2005.

What expansion plans does mobilkom austria have for the next few years?
We have already mastered our first wave of expansion superbly, successfully integrating Croatia, Slovenia and Liechtenstein into the Group. We are now gathering our resources to focus on the next steps. We have been examining opportunities for expansion in southeast Europe for several years and in the medium term we would like to become a regional player from Vaduz (Liechtenstein) to the Black Sea. The cultural affinity with this region and a team which includes some of the best minds in our group of companies put us in a "pole position." In Bulgaria we have already secured the call option for MobilTel and other countries should follow.

Exercise No. 9:
To be successful you have to stay on the ball

A well-balanced product portfolio with higher transmission capacities and innovative data services provides the basis for favorable revenue growth in the mobile data business. In 2004 the data share of traffic-related revenues rose from 13.9%% in 2003 to 15.0% in 2004. The combination of UMTS and EDGE technologies with cutting edge data products rounds off our range of products.

Market Share mobilkom austria

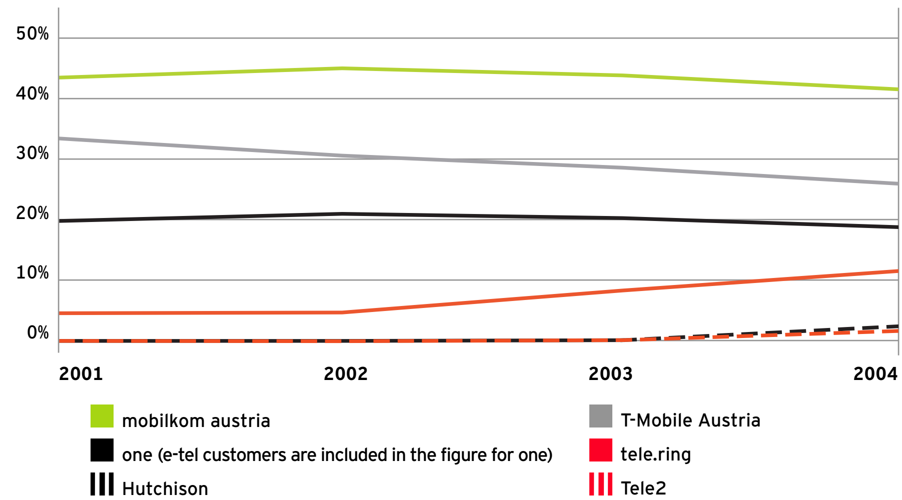
41.0%

due to the fierce competition pushed the adjusted EBITDA margin down to 35.3% (2003: 36.1%). Adjusted EBITDA increased by 2.9% to EUR 593.4 million. The slight rise in operating income of 0.1% to EUR 341.1 million is due to higher depreciation and amortization charges which in turn are attributable to investments in the expansion of the UMTS, EDGE and GPRS networks and the amortization costs of the UMTS license.

mobilkom austria (financial data in EUR million)	2004	2003	Change in %
Revenues	1,678.7	1,617.2	3.8
Revenues excluding third-party value-added service revenues	1,678.7	1,598.6	5.0
Operating income	341.1	340.7	0.1
Adjusted EBITDA*	593.4	576.6	2.9
Mobile penetration in Austria (in %)	98.0	89.7	
Market share (in %)	41.0	43.3	
Competitors	6	5	
Customers (in ‘000s)	3,273.6	3,163.2	3.5
Share of contract customers (in %)	54.3	53.2	
Revenues per customer (ARPU, in EUR)	37.1	36.9	0.5
Share of revenues from data services (in %)**	12.6	11.4	

* See glossary.
** Data revenues as a portion of traffic-related revenues.

Development of Market Share of the Austrian Mobile Communications Market



In 2004 the company was able to defend its two-thirds market share of the profitable business customer segment with innovative office solutions (mobile PABX – public automatic telephone switching system, e-mail processing, access to corporate networks, business paybox, etc.). Furthermore, with the introduction of the Vodafone Mobile Connect Card UMTS mobilkom austria realized a mobile broadband service which provides customers with mobile access to the Internet both in Austria and abroad.

In the residential customer segment, data services and m-commerce applications are not only becoming increasingly important for revenue development, they are also turning into valuable instruments for customer retention. In 2004 mobilkom austria bundled its data offering under the Vodafone live! mobile lifestyle service, which encompasses games, handset styling, news, video and music downloads via a simple interface.

mobilkom austria is considered to be one of the leading m-commerce providers in the world. In 2004 the portfolio of existing products such as the ÖBB (Austrian Railways) Mobile Ticket, m-parking and A1 Ticket was expanded to include other innovations such as A1 Handymaut which allows road toll fees in Austria to be paid via mobile telephone. For the first time ever it is also possible to purchase a rail ticket from Austria to Germany by mobile telephone.

On October 16, 2004 mobile number portability was introduced in Austria, allowing all mobile subscribers to retain their old number when they change provider. However, to date only 0.3% of all mobile communications users in Austria, or 20,000 subscribers, have taken advantage of this service.

Market Share VIPnet

46.0%

VIPnet

On December 31, 2004 mobilkom austria acquired the remaining 1% stake in its Croatian mobile subsidiary, VIPnet, from Croatian newspaper publisher Vecernji List and now fully consolidates VIPnet's financial results.

In 2004 VIPnet reported a 2% decline in market share to 46.0% (see table below**). During the first half-year VIPnet strengthened customer retention activities in order to counter the rebranding of its rival to T-Mobile and in the fourth quarter intensified marketing measures to win new customers.

VIPnet was able to increase revenues by 10.0% to EUR 375.4 million. Despite the slight decline in market share, traffic revenues grew thanks to a larger subscriber base. Call and data volumes also developed favorably. Interconnection revenues rose due to the increase in charged minutes of use and the SMS termination charges introduced in November 2003. Greater investments in the networks and IT infrastructures resulted in higher depreciation and amortization charges; interconnection expenses were also higher.

In a year-on-year comparison adjusted EBITDA improved by 9.7% to EUR 152.7 million. At 40.7% the adjusted EBITDA margin remained at roughly the same high level as last year (2003: 40.8%). Operating income in 2004 grew by 2.1% to EUR 68.0 million. Due to the introduction of SMS termination charges monthly average revenues per customer rose by 3.1% to EUR 20.2.

The SMS business ranks high in international comparison with approximately 72 monthly SMS per customer. In addition to the established product VIP.parking, which saw an increase in transactions of almost 30% to 2.7 million in the reporting year, a service for the purchase of event tickets was launched in 2004 under the name VIP.sms ticketing.

In April 2004 VIPnet commenced implementation of EDGE technology and by July a coverage rate of 90% had been achieved. The partnership with Vodafone also permitted the successful launch of Vodafone live! and the Vodafone Mobile Connect EDGE Card in 2004.

In October 2004 the Croatian telecommunications agency granted the two mobile operators UMTS licenses for a period of 20 years. The acquisition costs amounted to approximately EUR 17.2 million for the one-off license fee, plus an annual fee of EUR 2.6 million for the radio frequency and 1% of UMTS revenues. The Croatian telecommunications agency also granted Tele2 a combined GSM/UMTS license.

VIPnet started commercial UMTS operations in the first quarter of 2005, becoming one of the first European providers to offer EDGE and UMTS technology in combination, thus providing customers with an extensive portfolio of data applications faster and at lower cost.

VIPnet (Financial data in EUR million)	**2004**	**2003**	**Change in %**
Revenues	375.4	341.3	10.0
Operating income	68.0	66.6	2.1
Adjusted EBITDA*	152.7	139.2	9.7
Mobile penetration in Croatia (in %)	64.5	57.6	
Market share (in %)**	46.0	48.0	
Competitors	1	1	
Customers (in '000s)	1,308.6	1,210.5	8.1
Share of contract customers (in %)	14.8	15.4	
Revenues per customer (ARPU, in EUR)	20.2	19.6	3.1
Share of revenues from data services (in %)***	26.1	25.9	

* See glossary.
** In 2004 VIPnet changed the method it uses to calculate its market share and now uses the published figures of its competitors in place of internal analyses.
*** Data revenues as a portion of traffic-related revenues.

Market Share Si.mobil

23.3%

Si.mobil

At the end of 2004 mobilkom austria continued to hold a stake of 75% plus 1 share in Si.mobil. In 2002 a contract was signed with the other six local shareholders for the acquisition of the remaining shares in July 2007.

Revenues reported by Si.mobil increased by 7.3% to EUR 87.8 million in 2004. This trend was supported by an increase in call minutes, higher data revenues as well as growth in equipment revenues. Increases in call volumes and higher transit revenues led to a rise in revenues from interconnection charges. Systematic cost cutting efforts and one-off effects from the successful settlement of legal disputes enabled the company to reduce operating expenses: this is reflected in an increase in the adjusted EBITDA margin from 16.0% to 23.2%. Adjusted EBITDA rose by 55.7% to EUR 20.4 million. Si.mobil generated a positive operating result of EUR 0.1 million for the first time in 2004.

With a market share of 23.3% Si.mobil is the second-largest mobile communications provider in Slovenia which has a penetration rate of 79.1%. In the year under review the company increased subscriber numbers by 0.5% to 363,300. The effect of exchange rate changes resulted in a slight decrease in monthly average revenues per customer by 0.7% to EUR 15.0 EUR – although measured in local currency they rose by 1.2%.

Strengthening Si.mobil's position as the price leader with innovative solutions through the Vodafone partnership was an important step toward improving the company's market position. The closer cooperation with Vodafone permitted the introduction of new products such as the Vodafone Mobile Connect Card and Vodafone live! in 2004.

Given the positive response to the introduction of the flat tariff for residential customers in 2003, Si.mobil extended this tariff to the business customer segment in February 2004. Moreover, the tariffs for GPRS roaming were harmonized in order to improve the transparency of benefits and conditions for the customer. In November 2004 Si.mobil signed an agreement with the incumbent extending asymmetrical interconnection fees until the end of 2005 and stipulating an increase in Si.mobil's interconnection tariffs.

Si.mobil (Financial Data in EUR million)	**2004**	**2003**	**Change in %**
Revenues	87.8	81.8	7.3
Operating income	0.1	-3.6	
Adjusted EBITDA*	20.4	13.1	55.7
Mobile penetration in Slovenia (in %)	79.1	76.5	
Market share (in %)	23.3	23.6	
Competitors	4	4	
Customers (in '000s)	363.3	361.5	0.5
Share of contract customers (in %)	42.9	43.5	
Revenues per customer (ARPU, in EUR)	15.0	15.1	-0.7
Share of revenues from data services (in %)**	15.5	14.1	

* See glossary.
** Data revenues as a portion of traffic-related revenues.

Market Share mobilkom [liechtenstein]

13.1%

mobilkom [liechtenstein]

mobilkom [liechtenstein], the second-largest mobile communications provider in Liechtenstein, was able to increase revenues in 2004 by 2.8% to EUR 11.0 million, mainly through an increase in value-added services. Adjusted EBITDA improved from EUR 1.0 million to EUR 1.8 million. With a penetration rate of 78.9% mobilkom [liechtenstein] was able to increase its number of customers from approximately 2,500 to roughly 3,500, improving its market share from 10.3% to 13.1%. In comparison to all other mobile communications companies of the mobilkom austria group, mobilkom [liechtenstein] boasted unusually high monthly average revenues per customer of EUR 80.3.

mobilkom [liechtenstein] (Financial data in EUR million)	**2004**	**2003**	**Change in %**
Revenues	11.0	10.7	2.8
Revenues excluding third-party value-added service revenues	11.0	8.9	23.6
Operating income	1.2	0.5	140.0
Adjusted EBITDA*	1.8	1.0	80.0
Mobile penetration in Liechtenstein (in %)	78.9	76.3	
Market share (in %)	13.1	10.3	
Competitors	3	3	
Customers (in '000s)	3.5	2.5	40.0
Revenues per customer (ARPU, in EUR)	80.3	82.4	-2.5
Share of revenues from data services (in %)**	7.9	8.2	

* See glossary.
** Data revenues as a portion of traffic-related revenues.

Expansion in Southeast Europe

In 2004 a cross-national organizational unit was established within the wireless segment, the purpose of which is to guarantee the exploitation of synergies within the existing mobile communications companies and also to serve as a central communication platform for Vodafone. Furthermore, this new unit will also be responsible for the rapid integration of future acquisitions into the wireless segment. In addition it will manage group-wide projects and areas such as marketing and roaming, technology, human resources, procurement and controlling.

The planned expansion in southeast Europe took a major step forward on December 17, 2004 when a call option agreement was concluded for the complete takeover of the Bulgarian operator MobilTel. As a result mobilkom austria secured the exclusive and irrevocable right to purchase 100% of the share capital of MobilTel for a price of approximately EUR 1,600 million by the end of 2005. As of June 30, 2004 MobilTel had approximately 2.75 million customers. With a market share of roughly 67%, based on subscriber numbers, it is the largest mobile communications provider in the country. In the 12 months prior to June 30, 2004 MobilTel reported revenues of approximately EUR 455 million and an EBITDA of some EUR 290 million on a pro-forma basis.

Vodafone Partnership

The partnership agreed in 2003 between mobilkom austria and its subsidiaries VIPnet and Si.mobil with Vodafone continued very successfully in 2004. The main emphasis of activities in the reporting year was the joint implementation of roaming products and introduction of joint developments as well as the further optimization of synergies arising from combined procurement.

60% of all calls made by Vodafone customers in Austria, Croatia and Slovenia are routed through the wireless networks of mobilkom austria, VIPnet and Si.mobil. The Vodafone World tariff was introduced for customers of the wireless segment, offering a standard tariff at lower rates throughout Vodafone networks.

Product development activities focus upon data services. In the residential customer segment, Vodafone live!, an entertainment service which bundles a range of services (ring tones, games, news, etc.) on a user-friendly platform, was launched simultaneously in Austria, Croatia and Slovenia. In the business segment the emphasis was upon the Vodafone Mobile Connect Card, a data card for laptops which permits fast Internet access through GPRS, EDGE or UMTS networks. Blackberry, on the other hand, offers easy mobile access to e-mail and calendar functions. The joint procurement of mobile telephones through Vodafone ensures exclusive access to the Vodafone live! handsets at favorable conditions.

Outlook Wireless

Revenues and adjusted EBITDA are expected to show a further rise in 2005, although growth rates will continue to level out. Depreciation and amortization expenses should remain relatively stable leading to a greater increase in operating income. Capital expenditures for tangible assets will rise due to stronger investments in UMTS, EDGE and information technology at mobilkom austria.

Given the positive development of its subscriber base and strong growth in the data business, mobilkom austria should be able to offset the severe price pressure and achieve stable business development. In Croatia an additional mobile communications license was granted at the end of 2004, as a result VIPnet is expected to face stronger competition. In view of the high penetration rate in Slovenia Si.mobil will continue to focus on improving profitability.

This outlook does not take into account the effects that would result from a possible first-time consolidation of Bulgarian operator MobilTel, the integration of which will be carried out quickly after the call options have been exercised. The acquisition of MobilTel would be a major step forward in Telekom Austria's planned expansion strategy on the mobile markets. Others will follow.

Exercise No. 10: To be at the forefront, you need a strong team behind you

The real star at Telekom Austria is the team. Telekom Austria has acknowledged this by investing roughly EUR 11.5 million in further education and professional training as well as in High Potential and MBA programs. The team reciprocated with productivity growth measured against revenues and adjusted EBITDA per employee of approximately 10% and 12% respectively. This not only demonstrates our will to win, but also our excellent standing.

Consolidated Financial Statements 2004

according to U.S. GAAP

TELEKOM AUSTRIA AG
Consolidated Balance Sheets

(in EUR '000s)

	Notes No	December 31, 2004	December 31, 2003
ASSETS			
Current assets			
Cash and cash equivalents		288,195	201,926
Short-term investments		10,540	6,867
Accounts receivable - trade, net of allowances of EUR 73,463 and EUR 76,831 as of December 31, 2004 and 2003	(6)	408,820	429,919
Accounts receivable sold, net of allowances of EUR 21,150 and EUR 15,407 as of December 31, 2004 and 2003		173,350	129,953
Receivables due from related parties	(7)	85	1,549
Inventories	(8)	83,110	83,535
Deferred tax assets	(21)	59,939	45,633
Prepaid expenses		100,169	91,177
Taxes receivable		3,702	9,739
Assets held for sale	(11)	2,660	5,560
Other current assets		143,338	118,963
Total Current assets		**1,273,908**	**1,124,821**
Property, plant and equipment, net	(10)	3,888,691	4,457,666
Goodwill	(9)	596,565	597,577
Other intangible assets, net	(9)	667,337	711,988
Investments in affiliates	(3)	3,570	3,555
Other investments		133,239	143,630
Deferred tax assets	(21)	19,436	94,349
Other assets		659,761	762,679
TOTAL ASSETS		**7,242,507**	**7,896,265**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	(12)	751,139	631,321
Accounts payable - trade		534,498	589,368
Accrued liabilities	(13)	194,319	231,778
Payables to related parties		22,924	23,657
Deferred income	(14)	168,984	150,378
Income taxes payable		18,005	7,650
Other current liabilities		182,217	155,563
Total Current liabilities		**1,872,086**	**1,789,715**
Long-term debt, net of current portion	(16)	1,647,171	2,342,288
Lease obligations, net of current portion	(17)	761,132	861,300
Employee benefit obligations	(18)	109,984	155,960
Other liabilities and deferred income	(19)	110,504	107,629
Stockholders' equity			
Share capital, no par value shares, 560,000,000 authorized (2003: 510,000,000), 500,000,000 issued (2003: 500,000,000), 493,744,306 outstanding (2003: 500,000,000)		1,090,500	1,090,500
Treasury stock		(63,353)	-
Additional paid in capital		458,137	453,371
Retained earnings		1,266,551	1,103,867
Accumulated other comprehensive loss		(10,205)	(8,365)
Total Stockholders' equity	(23)	**2,741,630**	**2,639,373**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**7,242,507**	**7,896,265**

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Operations

(in EUR '000s, except share information)

Twelve months ended December 31,	**Notes No**	**2004**	**2003**	**2002**
Operating revenues (a)	(24)	4,056,268	3,969,750	3,118,064
Operating expenses (b)				
Materials		(324,518)	(297,084)	(196,434)
Employee costs, including benefits and taxes		(673,688)	(699,348)	(600,718)
Depreciation and amortization		(1,114,830)	(1,133,148)	(1,016,312)
Impairment charges		(1,334)	(6,825)	(41,871)
Other operating expenses	(25)	(1,489,224)	(1,463,521)	(1,205,354)
Operating Income		**452,674**	**369,824**	**57,375**
Other income (expense)				
Interest income (c)		70,016	75,167	88,191
Interest expense (d)		(188,818)	(230,979)	(244,628)
Equity in earnings of affiliates		552	19,112	140,543
Other, net	(26)	15,656	(567)	2,330
Income before income taxes, minority interests and cumulative effect of change in accounting principle		**350,080**	**232,557**	**43,811**
Income tax expense	(21)	(122,186)	(83,036)	(26,112)
Minority interests		(631)	(3,422)	(4,910)
Income before cumulative effect of change in accounting principle		**227,263**	**146,099**	**12,789**
Cumulative effect of change in accounting principle, net of tax of EUR 6,071 in 2003	(15)	-	(11,858)	-
Net income		**227,263**	**134,241**	**12,789**
Basic and fully diluted earnings per share	(23)	0.46	0.27	0.03
Basic and fully diluted earnings per share excluding cumulative effect of change in accounting principle		0.46	0.29	0.03
a) includes revenues from related parties of		62,102	89,506	147,990
b) includes operating expenses from related parties of		124,699	128,694	192,153
c) includes interest income from related parties of		57	1	4,992
d) includes interest expense from related parties of		1	30	938

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Cash Flows

(in EUR '000s)

Twelve months ended December 31,	Notes No	2004	2003	2002
Cash generated from operations				
Net income		227,263	134,241	12,789
Adjustments to reconcile net income to cash generated from operations				
Depreciation, amortization and impairment charges		1,116,164	1,139,973	1,058,183
Write-offs from investments		716	2,840	-
Employee benefit obligation - non cash		908	307	(49,840)
Allowance for doubtful accounts		23,597	30,629	39,184
Change in deferred taxes		62,938	59,241	33,498
Equity in earnings of affiliates less than (in excess of) dividends received		(15)	1,027	(45,801)
Stock compensation	(20)	4,766	-	-
Asset retirement obligation - accretion expense		5,829	1,336	-
Settlement of asset retirement obligation		(2,248)	-	-
Cumulative effect of change in accounting principle, net of tax	(15)	-	11,858	-
(Gain) / loss on sale of investments		(5,163)	(17,903)	195
Loss on disposal / retirement of equipment		28,788	41,571	17,280
Other		(252)	(660)	-
		1,463,291	**1,404,460**	**1,065,488**
Changes in assets and liabilities, net of effect of business acquired				
Accounts receivable - trade		(45,898)	(140,331)	175,522
Due from related parties		1,464	5,813	3,759
Inventories		425	5,765	6,052
Prepaid expenses and other assets		(19,526)	71,506	(9,020)
Accounts payable - trade		(58,814)	(58,944)	10,979
Employee benefit obligation		(46,883)	(76,649)	(102,565)
Accrued liabilities		(27,104)	(23,487)	3,881
Due to related parties		(731)	(13,358)	17,088
Other liabilities and deferred income		38,433	45,100	230
		(158,634)	(184,585)	105,926
Cash generated from operations		**1,304,657**	**1,219,875**	**1,171,414**

Twelve months ended December 31,	Notes No	2004	2003	2002
Cash from (used in) investing activities				
Capital expenditures, including interest capitalized		(548,169)	(599,684)	(560,742)
Acquisitions and investments, net of cash acquired		(2,180)	(85,989)	(665,128)
Final consolidation of subsidiary		-	205	-
Proceeds from sale of equipment		36,213	17,300	49,819
Purchase of investments - short-term		(51,609)	(79,750)	(1,629)
Purchase of investments - long-term		(1,997)	(601)	(1,107)
Proceeds from sale of American call options		-	957	2,609
Proceeds from sale of investments - short-term		51,909	80,108	6
Proceeds from sale of investments - long-term		6,502	23,599	225
Cash used in investing activities		**(509,331)**	**(643,855)**	**(1,175,947)**
Cash from (used in) financing activities				
Principal payments on bonds		(2,180)	(22,765)	(72,673)
Proceeds from issuance of long-term debt and bonds		-	775,948	127,857
Principal payments on long-term debt		(568,110)	(385,330)	(406,294)
Changes in short-term bank borrowings		(6,707)	(774,644)	237,973
Changes in financing with mobilkom austria		-	-	114,921
Purchase of treasury stock		(64,161)	-	-
Proceeds from sale of treasury stock		808	-	-
Dividends paid		(64,579)	-	-
Cash provided by (used in) financing activities		**(704,929)**	**(406,791)**	**1,784**
Effect of exchange rate changes		**(4,128)**	**5,360**	**3,693**
Net increase in cash and cash equivalents		**86,269**	**174,589**	**944**
Cash and cash equivalents at beginning of period		201,926	27,337	26,393
Cash and cash equivalents at end of period		288,195	201,926	27,337

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements of Changes in Stockholders' Equity

(in EUR '000s)

	COMMON STOCK		TREASURY STOCK					
	Number of shares	Par value	Number of shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance January 1, 2002	**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**
Comprehensive income								
Net income						227,263		227,263
Net unrealized gains on securities, net of EUR (565) deferred income tax							1,096	1,096
Net realized loss on securities, net of EUR 1,368 deferred income tax							(2,655)	(2,655)
Foreign currency translation adjustment							(4,581)	(4,581)
Unrealized net gain on hedging activities, net of EUR (2,077) deferred income tax							4,032	4,032
Realized net gain on hedging activities, net of EUR (138) deferred income tax							268	268
Total comprehensive income								**225,423**
Distribution as dividend						(64,579)		(64,579)
Stock options granted					4,766			4,766
Purchase of treasury shares			(6,345,442)	(64,161)				(64,161)
Issue of treasury shares to employees			89,748	808				808
Balance December 31, 2004	**500,000,000**	**1,090,500**	**(6,255,694)**	**(63,353)**	**458,137**	**1,266,551**	**(10,205)**	**2,741,630**

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Notes to Consolidated Financial Statements

(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.

Telecom Italia owned 29.78% of Telekom Austria until its 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. On January 21, 2004 Telecom Italia sold all of its residual shareholding of 73.9 million shares or 14.78%.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), is a significant shareholder of the Company. In December 2004, ÖIAG sold 85 million shares of the Company in a private placement to institutional shareholders and reduced its holding from 47.17% to approximately 30.17% of voting common shares. In addition to the related party transactions described in note (7), 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 participation 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 decisions 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.

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's presentation.

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 and 2002, revenues and expenses in the accompanying consolidated statements of operations would have been lower by EUR 45,886 and EUR 51,206, respectively. Had the enacted regulation and the VASP ruling been in effect for all of 2003 and 2002 revenues and expenses would have been adjusted as follows:

Year ended December 31,	2003	2003	2002	2002
	pro-forma	as reported	pro-forma	as reported
Revenues	3,923,864	3,969,750	3,066,858	3,118,064
Operating expenses	(3,554,040)	(3,599,926)	(3,009,483)	(3,060,689)
Operating income	**369,824**	**369,824**	**57,375**	**57,375**

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.

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 the 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 leases 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:

	Years
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

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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.

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 Statement of Financial Accounting Standards (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 Assets").

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 of goodwill compared to carrying value is recognized as an impairment loss.

In each reporting period, the Company is required to reevaluate its decision that a nonamortizable 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 are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If the carrying value of such assets exceeds the undiscounted cash flows an impairment will be recognized. The amount of 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. Long-lived assets or disposal groups to be sold are classified as held for sale if all the criteria for reclassification in accordance with SFAS 144 are met and 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.

Advertising and promotional costs

Advertising and promotional costs are expensed as incurred and totaled EUR 198,138, EUR 198,362 and EUR 153,737 for the years ended December 31, 2004, 2003 and 2002, respectively.

(all amounts in EUR '000s)

Research and development costs

Research and development costs are expensed as incurred and amounted to EUR 42,387, EUR 42,759 and EUR 30,338 for the years ended December 31, 2004, 2003 and 2002, 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized as income or expense in the period that includes the enactment date.

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

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.

The Company recognizes deferred tax liabilities or assets for differences between the assigned values and the tax bases of assets and liabilities recognized in a business combination. If a valuation allowance is recorded on a deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, the tax benefits recognized in subsequent years due to a reassessment of that valuation allowance are applied (i) first to reduce to zero any goodwill related to the acquisition, (ii) second to reduce to zero other non-current intangible assets related to the acquisition, and (iii) third to reduce income tax expense.

Earnings per share

Basic earnings (loss) per share are computed by dividing consolidated net income (loss) by the weighted average number of common shares outstanding for the year.

Diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding for the year, adjusted by the effect of the options granted under the stock option plans.

In order to have access to shares for employee compensation purposes for the stock option plan 2000, the Company purchased an American call option. As the American call option was written on already issued and outstanding shares, the number of potential shares outstanding is not affected by the American call option and all of these shares are already included in basic EPS. Accordingly, the call option and employee options do not have a dilutive effect.

Employee stock options under the Stock option plan 2004 were treated as potential common shares in computing diluted earnings per share under the treasury stock method in accordance with SFAS No. 128.

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.

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 incurred.

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

The functional currency of the Company is the Euro.

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.

The following table provides the exchange rates for the currencies in which the Company conducts most of its transactions:

	Balance sheet rates at December 31		**Average exchange rates for the period ended December 31**		
	2004	**2003**	**2004**	**2003**	**2002**
Croatian Kuna (HRK)	7.6712	7.6495	7.4943	7.5621	7.4081
Czech Crown (CZK)	30.4640	32.4100	31.9062	31.8409	30.8023
Hungarian Forint (HUF)	245.9700	262.5000	251.6906	253.0343	242.9780
Japanese Yen (JPY)	139.6500	135.0500	134.3904	130.8971	118.0898
Slovak Crown (SKK)	38.7450	41.1700	40.0270	41.4919	42.6889
Slovenian Tolar (SIT)	239.7600	236.7000	239.0826	233.8404	225.9533
Swiss Franc (CHF)	1.5429	1.5579	1.5442	1.5204	1.4672
US Dollar (USD)	1.3621	1.2630	1.2432	1.1299	0.9456

(all amounts in EUR '000s)

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.

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 in which 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 telecommunications 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. In accordance with APB No. 29, "Accounting for Nonmonetary Transactions", EITF 01-2, "Interpretation of APB Opinion No. 29", and EITF 99-17, "Accounting for Advertising Barter Transactions", no revenues and obligations (expenses) were recognized because the exchange does not result in the culmination of an earnings process due to the similarity of the assets exchanged. In addition, no gain or loss was recognized, as fair value was not considered to be determinable within reasonable limits. The Company, however, does recognize trade revenues 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 Wireless segment are billed in advance resulting in deferred revenues. These fees are amortized over the period in which the service is provided. Discounts and incentives are accounted for as a reduction in revenues when granted.

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 transactions are separate and distinct from the sale of wireless services to customers.

The Company also enters into multiple element arrangements which include the sale of handsets, activation fees and service contracts to customers through Company owned retail stores. These transactions include the sale of a mobile handset at a price significantly below acquisition cost (only if a binding contract is signed), the up-front charge of non-refundable activation fees to connect the customer to the service, and subsequent monthly fees and airtime fees charged during the contract period. The Company recognizes revenue from the sale of handsets upon delivery to the customer. The corresponding cost of sales is charged to expense when sales are recognized which results in a net loss on the sale of the handset. Activation fees charged to the customer are recognized as revenue and the related cost is expensed upon delivery and sale of the phone. Current monthly service fees are recorded as revenue from service when performed.

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

Customer acquisition costs consist primarily of commissions paid to dealers that sell wireless services to customers. Such costs are expensed ratably over the contract period as marketing expense.

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 and cash drawn under the securitizations described in note (6) are recorded as accrued liabilities.

Stock compensation

In previous years, the Company accounted for stock-based employee compensation in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Specifically, the Company accounted for its combination stock option and stock appreciation rights plan under the Stock option plan 2000 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 recognized a liability and a 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 relevant market conditions, no compensation expense has been recognized under the plan for any of the comparative years presented.

Effective January 1, 2004, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation. Because the combination stock option and stock appreciation rights plan at January 1, 2004 permitted employees to call for settlement in cash, the accounting for this plan under SFAS No. 123 was the same as in prior years under APB 25. Therefore, there was no effect of a change in accounting principle.

SFAS No. 123 also requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The compensation cost is measured based on the fair value of the equity instrument issued at the date of grant and recognized over the service period.

Derivative financial instruments

All derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, are 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.

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 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 receivable sold, 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 (“Cost method investments”), 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.

New accounting pronouncements

In October 2004, the FASB issued SFAS No. 151, Inventory Costs and clarified the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and waste material. The Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of “so abnormal”. In addition, this Statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facility. The provisions of SFAS 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect that the adoption of SFAS No. 151 will have a material impact on the Company’s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchange of Non-monetary Assets - an amendment of APB Opinion No. 29, which eliminated the exception of non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 shall be effective for the exchange of non-monetary assets incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect on its financial statements.

In December 2004, the FASB issued revised SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The compensation cost is measured based on the fair value of the equity or liability instrument issued. The revised statement eliminated the alternative to continue accounting for share-based payments in accordance with APB 25, which measured the compensation cost at its intrinsic value. The revised SFAS No. 123(R) shall be applied as of the first interim or annual period that begins after June 15, 2005. As the Company’s accounting for stock based compensation is based on the fair value of the equity instrument issued in accordance with SFAS No. 123, the Company does not expect that the adoption of SFAS No. 123(R) will have a material impact on the Company’s consolidated financial statements.

International Financial Reporting Standards

In July 2002 the European Parliament adopted a regulation requiring all European Union (EU) companies to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS) if their securities are traded on a regulated market within the EU. The regulation shall be applied as of the first period that begins on or after January 1, 2005. However, Member States may defer mandatory application until the first period that begins on or after January 1, 2007 for companies that already use other internationally accepted standards and that are publicly traded outside of the EU. This transitional clause applies to the Company as it is listed on the New York Stock Exchange and prepares its financial statements in accordance with US GAAP. Accordingly, the Company will not be required to prepare financial statements in accordance with IFRS until fiscal year beginning on January 1, 2007. The Company is currently considering adopting IFRS at a date earlier than the latest required.

(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.

Telekom Austria accounted for the acquisition of the 25.001% of mobilkom austria as a step acquisition using the purchase method in accordance with paragraph 14 of SFAS No.141, Business Combination. The excess of the purchase price over the estimated fair value of identifiable assets acquired and liabilities assumed was accounted for as goodwill and the results of operations of the acquired businesses were included in the consolidated financial statements from the date of acquisition.

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.

As of December 31, 2004, mobilkom austria acquired the remaining 1% of VIPnet d.o.o., Zagreb, (VIPnet) for a total purchase price of EUR 1,658, bringing its interest to 100%.

As of January 30, 2003, mobilkom austria acquired 9% and as of June 23, 2003, a further 19% of VIPnet 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 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. 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% share 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 AG 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 intangible assets and tax loss carryforwards were not recognized at the acquisition date as the use of these tax assets was not considered more likely than not. The Company reassessed the valuation allowance in 2004 and, as a result, recognized the resulting tax benefits as a reduction of other non-current intangible assets related to the acquisition, and the remaining amount as a reduction of income tax expense.

No pro forma disclosure has been presented for the effect of the acquisitions discussed in the prior five 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%. On June 30, 2004 the Company sold its remaining interest in Telekom Building Systems GmbH.

On December 17, 2004, the Company entered into call option agreements to acquire a 100% share in MobilTel AD. (MobilTel), a Bulgarian provider of mobile communications services for a purchase price of approximately EUR 1,600,000. These options are exercisable from July 12, 2005 until August 23, 2005 (see note (27)).

(3) INVESTMENTS IN AFFILIATES

As of December 31, 2004 and 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").

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 EUR 22,000 and realized a gain of EUR 18,367 which was recorded in equity in earnings of affiliates.

The following table shows the roll forward of investments in affiliates:

	2004	**2003**
Carrying amount, January 1	3,555	8,642
Disposals	-	(4,255)
Changes in equity	15	(832)
Carrying amount, December 31	3,570	3,555

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

Year ended December 31,	**2004**	**2003**	**2002**
Revenues	3,394	35,515	68,045
Operating income	1,584	4,653	7,833
Net income	975	2,908	8,285

At December 31,	**2004**	**2003**
Total current assets	31,068	31,003
Total assets	31,566	31,684
Current liabilities	28,590	28,808
Long-term debt	1,401	1,357
Total liabilities	29,991	30,165
Total stockholders' equity	1,575	1,519

(all amounts in EUR '000s)

(4) MARKETABLE SECURITIES

Marketable securities are included in short-term investment and other investments on the Balance Sheet.

Debt securities originating from cross border lease transactions entered into in 1998 and 1999 (see note (17)) 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 are held by a custodian. Through a further asset based swap the cash inflows from the securities are transformed into the cash flow stream required to match a specified portion of the lease payments. The securities are pledged to a counterparty in the swap agreement. No sales of securities held-to-maturity occurred in 2004, 2003 and 2002. 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.

At December 31, 2004	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Non-current assets				
Available-for-sale				
debt securities	4,955	176	4	5,127
equity securities	1,658	-	-	1,658
mutual funds	13,342	1	472	12,871
Held-to-maturity	120,946	12,919	-	133,865
At December 31, 2003				
Non-current assets				
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

The contractual maturities of debt securities classified as held-to-maturity at December 31, 2004 were as follows:

	Amortized cost	Fair value
Held-to-maturity		
Due within one year	5,063	5,134
Due after one year through five years	59,237	64,152
Due after five years through ten years	56,646	64,579
	120,946	**133,865**

Proceeds from sales of available-for-sale securities amounted to EUR 8,740 and EUR 545 in 2004 and 2003, respectively. Gross realized gains from sales of available-for-sale securities were EUR 2,124 in 2004, gross realized losses from sales of available-for-sale securities were EUR 3 in 2004. The specific identification method was used to determine the cost in computing realized gains and losses.

(all amounts in EUR '000s) Telekom Austria 2004 79

The unrealized losses on the investment in mutual funds, corporate bonds and equity securities were caused by fluctuations in the capital markets. The Company considers the fluctuation of the fair value of these investments to be temporary and therefore did not record impairment. Presented below is the fair value information for marketable securities held by the Company:

	Less than 12 months		12 months or longer		Total	
At December 31, 2004	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Non-current assets						
Available-for-sale						
debt corporate securities	1,068	4	-	-	1,068	4
equity securities	-	-	1,012	18	1,012	18
mutual funds	-	-	8,963	454	8,963	454
Total temporarily impaired securities	**1,068**	**4**	**9,975**	**472**	**11,043**	**476**

(5) COST METHOD INVESTMENTS

The Company determined, in accordance with paragraphs 14 and 15 of SFAS 107, that it is not practicable to estimate the fair value of these investments, as quoted market prices are not available. Therefore, the cost method investments are recorded at cost and reviewed periodically if there are events or changes in circumstances that may have a significant adverse effect on the fair value of the investments.

The aggregate carrying amount of cost method investments totaled EUR 748 and EUR 2,931 as of December 31, 2004 and 2003, respectively. Thereof, the aggregate carrying amount of investments that the Company did not evaluate for impairment totaled EUR 748 and EUR 2,931 as of December 31, 2004 and 2003, respectively.

(6) ACCOUNTS RECEIVABLE - TRADE

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

	2004	2003
Allowance beginning of the year	**92,238**	**74,945**
Foreign currency adjustment	31	(11)
Charged to expenses	24,707	30,629
Amounts written-off	(22,363)	(13,325)
Allowance at the end of the year	**94,613**	**92,238**
of which allowance for accounts receivable-trade	73,463	76,831
of which for accounts receivable sold	21,150	15,407

December 31,	2004	2003
Accounts receivable-trade, gross	482,283	506,750
Allowance for accounts receivable-trade	(73,463)	(76,831)
Accounts receivable sold, gross	194,500	145,360
Allowance for accounts receivable sold	(21,150)	(15,407)
Accounts receivable, net	**582,170**	**559,872**

Of these receivables, EUR 249,173 are held for sale due to the securitization program described in the following paragraphs.

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In January 2002, the Company entered into a revolving period securitization program 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.

The Company determined that the transaction met the three sales criteria, that (a) the transferred assets have been isolated from the transferor, beyond the reach of the transferor and its creditors, even in the event of bankruptcy or receivership, (b) the transferee obtains the right, free of any conditions that constrain, to pledge or exchange the assets and (c) the transferor does not maintain effective control in accordance with SFAS No. 140,"Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". Additionally, the limited liability corporation whose shares are owned by a charitable trust under the terms of a trust fulfilled all conditions required to be a qualifying special purpose entity (QSPE) under SFAS No. 140.

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, 2004, the Company recorded a receivable due from the QSPE of EUR 173,350. This amount represents accounts receivable sold, net of allowance for doubtful accounts, for which the Company had not required cash settlement as of December 31, 2004.

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 allowance recorded for sold receivables, for which the company received cash settlement as of December 31, 2004, are classified as accrued liabilities. As of December 31, 2004 and 2003, respectively, the accruals totaled EUR 19,097 and EUR 28,882.

In accordance with SFAS No. 140 the Company has not recorded a servicing asset as management has determined, that it is not practicable to determine a fair value for the servicing asset, as the benefits of the servicing assets are adequate to compensate the Company for its servicing responsibility and no servicing assets or servicing liability was recorded.

In the years ended December 31, 2004 and 2003, respectively, the following cash flows were received from and paid to the QSPE:

December 31,	**2004**	**2003**
Gross trade receivables sold to QSPE	2,861,686	2,789,761
Collections made on behalf of and paid to the QSPE	(2,806,644)	(2,578,860)
Deferred purchase price withheld	(9,771)	(168,846)
Unearned discount (withheld) reduced	(1,489)	(3,620)
Liquidity and program fees	(3,110)	(5,788)
Retained interests	(9,142)	-
Increase in receivable from the QSPE	(49,140)	(145,360)
Net cash received from (paid to) QSPE during the period	**17,610**	**(112,713)**

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 years ended December 31, 2004 and 2003, respectively. The Company services these receivables, collecting cash from receivables previously sold on behalf of the QSPE. The Company recorded discounts, liquidity and program fees related to the securitization of trade receivables of EUR 3,107 and EUR 5,690 for the years ended December 31, 2004 and 2003, respectively. These discounts and fees are included in interest expense in the statement of operations.

(all amounts in EUR '000s)

(7) 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.

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 therfore no longer reported as related party.

The terms for 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 40,303, EUR 41,396 and EUR 41,670 in 2004, 2003 and 2002, respectively.

In 2001, a partner in a law firm which provides legal services to the Company was elected to the Supervisory Board. In 2004, 2003 and 2002, respectively, the Company was charged EUR 640, EUR 560 and EUR 993 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 in which they are realized through reduced interconnection obligations and revenues, respectively.

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

At December 31,	**2004**	**2003**
ÖIAG	18	945
Affiliated companies and other	67	604
Total	**85**	**1,549**

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

At December 31,	**2004**	**2003**
ÖIAG	9,969	7,840
Omnimedia	12,039	13,192
Affiliated companies and other	916	2,625
Total	**22,924**	**23,657**

 (all amounts in EUR '000s)

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

Year ended December 31,	2004	2003	2002
Revenues			
mobilkom austria	-	-	72,879
ÖIAG	59,992	62,635	56,660
Telecom Italia	-	24,014	14,361
Other	2,110	2,857	4,090
Total	**62,102**	**89,506**	**147,990**
Interest income			
mobilkom austria	-	-	4,988
Other	1	1	4
Total	**1**	**1**	**4,992**
Expenses			
mobilkom austria	-	-	43,590
ÖIAG	72,903	70,643	58,285
Telecom Italia	-	10,808	23,559
Omnimedia	44,440	36,146	55,289
Other	7,356	11,097	11,430
Total	**124,699**	**128,694**	**192,153**
Interest expense			
mobilkom austria	-	-	837
ÖIAG and other	59	30	101
Total	**59**	**30**	**938**

The expenses to Omnimedia mainly relate to advertising and marketing services provided.

(8) INVENTORIES

Inventories consist of:

At December 31,	2004	2003
Spare parts, cables and supplies	41,167	44,510
Merchandise	41,943	39,025
Total	**83,110**	**83,535**

(all amounts in EUR '000s)

(9) GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

At December 31,	2004	2003
Wireless and wireline licenses	563,080	559,273
Patents and proprietary rights	78,482	53,497
Brandnames	173,948	174,046
Subscriber base	138,504	138,622
Other	35,679	35,858
Total intangibles	**989,693**	**961,296**
Less accumulated amortization	(322,356)	(249,308)
Net intangibles	**667,337**	**711,988**

Amortization expense was EUR 74,863, EUR 68,340 and EUR 27,410 for the years 2004, 2003 and 2002, 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 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 25,204 in 2004 and expects the same amount on an annual basis thereafter.

In October 2004, VIPnet acquired a UMTS license for Croatia for the purchase price of EUR 17,213. The license covers 20 years. The Company will start to amortize the license in 2005 and expects amortization and depreciation expenses of EUR 861 on an annual basis.

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. The Company recorded amortization and depreciation expenses from the use of these assets of EUR 24,489 in 2004 and expects approximately the same amount on an annual basis thereafter.

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 years ended December 31, 2004 and 2003, respectively:

	Wireline	Wireless	Total
Goodwill January 1, 2004	**31,419**	**566,158**	**597,577**
Acquisitions	202	-	202
Impairment	(211)	-	(211)
Translation adjustment	907	(1,910)	(1,003)
Goodwill December 31, 2004	**32,317**	**564,248**	**596,565**

	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	**31,419**	**566,158**	**597,577**

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In 2002 impairment charges in the amount of EUR 40,441 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 a discount rate.

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

At December 31, 2004	**Acquisition cost**	**Accumulated amortization**	**Carrying value**
Wireless and wireline licenses	563,080	(210,172)	352,908
Subscriber base	138,504	(55,149)	83,355
Patents, proprietary rights and others	114,161	(57,035)	57,126
Total	**815,745**	**(322,356)**	**493,389**

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
Patents, proprietary rights and others	89,355	(44,919)	44,436
Total	**787,250**	**(249,308)**	**537,942**

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

2005	74,227
2006	72,279
2007	68,982
2008	57,006
2009	41,669
2010	39,567
Thereafter	139,659

The total carrying amount of intangible assets, other than goodwill, not subject to amortization is EUR 173,948 as of December 31, 2004. This amount relates entirely to the value of brandnames. The value of brandnames increased by EUR 15,728 in 2003 as a result of the acquisition of the 28% interest in VIPnet (see note (2)).

(all amounts in EUR '000s)

(10) 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,	**2004**	**2003**
Land	59,172	60,281
Buildings and leasehold improvements	689,639	663,044
Communications network and other equipment	9,506,621	9,381,996
Capital leases	8,961	13,963
Software	441,223	376,567
Construction in progress, network	158,007	186,487
	10,863,623	**10,682,338**
Less accumulated depreciation (other than capital leases)	(6,968,516)	(6,214,641)
Less accumulated depreciation, capital leases	(6,416)	(10,031)
Property, plant and equipment, net	**3,888,691**	**4,457,666**

Major additions in 2004 and 2003 related to the communications network in the wireline segment and GSM and UMTS network infrastructure in the wireless segment.

Total interest capitalized and amortization and depreciation expenses and impairment charges for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	**2003**	**2002**
Interest capitalized	1,557	1,605	2,635
Depreciation and amortization expense	1,039,967	1,064,808	988,901
Impairment charges	1,123	6,825	977
of which			
Amortization expense of software	81,903	79,059	42,623
Amortization expense of leased assets	1,466	3,663	2,341

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(11) ASSETS HELD FOR SALE

The Company classified one Austrian UMTS license frequency band with zero carrying amount and several buildings with carrying amount of EUR 2,660 as held for sale as of December 31, 2004. The assets have been accounted for at the lower of the carrying amount or each asset's estimated fair value less costs to sell.

The aforementioned UMTS license frequency band was acquired among others in 2003 in the purchase of 100% of 3G Mobile Telecommunications GmbH and has subsequently been classified as held for sale as required by the authorities. The license frequency band was sold in January 2005. Certain buildings are subject to the Company's real estate optimization program and are expected to be sold on several dates during 2005.

The Company recognized a gain from assets held for sale of EUR 4,762 and EUR 10 for the years ended December 31, 2004 and 2003, respectively.

(all amounts in EUR '000s)

(12) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2004	2003
Current portion of long-term debt	653,022	530,869
Lines of credit	2,775	4,962
Current portion of lease obligations	95,342	95,490
Total	**751,139**	**631,321**

The weighted-average interest rate on lines of credit was 2.21% and 3.20% in 2004 and 2003, respectively. As of December 31, 2004 the Company had unused committed credit lines of EUR 450,000 and recorded commitment and servicing fees for these unused lines of EUR 779. The credit line commitments will expire between November 2006 and December 2007.

Short-term borrowings increased as the short-term portion of long-term debt which is due in the next twelve months increased compared to prior year.

(13) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

At December 31,	2004	2003
Taxes, other than income	7,643	9,845
Employee benefits	61,830	69,935
Customer discounts	42,279	47,444
Customer retention programs	34,712	40,161
Exit costs	123	6,829
Bad debt reserve for sold receivables	19,097	28,882
Other	28,635	28,682
Total	**194,319**	**231,778**

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.

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. As of December 31, 2003, the Company recorded an additional accrual of EUR 1,763. This accrual covers the minimum lease payments until the end of the lease contracts. For the years ended December 31, 2004 and 2003, respectively, the Company utilized EUR 6,706 and EUR 3,297 of the accrual. As of December 31, 2004, the Company has a remaining accrual of EUR 123 that is expected to be fully utilized.

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(14) DEFERRED INCOME

At December 31,	2004	2003
Unearned income	162,002	143,266
Unamortized gain on sale of tax benefits	44,331	51,573
	206,333	**194,839**
Less non-current portion	(37,349)	(44,461)
Deferred income net of non-current portion	**168,984**	**150,378**

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 (17).

(15) 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 obligations and a cumulative change in accounting principles:

At 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	**21,954**

The roll-forward of asset retirement obligations is as follows:

	2004	2003
Asset retirement obligations as of January 1	23,262	21,954
Foreign exchange differences	(33)	(3)
Liability incurred in the current period	11,451	451
Accretion expense	6,173	1,336
Settlements	(2,248)	(461)
Releases	(344)	(15)
Asset retirement obligations as of December 31	**38,261**	**23,262**

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 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.

mobilkom austria situates base stations on land, rooftops and other premises under various types of rental contracts. In estimating the fair value of its retirement obligation for its base stations, mobilkom austria made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

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.

(16) LONG-TERM DEBT

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

At December 31,	Maturity	2004	2003
Bonds under EMTN Programme	2005-2013	767,509	752,387
Other bonds guaranteed by the Federal Republic of Austria	2005	149,602	152,471
Bank debt	2005-2008	675,296	612,926
Bank debt guaranteed by the Federal Republic of Austria	2005-2011	707,566	1,354,583
Other	2007	220	790
		2,300,193	**2,873,157**
Less current portion of long-term debt		(653,022)	(530,869)
Long-term debt, net of current portion		**1,647,171**	**2,342,288**

The interest rates on the guaranteed and unguaranteed bank debt vary between 2.1% and 7.4%. The weighted average interest rate for the years ended December 31, 2004 and 2003, respectively, were 5.0% and 4.6% for bonds and 4.9% and 5.2% for bank debt.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2004 and 2003 are as follows:

	2004	2003
Bonds	4.56%	4.57%
Bank debt	4.62%	4.96%

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

2005	653,022
2006	243,838
2007	100,527
2008	236,637
2009	300,055
Thereafter	766,114

As of December 31, 2004, the Company was in compliance with all covenants required by its loan agreements.

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Bonds under EMTN Programme

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 are 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 7,731 as of December 31, 2004) and were used to refinance existing debt.

Other bonds

Other bonds issued by the Company before the privatization are guaranteed by the Federal Republic of Austria and consist of two bonds, of which EUR 145,346 will become due in September 2005 and EUR 3,270 will become due in December 2005.

Bank debt

Bank debt incurred by the Company after its privatization is not guaranteed by the Federal Republic of Austria. These contracts can be described in more detail as follows:

In March 2000, the Company entered into a loan agreement for EUR 145,000 with the European Investment Bank. As of December 31, 2004, EUR 87,000 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 to fund the acquisition of COL. As of December 31, 2004 the loan is outstanding in full in accordance with the repayment terms. Under the terms of the contract the Company has to maintain a minimum equity in COL, otherwise the loan becomes due. The interest rates vary depending on the rating of the Company.

As of December 31, 2004, 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 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 loan is secured by bills of exchange, property, receivables and shares of Si.mobil. The loan is repayable through March 2007.

Bank debt guaranteed by the Federal Republic of Austria

Bank debt entered into before the Company's privatization is guaranteed by the Federal Republic of Austria.

From the bank debt as of December 31, 2004 and 2003, respectively, EUR 176,635 and EUR 192,567 are denominated in Swiss Francs. A bank loan denominated in Japanese Yen, which amounted to EUR 74,046 as of December 31, 2003, was repaid in 2004. The Company uses cross currency swaps to reduce the exposure to the risks of adverse changes in exchange rates as described in note (22).

(17) 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, 2004 are:

	Cross border leases	Other Capital leases	Operating leases
2005	94,154	1,359	42,742
2006	106,265	318	39,123
2007	125,525	3	34,598
2008	110,541	-	30,687
2009	160,547	-	29,954
after 2009	538,288	-	40,201
Total minimum lease payments	**1,135,320**	**1,680**	217,305
Less amount representing interest	(280,489)	(37)	
Present value of lease payments	**854,831**	**1,643**	
Less current portion	(94,154)	(1,188)	
Non-current lease obligations	**760,677**	**455**	

Total rent expense was EUR 79,204, EUR 74,358 and EUR 67,666 in 2004, 2003 and 2002, 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 counterparties 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 counterparties in the PUA; the balance is to cover the remaining portion of the present value of the lease obligation not yet covered by the cash deposit made by the Company. The Company then also entered into a swap agreement with that 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 counter-parties 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 was a 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 58,243, EUR 65,669 and EUR 70,634 have been recognized in 2004, 2003 and 2002, respectively.

(all amounts in EUR ‘000s)

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

At December 31,	2004	2003
Securities held-to-maturity, non-current	115,883	119,793
Other assets	738,948	834,910
Total assets in connection with cross border leases	**854,831**	**954,703**
Of which current	94,297	94,517
Lease obligations	854,831	954,703
Of which current	94,154	93,725

In 2001, two banks issued letters of credit to the trust for the liabilities of the Company. As of December 31, 2004, these letters of credit totaled EUR 67,741.

(18) EMPLOYEE BENEFIT OBLIGATIONS

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

At December 31,	2004	2003
Contractual termination benefits	19,394	31,932
Service awards	44,418	46,870
Severance	37,096	67,606
Pensions	9,076	9,552
Total	**109,984**	**155,960**

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. Under the terms of these programs employees that accept voluntary retirement are eligible to receive these payments until the day of retirement. 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 over 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 1,358 and EUR 26,802 of these accruals in 2004 and 2003, respectively. As of December 31, 2004, the accrual for the VRIPs relates to 118 employees. In connection with VRIPs the Company made payments of EUR 5,365, EUR 69,634 and EUR 95,262 during 2004, 2003 and 2002, respectively.

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

(all amounts in EUR '000s)

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,	2004	2003	2002
Actuarial assumptions:			
Discount rate	5.0%	5.0%	5.0%
Rate of compensation increase – civil servants	5.0%	4.0%	3.7%
Rate of compensation increase – other employees	4.0%	2.5%	3.7%
Rate of increase of pensions	1.8%	1.8%	1.1%

Service awards

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these unfunded 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 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, 2004 and 2003, respectively:

	2004	2003
Accrual at the beginning of the year	**46,870**	**57,862**
Service cost	2,149	2,301
Interest cost	2,288	2,814
Recognized actuarial gains	(4,191)	(12,125)
Benefits paid	(2,698)	(3,982)
Accrual at the end of the year	**44,418**	**46,870**

The benefits expected to be paid are shown in the following table:

2005	2,389
2006	2,557
2007	2,497
2008	2,582
2009	2,979
2010–2014	25,355

(all amounts in EUR '000s)

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 in Austria after January 1, 2003 are covered by a defined contribution plan and the Company paid EUR 330 and EUR 119 to this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2004 and 2003, respectively.

Upon retirement, 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, 2004, 2003 and 2002, respectively:

	2004	**2003**	**2002**
Service cost	2,853	4,218	3,926
Interest cost	1,467	1,784	1,311
Amortization of unrecognized net obligation	96	310	221
Curtailment loss / settlement	-	1,090	683
Net periodic benefit cost	**4,416**	**7,402**	**6,141**

	2004	**2003**
Projected benefit obligation at the beginning of the year	29,629	36,849
Change in reporting units	-	(587)
Service cost	2,853	4,218
Interest cost	1,467	1,784
Actuarial (gains) losses	8,638	(11,004)
Curtailment loss / settlement	-	1,090
Benefits paid	(1,777)	(2,723)
Projected benefit obligation at the end of the year	**40,810**	**29,627**
Unrecognized net actuarial losses	(13,183)	(4,782)
Accrued liability at the end of the year	**27,627**	**24,845**
Voluntary severance obligation	9,469	42,761
Total accrued severance liabilities at the end of the year	**37,096**	**67,606**

The benefits expected to be paid are shown in the following table:

2005	12,196
2006	1,904
2007	2,012
2008	2,247
2009	2,274
2010-2014	13,821

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.

The Austrian government offered to civil servants of 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 recorded expenses of EUR 19,315 and EUR 47,308 in the year ended December 31, 2004 and 2003, respectively. Telekom Austria does not expect any future liabilities in addition to these accruals. Due to this offer the Company's workforce was reduced by 470 and 650 civil servants in 2004 and 2003, respectively.

(all amounts in EUR '000s)

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 2004. 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 46,854, EUR 51,520 and EUR 52,647 in 2004, 2003 and 2002, 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 9,154, EUR 9,082 and EUR 6,961 in 2004, 2003 and 2002, respectively.

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 salary and on 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 2004, 2003 and 2002 are shown in the following table:

	2004	2003	2002
Interest cost	363	396	424
Amortization of actuarial gain	(90)	(64)	(50)
Amortization of unrecognized transition obligation	-	343	343
Net periodic pension benefit cost	**273**	**675**	**717**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2004 and 2003, respectively:

	2004	2003
Projected benefit obligation at the beginning of the year	7,618	8,327
Interest cost	363	396
Actuarial gains	(582)	(273)
Benefits paid	(749)	(832)
Projected benefit obligation at the end of the year	**6,650**	**7,618**
Unrecognized net gain	2,426	1,934
Accrued pension liability	**9,076**	**9,552**

The benefits expected to be paid are shown in the following table:

2005	683
2006	656
2007	629
2008	601
2009	573
2010-2014	2,424

(all amounts in EUR '000s)

(19) OTHER LIABILITIES AND DEFERRED INCOME

The Company's other long-term liabilities and deferred income consist of:

At December 31,	2004	2003
Asset retirement obligation	38,042	23,262
Unamortized balance on sale of tax benefit	37,349	44,461
Deferred tax liabilities	19,721	12,773
Financial Instruments	-	15,515
Other	15,392	11,618
Total	**110,504**	**107,629**

(20) STOCK BASED COMPENSATION

In 2000, the Company launched a stock option plan (Stock Option Plan 2000), under which all exercisable options were exercised in the year ended December 31, 2004. In 2004, the company launched a succeeding stock option plan under modified conditions. The new stock option plan (Stock Option Plan 2004) consists of three tranches, of which one tranche has been granted in the year ended December 31, 2004. The Company reported an expense of EUR 8,736 from the Stock Option Plan 2000 and EUR 4,521 from the Stock Option Plan 2004 in the year ended December 31, 2004.

Stock Option Plan 2000 (2000 plan)

On October 4, 2000, the shareholders of Telekom Austria approved stock option plans for employees of the Company, which expired on February 27, 2004. Under this plan, the Company granted a total of 4,686,881 options, each of which entitled eligible grantees upon exercise of the option to receive at their choice either cash or shares 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. The options granted were exercisable 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 exceeded the initial public offering price of Euro 9 by 30% or more. As the stock price in the years ended 2003 and 2002 did not exceed the hurdle, no compensation expense was recorded for these years.

However, as of February 27, 2004, the average share price had exceeded the Initial Public Offering price by more than 30% for five consecutive days. Therefore, 3,230,718 options became exercisable and compensation expense of EUR 8,736, excluding related payroll taxes and social contributions, was recorded in the year ended December 31, 2004.

The following table shows stock option activity under the 2000 Plan for the years ended December 31, 2004, 2003 and 2002, respectively:

	2004	2003	2002
Outstanding as of January 1	3,268,850	3,432,927	3,953,693
Granted	-	-	-
Forfeited	(38,132)	(164,077)	(520,766)
Exercised	(3,230,718)	-	-
Outstanding as of December 31	**-**	**3,268,850**	**3,432,927**
of which exercisable as of December 31	-	-	-

(all amounts in EUR '000s)

Stock Option Plan 2004 (2004 plan)

Based on an authorization of the Annual General Meeting, the Supervisory Board of Telekom Austria approved the 2004 plan for members of the Management Board and senior members of management on April 16, 2004. Under this plan, the Company may grant a total of 10,000,000 options in three tranches between April 2004 and April 2006. Each tranche has to be approved separately by the Supervisory Board and has a vesting period of twelve months or longer and an exercise period of approximately three years. To be eligible to receive options, plan members must hold a continuous investment in Telekom Austria shares until the options are exercised. In addition, in order for the stock options to vest, certain performance must be achieved by the Company based on basic earnings per share adjusted for certain effects ("the hurdle"). The hurdle will be determined annually for each subsequent tranche of options and must be approved by the Supervisory Board. Each option entitles the holder to receive, at the Company's choice, either shares at the exercise price or cash equal to the difference between the quoted market price of the Company's shares on the date of the option's exercise and the exercise price. The exercise price is defined as the average quoted closing price of Telekom Austria stock during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. If one year's hurdle is not met, options will accumulate until the hurdle of the next tranche is achieved provided that it is set higher than the original hurdle. The vesting period is adjusted until the next tranche becomes exercisable.

The accounting assumes a settlement in stock, as it is the Company's choice to settle the options either in shares or in cash. The compensation expense is measured based on the fair value of the options at grant date and recognized over the service period on a straight-line basis. The fair value estimation is based on the binomial option pricing model applying the following parameters:

	Stock option plan 2004
Expected average dividend per share	Euro 0.25
Expected volatility	25%
Risk-free interest rate range	2.053% – 4.280%
Expected first exercise date	April 20, 2005
Expected expiry date	May 30, 2008
Fair value per option	Euro 2.73

On April 19, 2004 the first tranche of 2,539,480 options was offered to the eligible employees. The exercise price of the first tranche is EURO 11.92 and for every 15 options awarded an eligible employee must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition 2,392,925 options were granted to the eligible employees, of which 384,000 options were granted to the members of the Management Board. The first tranche has a vesting period of twelve months from the grant day and an exercise period of three years after becoming exercisable. The fair value of the options as of grant day amounted to EUR 6,340 and the Company recognized compensation expense from the first tranche amounting to EUR 4,521, excluding related payroll taxes and social contributions, for the year ended December 31, 2004. The fair value calculation was based on an expected forfeiture rate of 2.95% per year. The hurdle set for the first tranche was met as of December 31, 2004.

The following table shows stock option activity under the 2004 plan for the year ended December 31, 2004:

	2004
Outstanding as of January 1	-
Granted	2,392,925
Forfeited	(29,000)
Outstanding as of December 31	**2,363,925**
of which exercisable as of December 31	-

(all amounts in EUR '000s) Telekom Austria 2004 97

(21) INCOME TAXES

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

	2004	2003	2002
Domestic	281,477	186,197	33,710
Foreign	68,603	46,360	10,101
Total	**350,080**	**232,557**	**43,811**

Income tax expense attributable to income before income taxes, minority interests and cumulative effect of a change in accounting principle for the years ended December 31, consisted of the following:

	2004	2003	2002
Current			
Domestic	22,266	8,899	1,097
Foreign	14,800	14,511	5,771
	37,066	**23,410**	**6,868**
Deferred			
Domestic	84,491	52,506	15,627
Foreign	629	7,120	3,617
	85,120	**59,626**	**19,244**
Total	**122,186**	**83,036**	**26,112**

Benefits of operating loss carryforwards of EUR 594, EUR 1,818 and EUR 8,641 were included in the deferred tax expense for the years ended December 31, 2004, 2003 and 2002, respectively.

The table below provides information on total tax allocation in the financial statements:

	2004	2003	2002
Continuing operations	122,186	83,036	26,112
Reduction of intangible assets	(13,303)	-	-
Other comprehensive income	1,412	2,787	1,024
Additional paid in capital	2,455	451	424
	112,750	**86,274**	**27,560**
Tax for cumulative effect of change in accounting principle	-	(6,071)	-
	112,750	**80,203**	**27,560**

On May 6, 2004 the Austrian National Council passed a tax reform, which became effective as of January 1, 2005. Among other regulations, the reform reduces the corporate tax rate from 34 % to 25 %, which leads to an overall tax expense of EUR 21,799 from revaluation of the deferred tax assets and liabilities as of December 31, 2004. In 2004, the Company reassessed a valuation allowance that was established at the time of the 3G Mobile business combination and based on that assessment, reduced the valuation allowance by EUR 16,143. Of this amount, EUR 13,303 was used to reduce intangible assets acquired from this acquisition. The balance of EUR 2,840 net of the effect of change in tax rate of EUR 5,811 was credited to the income tax expense.

The following table shows the principal components for the difference between the reported income tax expense and the amount of income tax expense that would result from applying the Austrian statutory income tax rate to income before income taxes, minority interests and cumulative effect of a change in accounting principle:

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	2004	2003	2002
Income tax expense at statutory rate	119,027	79,069	14,896
Foreign tax rate differential	(9,874)	(7,053)	(2,125)
Non-deductible expenses	2,879	3,792	335
Tax incentives	(3,450)	(3,673)	(3,626)
Tax free income from investments	(185)	(563)	(1,163)
Tax rate differential on equity in earnings of affiliates	-	-	(1,389)
Non-deductible goodwill amortization and impairment charges	-	-	4,388
Change in valuation allowance	(5,566)	7,724	11,008
Effect of change in tax rate	21,799	-	-
Other	(2,444)	3,740	3,788
Income tax expense	**122,186**	**83,036**	**26,112**
Effective income tax rate	34.9%	35.7%	59.6%
Effective income tax rate excluding effect of change in tax rate	28.7%		

Non-deductible expenses mainly consist of interest expenses on shareholder loans and representation expenses. Tax incentives principally consist of research incentives and other government grants.

In 2004 the valuation allowance decreased by EUR 28,075. That primarily resulted from the reduction of intangible assets of EUR 13,303, related taxes thereon of EUR (4,523) and the effect of a change in the tax rate of EUR 11,642. In 2003, the valuation allowance increased by EUR 65,425 of which EUR 57,868 resulted from business combinations and had no impact on the income statement. In 2002, the valuation allowance increased as a change in circumstances caused a change in judgment about the realizability of the related deferred tax asset in future years.

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

	2004	2003
Deferred tax assets		
Goodwill	13,510	34,846
Deferred deduction for write downs of investments in subsidiaries	34,565	63,219
Operating loss carryforwards	99,223	227,956
Assets held for sale	14,734	-
Long-term debt	655	6,614
Other liabilities	11,342	10,484
Accrued liabilities	3,173	407
Employee benefit obligations	2,690	3,745
Other	12,658	7,869
Total deferred tax assets	**192,550**	**355,140**
Valuation allowance	(53,564)	(81,639)
Deferred tax assets, net of valuation allowance	**138,986**	**273,501**
Deferred tax liabilities		
Property, plant and equipment	(17,449)	(30,244)
Long-term investments	(84)	(8,690)
Other intangible assets	(54,693)	(97,347)
Accrued liabilities	-	(350)
Other assets	-	(5,277)
Other	(7,220)	(8,093)
Total deferred tax liabilities	**(79,446)**	**(150,001)**
Net deferred tax asset	**59,540**	**123,500**

(all amounts in EUR '000s)

The net deferred tax asset decreased by EUR 63,960 in the year ended December 31, 2004. Of this, EUR 13,303 related to a reduction of intangible assets and EUR (833) related mainly to foreign exchange differences had no impact on the income statement. EUR 8,690 were reclassified to deferred tax credits for losses incurred on inter-company transactions. The Company recorded a deferred tax expense of EUR 85,120 in 2004.

At December 31, 2004, the Company had approximately EUR 398,794 of operating loss carryforwards. Of these, EUR 99,380 relate to foreign subsidiaries and are not available for use in Austria. Of these loss carryforwards relating to foreign subsidiaries, EUR 98,933 have expiration dates as follows:

Years	Amount
2005	26,481
2006	39,832
2007	24,926
2008	7,694
Total	**98,933**

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, 2004 the Company has recognized a net deferred tax asset of EUR 60,466 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 322,486 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 carryforwards net of valuation allowances. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

During the years ended December 31, 2004 and 2003 deferred tax benefits of EUR 9,356 excluding the effect of change in tax rate of EUR 5,996 and deferred tax expenses of EUR 6,560, 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.

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(22) 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 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, 2004 and 2003, 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 in the section concerning the concentration of credit risk in significant accounting policies.

In order to reduce the risk of nonperformance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

Market risk

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 2004 and 2003, 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, 2004, ranged from 5.0% to 7.7%. Floating-rate payments are based on rates tied to different inter-bank offered rates.

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

The following table indicates the types of swaps in use at December 31, 2004 and 2003, 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:

	2004	2003
Variable to fixed swaps in EUR		
Notional amount in EUR	145,346	181,682
Average receive rate	2.26%	2.25%
Average pay rate	6.66%	6.47%
Average maturity in years	0.4	1.4
Fixed to variable swaps in EUR		
Notional amount in EUR	300,000	300,000
Average receive rate	5.00%	5.00%
Average pay rate	3.02%	2.96%
Average maturity in years	8.5	9.5
Variable to fixed swaps in Japanese Yen ("JPY")		
Notional amount in JPY	-	10,000,000
Notional amount in EUR	-	74,047
Average receive rate	-	0.005%
Average pay rate	-	3.15%
Average maturity in years	-	0.5

Foreign exchange agreements

The Company entered into foreign currency denominated loans because of low interest rates connected to loans denominated in Swiss Francs ("CHF"). 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, 2004, range from 7.6% to 7.7%.

The following table indicates the types of foreign exchange agreements in use at December 31, 2004 and 2003, and if applicable their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

	2004	2003
Cross Currency Swaps EUR - CHF		
Notional amount in EUR	176,635	176,635
Notional amount in CHF	300,000	300,000
Average receive rate - CHF	5.47%	5.47%
Average pay rate - EUR	7.65%	7.65%
Average maturity in years	0.4	1.4
Cross Currency Swaps EUR - JPY		
Notional amount in EUR	-	73,554
Notional amount in JPY	-	10,000,000
Average receive rate - JPY	-	3.15%
Average pay rate - EUR	-	6.41%
Average maturity in years	-	0.5
Forward exchange contracts - US $		
Notional amount in EUR	4,399	2,862
Notional amount in US $	5,700	3,350
Forward exchange rate (weighted)	1.30	1.17
Exchange rate as of the balance sheet date	1.36	1.26
Longest term of the contracts	April 2005	February 2004

(all amounts in EUR '000s)

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:

	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments				
Cash	288,195	288,195	201,926	201,926
Accounts receivable - trade	408,820	408,820	429,919	429,919
Accounts receivable - sold	173,350	173,350	129,953	129,953
Balances due from related parties	85	85	1,549	1,549
Accounts payable -trade	(534,498)	(534,498)	(589,368)	(589,368)
Payables to related parties	(22,924)	(22,924)	(26,657)	(26,657)
Securities held-to-maturity	120,946	133,865	124,951	141,547
Securities available-for-sale	19,656	19,656	19,344	19,344
Long-term debt	(1,647,171)	(1,772,904)	(2,342,288)	(2,423,348)
Derivative financial instruments				
Interest rate swap agreements	(17,294)	(17,294)	(19,582)	(19,582)
Cross currency swap agreements	15,849	15,849	13,065	13,065
Foreign currency forward contract	(216)	(216)	(180)	(180)

(23) SHAREHOLDERS' EQUITY

Share Capital

At the Annual General Meeting on June 3, 2004 the Management Board was authorized to issue convertible bonds, which grant the holders subscription and/or conversion rights of up to 90,000,000 shares. The authorization was given for a period of 5 years from the day of authorization, ending in 2009.

In addition, the Management Board was authorized to increase the share capital by up to EUR 109,050 by issuing 50,000,000 ordinary shares to holders of convertible bonds to the extent that they exercise their subscription and/or conversion rights.

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 employee stock options for a period of five years, ending 2008. The share issue is subject to approval by the Supervisory Board. Based on this authorization and following the relevant approvals by the Supervisory Board, the Management Board decided (i) to increase conditionally the share capital by up to EUR 6,543 by issuing up to 3,000,000 shares in order to settle the options granted in the first tranche of the Stock Option Plan 2004 (see note (20)) on March 23, 2004 and (ii) to increase conditionally the share capital by up to EUR 7,415 by issuing up to 3,400,000 shares in order to settle the options granted in the second tranche of the Stock Option Plan 2004 on December 13, 2004 (see note (30)).

Dividend Payment

On June 3, 2004 the shareholders approved at the Annual General Meeting of the company a dividend distribution of Euro 0.13 per share. The overall dividend payment totaled EUR 64,578 and was distributed on June 15, 2004.

The net income of Telekom Austria AG amounts to EUR 412,683. According to Article 126 of the Stock Corporation Act, the Supervisory Board and the Management Board decided to transfer an amount of EUR 271,931 out of Telekom Austria AG 2004 net income of EUR 412,683 to retained earnings, resulting in unappropriated profits of EUR 145,882. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute from unappropriated earnings a dividend totaling EUR 118,499 or Euro 0.24 per share.

(all amounts in EUR '000s)

Treasury stock

At the Annual General Meeting on June 3, 2004, the Management Board was authorized to acquire treasury stock to the maximum extent legally permitted at a minimum price of Euro 9 and a maximum price of Euro 18 per share during a period of 18 months, ending December, 2005. The Management Board was empowered to either retire these shares or to use them to satisfy obligations under the stock option programs described in note (20) and obligations resulting from the issue of convertible bonds. The Management Board was also authorized to use the treasury stock as a consideration for company acquisitions.

On February 27, 2004, the Company exercised its 3,326,881 American call options on treasury stock 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 American call option, the Company held 3,326,881 shares in treasury, 0.67% of its share capital, and available for issuance to employees under the employee stock option plan, of which 3,230,718 had been awarded and were exercisable by employees. During the year ended December 31, 2004, 89,748 options were exercised by employees at the exercise price of Euro 9. The remaining option holders elected to receive cash for the difference between the exercise price and the average quoted price of Telekom Austria stock.

Furthermore, the Company acquired 3,018,561 shares of treasury stock at an average purchase price of Euro 11.34 in the year ended December 31, 2004.

As a result of these transactions the Company holds 6,255,694 shares in treasury at an average purchase price of Euro 10.13 per share reported as a reduction to shareholders' equity in the amount of EUR 63,353.

Earnings per share

Basic earnings per share and diluted earnings per share for the years ended December 31, 2004 and 2003 is calculated as follows:

	2004	2003
Net Income of the year ended December 31	227,263	134,241
Weighted average number of common shares outstanding	496,495,378	500,000,000
Dilutive effect of Stock Option Plan 2004	29,449	-
Weighted average number of dilutive shares outstanding	496,524,827	500,000,000
Basic earnings per share	EUR 0.46	EUR 0.27
Diluted earnings per share	EUR 0.46	EUR 0.27

On April 19, 2004 the first tranche of 2,392,925 options was granted to the eligible employees within the scope of Stock Option Plan 2004 as described in note (20). The dilutive effect of this transaction had no impact on earnings per share, which are reported on the face of the Consolidated Statements of Operations.

Shares held by members of the Management Board

The members of the Management Board hold shares in the Company as follows:

	Number of shares			
	January 1, 2004	Purchased	Sold	December 31, 2004
Heinz Sundt	12,412	799	(200)	13,011
Boris Nemsic	10,110	-	-	10,110
Stefano Colombo	12,212	-	-	12,212
Rudolf Fischer	12,212	795	-	13,007

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

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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, 2004 and 2003, respectively. No fair value hedges or cash flow hedges were derecognized or discontinued during the years ended December 31, 2003. In the year ended December 2004 the Company realized a gain of EUR 268 net of income tax.

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

At December 31,	**2004**	**2003**
Unrealized Losses		
Gross	(4,313)	(10,645)
Less income tax	1,466	3,498
Unrealized net loss, net of income tax	**(2,847)**	**(7,147)**

Other comprehensive income

Other comprehensive income consists 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, 2002	**(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)**
Realized gain (loss), net of income tax	(2,655)	268	(414)	(3,069)
Changes, net of income tax	1,096	4,032	(4,167)	1,229
Balance December 31, 2004	**(193)**	**(2,847)**	**(7,165)**	**(10,205)**

Sale of American call option

The Company had classified the shares issued under this option as permanent equity, since the optional shares were registered, issued and outstanding, and the Company was under no obligation to repurchase any shares unless it desired to do so.

On November 21, 2000, Telekom Austria purchased 3,832,248 American call options for a premium of EUR 12,527. The expiration date was February 27, 2004. The underlying shares of the American call option were the shares of Telekom Austria AG. The strike and execution price of the call option was Euro 9 and settlement was either physical delivery of the shares or cash, at the request of Telekom Austria. Since the call requires no cash settlement whatsoever by the Company, nor is the Company required to issue any additional shares as a result of exercise, the call was classified as permanent equity in accordance with EITF 00-19.

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.

On February 27, 2004, the Company exercised its 3,326,881 American call options (see Treasury stock).

Restricted earnings

Under the "Austrian 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 48,506 amounts to EUR 412,683.

(all amounts in EUR '000s) Telekom Austria 2004 105

(24) REVENUES

Year ended December 31,	2004	2003	2002
Revenues from services	3,810,891	3,726,955	2,931,892
Revenues from sales of merchandise	245,377	242,795	186,172
Total	**4,056,268**	**3,969,750**	**3,118,064**

(25) OTHER OPERATING EXPENSES

Year ended December 31,	2004	2003	2002
Interconnection	452,171	421,787	361,608
Services received	221,952	211,445	111,594
Repairs	177,277	178,256	167,496
Charges from related parties	13,241	15,013	32,980
Advertising and marketing	198,138	198,362	153,737
Rental expenses	79,204	74,358	67,666
Legal and other consulting	40,354	44,451	54,368
Commission expenses	41,301	41,078	25,347
Bad debt expenses	24,707	30,629	39,184
Other support services	109,721	96,684	74,922
Travel expenses	22,302	23,696	23,363
Energy	21,824	21,979	21,285
Other non income taxes	8,023	7,201	8,665
Training expenses	11,657	13,129	11,773
Other	67,352	85,453	51,366
Total	**1,489,224**	**1,463,521**	**1,205,354**

In accordance with SFAS No. 144, as amended, the net loss from retirement of long-lived assets in 2004, 2003 and 2002 respectively, of EUR 28,788, EUR 41,571 and EUR 18,715 is presented in other operating expenses, other.

(26) OTHER, net

Year ended December 31,	2004	2003	2002
Foreign exchange losses	(103,572)	(246,883)	(216,261)
Foreign exchange gains	107,081	242,013	211,422
Dividend income	7	48	448
Other	12,140	4,255	6,721
Total	**15,656**	**(567)**	**2,330**

In other income net impairment charges recorded on investments totaling EUR 716 and EUR 2,840 were recorded for the years ended December 31, 2004 and 2003, respectively. No impairment charges on investments were recorded in 2002.

(27) COMMITMENTS AND CONTINGENCIES

On December 17, 2004, the Company entered into option agreements to acquire a 100% share in MobilTel AD. (MobilTel), a Bulgarian provider of mobile communications services. The option fee of EUR 80,000 is payable in the first quarter 2005, provided that MobilTel meets certain financial performance criteria for 2004. In the event that the performance conditions are not met, the company has the right to terminate the agreements without paying option fees. The option entitles the Company to acquire 100% of MobilTel between July 12, 2005 and August 23, 2005 for an expected purchase price of approximately EUR 1,600,000 including the option fees.

(all amounts in EUR '000s)

The Company had further purchase obligations amounting to EUR 1,754,300, of which EUR 538,500 is short-term as of December 31, 2004. These obligations include purchase commitments for property, plant and equipment as well as for intangible assets and other non-redeemable contractual commitments such as service agreements and interconnection obligations.

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, 2004. 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.

(28) CASH FLOW STATEMENT

Following is a summary of supplemental cash flow information:

Years ended December 31,	2004	2003	2002
Cash paid for			
Interest	161,057	182,836	173,940
Income taxes	23,330	16,246	10,558
Cash received for			
Interest	8,080	3,128	11,122
Tax refunds	-	-	21
Non cash investing and financing			
Dividends	-	-	28,294

(29) SEGMENT REPORTING

As of January 1, 2003 management reorganized its operations into three segments: wireline, wireless and other activities. The segment reporting for the year 2002 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 year ended December 31, 2004, the segment totals reconcile to the consolidated financial statements as a result of eliminating transactions and balances between consolidated segments. For the years ended December 31, 2002 the reconciliation additionally includes the results of operations of mobilkom austria prior to June 28, 2002 (see note (2)).

(all amounts in EUR '000s)

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
Year ended December 31, 2004						
External revenues	2,013,563	2,042,678	27	4,056,268	-	4,056,268
Intersegmental revenues	171,179	82,805	-	253,984	(253,984)	-
Total revenues	**2,184,742**	**2,125,483**	**27**	**4,310,252**	**(253,984)**	**4,056,268**
adj. EBITDA (excl. Impairment charges)	814,328	765,443	(39)	1,579,732	(10,894)	1,568,838
Impairment charges	1,334	-	-	1,334	-	1,334
adj. EBITDA (incl. Impairment charges)	812,994	765,443	(39)	1,578,398	(10,894)	1,567,504
Depreciation and amortization	757,174	358,077	-	1,115,251	(421)	1,114,830
Operating Income	55,820	407,366	(39)	463,147	(10,473)	452,674
Total assets	5,260,231	3,181,735	1,250,869	9,692,835	(2,450,328)	7,242,507
Expenditures for additions to long-lived assets	280,390	267,779	-	548,169	-	548,169

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Consolidated
Year ended 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
Expenditures for additions to long-lived assets	299,918	300,129	-	600,047	(363)	599,684

(all amounts in EUR '000s)

	Wireline	Wireless	Other activities	Segment totals	Eliminations	Mobile communications	Consolidated
Year ended 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
Expenditures for additions							
to long-lived assets	343,409	340,009	-	683,418	(2,336)	(129,064)	552,018

(all amounts in EUR '000s)

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

Year ended December 31,	2004	2003	2002
adj. EBITDA (excl. Impairment charges) – segment totals	1,579,732	1,507,520	1,456,976
Impairment charges	(1,334)	(6,825)	(41,871)
adj. EBITDA (incl. Impairment charges) – segment totals	**1,578,398**	**1,500,695**	**1,415,105**
Depreciation and amortization	(1,114,830)	(1,133,148)	(1,016,312)
Interest income	70,016	75,167	88,191
Interest expense	(188,818)	(230,979)	(244,628)
adj. EBITDA – mobilkom austria prior to acquisition	-	-	(349,109)
Equity in earnings of affiliates – mobilkom austria prior to acquisition	-	-	142,906
Equity in earnings of affiliates	552	19,112	(2,363)
Other	4,762	1,710	10,021
Income before taxes, minority interests and cumulative effect of change in accounting principle	**350,080**	**232,557**	**43,811**
Income tax expense	(122,186)	(83,036)	(26,112)
Minority interests	(631)	(3,422)	(4,910)
Cumulative effect of change in accounting principle, net of tax	-	(11,858)	-
Net income	**227,263**	**134,241**	**12,789**

In 2004, 2003 and 2002, more than 88%, 89% and 90%, respectively, of the revenues generated by the reportable segments relate to operations in Austria. As of December 31, 2004 and 2003, respectively, 90% and 93% of the long-lived assets were located in Austria.

(all amounts in EUR '000s)

(30) SUBSEQUENT EVENTS

In January 2005 the Company launched and placed two bonds with a face value of EUR 500,000 each under the EMTN program (see note (16)). The bonds have a maturity of 5 and 12 years, respectively, and a coupon of 3.375% and 4.250%, respectively. The bonds were issued at a discount including issue cost of EUR 4,533 and EUR 9,567, respectively. The Company entered into an interest rate swap to change the interest of the 5 year bond from fixed to floating.

Based on the relevant approval by the Supervisory Board, the second tranche of 3,398,800 options was offered to the eligible employees under the stock option plan 2004 (see note (20)) on January 19, 2005. The exercise price of Euro 13.98 was defined as the average quoted closing price of Telekom Austria stock during a period of twenty trading days ending two days before the granting of options. The options can be settled either in cash or in shares at the Company's choice. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The options have a vesting period of about 14 months from the grant day and an exercise period of three years after becoming exercisable. The Company is currently evaluating the fulfillment of the holding condition by the eligible employees. The fair value of one option as of the grant day amounted to Euro 2.95.

Report of Independent Registered Public Accounting Firm

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, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. 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") as of December 31, 2003 and 2002, 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 constitute 35.6 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 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. 123 "Accounting for Stock-Based Compensation" effective January 1, 2004, 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-Treuhand GmbH

Wirtschaftsprüfungs-und Steuerberatungsgesellschaft

Vienna, Austria

March 3, 2005

Report of Independent Registered Public Accounting Firm

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 each of the years in the two year period ended December 31, 2003. 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 standards of the Public Company Accounting Oversight Board (United States). 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 in the two year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, mobilkom 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

Additional Disclosures to the Consolidated Financial Statements required by Austrian Accounting Rules

Financial reporting pursuant to US Generally Accepted Accounting Principles (U.S. GAAP)

The consolidated financial statements as of December 31, 2004 were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). According to the provisions of section 245a of the Austrian Commercial Code ("Handelsgesetzbuch" or "HGB"), a company is exempted from preparing consolidated financial statements under Austrian law if it prepares consolidated financial statements in accordance with international principles and thereby also meets the requirements set forth in subsection 1, paragraphs 1 to 3. The disclosures necessary to meet these requirements are provided in the following.

Major differences between Austrian Accounting Rules and U.S. GAAP (section 245a subsection 1 para. 1 HGB)

Partially, the accounting rules set forth in HGB and U.S. GAAP are based on different underlying principles. Accounting under HGB places greater emphasis on the principles of prudence and creditor protection, while U.S. GAAP focus more strongly on providing investors with relevant information for decision-making.

In these financial statements, the differences between HGB and U.S. GAAP regulations affect the following accounting areas:

1. Internally developed software

Under certain conditions, U.S. GAAP requires the capitalization of development costs for internally developed software. HGB does not permit the capitalization of such self developed assets.

2. Interest capitalized

U.S. GAAP requires the capitalization of interest for qualifying assets. HGB gives an option to capitalize interest incurred during construction of fixed assets.

3. Deferred taxes

U.S. GAAP requires the capitalization of deferred taxes arising from temporary differences between the carrying amount of an asset or liability in the balance sheet prepared using U.S. GAAP and in that prepared according to the tax code, as well as from the capitalization of expected benefits from tax loss carryforwards. Austrian accounting rules require the capitalization of deferred tax liabilities; the capitalization of deferred tax assets is optional for individual financial statements, but mandatory for consolidated financial statements. According to the prevailing view, the recognition of deferred tax assets on tax loss carryforwards is prohibited by HGB.

4. Other accruals

Under U.S. GAAP, accruals must be created for obligations to third parties if these obligations are considered likely to arise and can be reliably valued. According to HGB, the principle of conservatism governs the creation of accruals. In practice, this frequently leads to the creation of accruals as soon as a potential obligation is identified.

According to U.S. GAAP, non-current obligations should generally be discounted. According to the prevailing view, such discounting is prohibited by HGB.

5. Accruals for contractual termination benefits

In the consolidated financial statements prepared in accordance with U.S. GAAP, a contractual termination benefit obligation must be recognized when an employee has accepted the company's offer and the amount of the obligation can be reasonably estimated. The accrual is recorded at the present value of the expected future payment. According to HGB, this obligation must be recognized as soon as occurrence is probable and the amount can be reasonably estimated, independent of the acceptance by the employee. According to the prevailing view, HGB does not allow the valuation of such obligations at their present value.

6. Accruals for severance payments, service awards and pensions

In the consolidated financial statements prepared according to U.S. GAAP, the accruals for severance payments, service awards and pensions are calculated according to the projected unit credit method with the corridor method used for severance payments and pension accruals. According to the prevailing view, the projected unit credit method does not contradict the provisions of HGB but the corridor method does not meet HGB requirements. Note (18) illustrates the effect of the corridor method on severance and pension accruals.

7. Asset Retirement Obligations

In compliance with US GAAP, the company adopted SFAS No. 143 as of January 1, 2003 and 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 (see Note 15).

8. Valuation of marketable securities

With the exception of securities held-to-maturity, securities are stated at fair value in accordance with U.S. GAAP. Unrealized gains and losses are recorded in a separate component of stockholders' equity with no effect being recognized in earnings. According to HGB, marketable securities must be reported at cost less any extraordinary writedowns made to reflect expected permanent impairment. Under HGB, marketable securities are reported at the lower of purchase price or fair value as of the balance sheet date.

9. Asset backed securitization program

In accordance with U.S. GAAP, trade receivables that are sold to a qualifying special purpose entity must be recorded as an asset disposal if certain conditions are met. Individual valuation adjustments for uncollectible receivables are shown under accruals.

Under Austrian accounting rules, the accounting treatment of sold receivables must be based on economic principles if the risk of collection remains with the seller (artificial factoring transaction). Where economic ownership remains with the selling company, these sold receivables must continue to be shown on the balance sheet of the seller.

10. Foreign currency translation

In accordance with U.S. GAAP, monetary balance sheet items denominated in foreign currencies are translated at the average exchange rate on the balance sheet date. Both unrealized gains and unrealized losses are recognized. HGB does not allow the recognition of unrealized foreign currency translation gains. For these cases, HGB prescribes the lower of cost or market principle for the translation of monetary items.

11. Derivative financial instruments

According to U.S. GAAP, derivative financial instruments are to be carried at fair value. Changes in fair value are recognized immediately in earnings. For derivatives that qualify for hedge accounting in accordance with SFAS 133, changes in fair value are recorded in stockholders' equity (as a component of other comprehensive income) for cash flow hedges or recognized in earnings for fair value hedges. Moreover, the ineffective portion of any value changes to a cash flow hedge is immediately recognized in earnings. When a cash flow hedge is realized, all relevant amounts recorded under equity are transferred to earnings.

According to Austrian accounting principles, an accrual must be created for unrealized losses arising from changes in fair value. Unrealized gains are not recognized. In cases where the derivative financial instrument and the related contract form a single valuation unit, changes in the value of the derivative and hedged item are not recognized.

Additional notes in accordance with HGB (section 245a subsection 1 para. 3 HGB)

Consolidated Schedule of Changes in Fixed Assets

Acquisition/ manufacturing costs	Jan. 1, 2004	Additions	Additions from initial con-solidation	Disposal	Disposal from final con-solidation	Reclassifi-cation	Currency adjustments	Dec. 31, 2004
Goodwill	633,595	202	-	-	-	-	(1,376)	632,421
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	1,302,005	81,485	320	(29,224)	(39)	41,191	(501)	1,395,237
Other intangible assets	35,858	8,730	-	(839)	-	(8,178)	108	35,679
Intangible assets	**1,971,458**	**90,417**	**320**	**(30,063)**	**(39)**	**33,013**	**(1,769)**	**2,063,337**
Land, buildings and leasehold improvements [1]	723,325	19,697	-	(11,656)	(1)	17,509	(63)	748,811
Communication networks and other equipment	9,381,996	326,494	-	(301,156)	(268)	100,822	(1,267)	9,506,621
Capital leases	13,963	177	-	(5,284)	-	-	105	8,961
Construction in progress	186,487	123,037	-	(70)	-	(151,344)	(103)	158,007
Property, plant and equipment	**10,305,771**	**469,405**	**-**	**(318,166)**	**(269)**	**(33,013)**	**(1,328)**	**10,422,400**
Investments in affiliates [2]	3,556	552	-	(538)	-	-	-	3,570
Other financial assets	146,469	2,312	-	(11,986)	-	-	-	136,795
Financial assets	**150,025**	**2,864**	**-**	**(12,524)**	**-**	**-**	**-**	**140,365**
Total	**12,427,254**	**562,686**	**320**	**(360,753)**	**(308)**	**-**	**(3,097)**	**12,626,102**

1) value of land thereof 60,281 (Jan. 1, 2004) 59,172 (Dec. 31, 2004)
2) Equity valuation of investment within consolidated accounting

(all amounts in EUR '000s)

Accumulated amortization and depreciation	Jan. 1, 2004	Additions	Additions from initial consolidation	Disposal	Disposal from final consolidation	Reclassification	Currency adjustments	Dec. 31, 2004
Goodwill	36,018	211	-	-	-	-	(373)	35,856
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	461,385	154,685	-	(15,555)	(39)	66	(394)	600,148
Other intangible assets	17,368	2,081	-	(624)	-	(685)	(7)	18,133
Intangible assets	**514,771**	**156,977**	**-**	**(16,179)**	**(39)**	**(619)**	**(774)**	**654,137**
Land, buildings and leasehold improvements	274,663	42,196	-	(6,703)	(1)	1,275	(45)	311,385
Communication networks and other equipment	5,710,533	915,453	-	(262,022)	(268)	(656)	(1,906)	6,361,134
Capital leases	10,031	1,466	-	(5,172)	-	-	91	6,416
Construction in progress	0	72	-	-	-	-	-	72
Property, plant and equipment	**5,995,227**	**959,187**	**-**	**(273,897)**	**(269)**	**619**	**(1,860)**	**6,679,007**
Investments in affiliates	-	-	-	-	-	-	-	-
Other financial assets	2,840	716	-	-	-	-	-	3,556
Financial assets	**2,840**	**716**	**-**	**-**	**-**	**-**	**-**	**3,556**
Total	**6,512,838**	**1,116,880**	**-**	**(290,076)**	**(308)**	**-**	**(2,634)**	**7,336,700**

(all amounts in EUR '000s)

Carrying amount	Jan. 1, 2004	Additions	Additions from initial con-solidation	Disposal	Disposal from final con-solidation	Re-classifi-cation	Amortiza-tion & De-preciation	Currency adjustments	Dec. 31, 2004
Goodwill	597,577	202	-	-	-	-	(211)	(1,003)	596,565
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	840,620	81,485	320	(13,669)	-	41,125	(154,685)	(107)	795,089
Other intangible assets	18,490	8,730	-	(215)	-	(7,493)	(2,081)	115	17,546
Intangible assets	**1,456,687**	**90,417**	**320**	**(13,884)**	**-**	**33,632**	**(156,977)**	**(995)**	**1,409,200**
Land, buildings and leasehold improvements	448,662	19,697	-	(4,953)	-	16,234	(42,196)	(18)	437,426
Communication networks and other equipment	3,671,463	326,494	-	(39,134)	-	101,478	(915,453)	639	3,145,487
Capital leases	3,932	177	-	(112)	-	-	(1,466)	14	2,545
Construction in progress	186,487	123,037	-	(70)	-	(151,344)	(72)	(103)	157,935
Property, plant and equipment	**4,310,544**	**469,405**	**-**	**(44,269)**	**-**	**(33,632)**	**(959,187)**	**532**	**3,743,393**
Investments in affiliates	3,556	552	-	538)	-	-	-	-	3,570
Other financial assets	143,629	2,312	-	(11,986)	-	-	(716)	-	133,239
Financial assets	**147,185**	**2,864**	**-**	**(12,524)**	**-**	**-**	**(716)**	**-**	**136,809**
Total	**5,914,416**	**562,686**	**320**	**(70,677)**	**-**	**-**	**(1,116,880)**	**(463)**	**5,289,402**

The totals in the above tables may differ from the sum of their components as a result of rounding.

(all amounts in EUR '000s)

Affiliated Companies

Name and Corporate Seat	Share in capital as of Dec. 31, 2004 %
Fully consolidated subsidiaries	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Austria Internationale-Beteiligungsverwaltung GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
mobilkom austria AG & Co KG, Vienna	100.00
mobilkom austria AG, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom [liechtenstein] AG, Vaduz	100.00
Jet2Web Stream Magyarorszag Kft, Budapest	100.00
Jet2Web Stream Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
Czech On Line a.s., Prague	100.00
A1 Bank AG, Vienna	100.00
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft m.b.H., Vienna	100.00
paybox austria AG, Vienna	100.00
paybox central eastern europe AG, Munich	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
World-Direct eBusiness Solutions GmbH, Vienna	100.00
VIPnet d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	75.00[1]
Affiliated companies consolidated using the equity method	
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10

[1] and one share

(all amounts in EUR '000s) Telekom Austria 2004 119

Employees

The average number of employees during the business year 2004 was 13,639 (2003: 14,657).

Expenses for Pensions and Severance Payments

Expenses for Pensions and Severance Payments	2004	2003
Board members and top-level Management	2,330	1,599
Other employees	31,233	64,856
Total	33,563	66,455

Remuneration paid to the Managing Board and Supervisory Board

In 2004, remuneration expenses for the members of the Management Board amounted to EUR 1,374, and in addition attributable bonuses of EUR 750 and benefits derived from Stock option program 2000 amounted to EUR 1,499. The actual amount of bonuses from 2004 will depend on the extent of achievement of specified performance goals and will be determined in 2005. In 2003, the amount of remuneration expense was EUR 1,378, and in addition attributable bonuses of EUR 676 were paid in 2004. Fees paid to the members of the Supervisory Board totaled EUR 101 in 2004 and EUR 94 in 2003.

Vienna, March 3, 2005

The Managing Board

Heinz Sundt (CEO), Stefano Colombo (Deputy CEO and CFO),
Rudolf Fischer (COO Wireline), Boris Nemsic (COO Wireless)

(all amounts in EUR '000s)

Auditor's Report according to para 245a Austrian Commercial Code

To the Members of Supervisory Board and Management Board
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Telekom Austria Aktiengesellschaft and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. 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") as of December 31, 2003 and 2002, wholly-owned consolidated subsidiaries as of December 31, 2003 and 2002 (74.999% owned unconsolidated subsidiaries from January 1, 2002 to June 28, 2002) whose total assets as of December 31, 2003 constitute 35.6% 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% and 30.7% 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 the standards of the Public Company Accounting Oversight Board (United States) and the Generally Accepted Auditing Standards in Austria. 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 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. 123 "Accounting for Stock-Based Compensation" effective January 1, 2004, 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.

According to the provisions of Austrian commercial law, the group management report and the existence of the legal preconditions granting exemption from drawing up consolidated financial statements according to Austrian law must be examined.

We confirm that the group management report is consistent with the consolidated financial statements and that the legal requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law have been fulfilled.

Vienna, March 3, 2005

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

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

Glossary

Access Radius: access radius to the network.

ADSL (Asymmetric Digital Subscriber Line): digital transmission technology that allows data transmission rates of up to 8 Mbit/s to the customer (download) and up to 700 Kbit/s from the customer (upload) via standard telephone lines.

All-IP Network: an Internet Protocol (IP) based network that combines data communications and voice telephony.

Backbone: main connections in a network that normally consist of several nodes which are connected to each other by high-capacity transmission paths.

Carrier Selection: a provider also acts as a so-called "interconnection network provider." The customer must dial "10xx" as an access code before the desired number.

Churn Rate: the number of customers who change to another provider, as a percentage of the average subscriber base.

Customer Relationship Management (CRM): business philosophy and corporate culture that places the customer at the focal point of entrepreneurial activity and orients all corporate processes towards this strategy on the basis of IT support systems.

Data Stream: protocol-transparent data services up to 2 Mbit/s with various service level agreements.

Digital Terrestrial Television: transmission of TV signals via digital technologies based on a terrestrial connection.

EDGE (Enhanced Data Rates for GSM Evolution) Network: a mobile communications system based on the existing GSM infrastructure. It is characterized by high transmission rates and designed for video or Internet telephony.

FTTH: Fiber-to-the-Home – the use of fiber optic cables to connect a switching center to the end customer.

GPRS (General Packet Radio Service): data carrier service based on GSM. GPRS allows data transmission at rates between 56 and 114 Kbit/s.

GSM (Global System for Mobile Communications): internationally standardized digital radio network that allows both voice and data transmission.

Hosting: operation management of IT equipment for third parties.

Incumbent: former monopoly provider.

Interconnection: physical and logical connection between different telecommunications networks that enables direct or indirect communication between the users of these different networks.

Internet dial-up: gateway to the Internet via access numbers to dial-in ports (Internet POPs) at a switching center via telephone or ISDN modem over the PSTN network.

Internet Protocol (IP): supplier-independent transmission protocol for communications between networks. IP specifies the format of the packets (datagram) and serves as an addressing scheme.

IPv6: Internet Protocol Version 6 – is the Next Generation Internet Protocol and in the next few years will gradually replace the current IPv4 protocol. IPv6 will remedy the shortage of IP addresses nd improve routing and auto-configuration within the network.

IP Voice Service: transmission of voice, data and multimedia content via a single packet-oriented Internet protocol-based network.

ISDN (Integrated Services Digital Network): digital telecommunications network that allows simultaneous voice and data transmission over an access line (bandwidth 2 x 64 Kbit/s to 2 Mbit/s).

ISP (Internet Service Provider): companies that provide access to the Internet.

LAN (Local Area Network): local network which usually covers a limited area, generally with decentralized network management.

LIC Plus Voice (LAN Interconnect Plus Voice): product name of Telekom Austria's IP voice services. LIC Plus Voice connects the corporate data network with the corporate telephone system on the basis of an IP network. This integration of voice and data in a single network permits a wide range of innovative applications (e.g. connection of PC applications with an IP telephone, location-independent availability under one telephone number as well as access to corporate data).

m-commerce: collective term for all types of transactions based on mobile electronic media and wireless networks.

Multimedia Messaging Services (MMS): multimedia SMS service that allows the transmission of texts with over 4,000 characters as well as sound (recordings, tones) and images in a single message.

Mobile Connect Card: the Vodafone Mobile Connect Card is a card for transferring data for notebooks. The SIM card authenticates access to the Internet, to the corporate network or e-mail client via 3G/UMTS (384 Kbit/s) or GPRS (56 Kbit/s) irrespective of user location. It possesses a separate graphic user interface and works with end-to-end coding for data transmission.

MPLS (Multi-Protocol Label Switching): IETF (Internet Engineering Task Force) standard which integrates routing information (e.g. destination, bandwidth, delay, original IP address etc.) over several network levels (layers), improving traffic routing. MPLS allows network operators to prioritize time-critical data flows (e.g. multimedia content).

NGM (Next Generation Media): Technical platform which integrates television, video, Internet, and e-commerce and permits the use of various content offers (TV channels, niche and sectoral programs, video on demand, interactive multimedia applications, electronic program guide, Internet and e-mail, online gaming) on any kind of appliance (television set, PC, laptop, PDA, mobile telephone).

NGN (Next Generation Network): NGN combines backbone technologies (fiber optic cable, WDM), access technologies (xDSL) and IP technologies into an open standard for interactive multimedia services. It will be accomplished in the next few years as legacy networks are gradually migrated to an ALL IP-based multiservice network, allowing for the implementation of multimedia, interactive and convergent services with absolute reliability and differentiated quality of service (QoS).

OFDM (Orthogonal Frequency Division Multiplexing): OFDM is a method of digital modulation for transmitting radio waves, in which a signal (a larger data stream) is split into smaller data streams (narrowband channels). Each of these smaller streams is transmitted via its own frequency (sub-carrier).

Prepaid Market: Market for prepaid mobile communications services on the basis of rechargeable mobile phone cards.

PSTN Voice Service (Public Switched Telephone Network): voice telephony services over the traditional public switched telephone network.

Retail: end customer market; the spectrum of customers ranges from individuals to small and medium-sized enterprises and large corporations (key accounts).

Roaming: is the possibility to use mobile telephones in a third party network abroad. Prerequisite is a roaming agreement between one's own mobile communications provider and at least one partner provider in the corresponding country.

SDSL (Symmetric Digital Subscriber Line): technology that allows the same data transmission rate for both upstream and downstream traffic. In contrast, ADSL allows only limited upstream transmission bandwidth.

Triple Play: package of services comprising voice, data and video. Voice refers to telephone services (e.g. Voice over IP), data to rapid Internet access and video to television (e.g. digital, interactive TV, IP TV, video on demand).

UMTS (Universal Mobile Telecommunications System): new mobile communications standard that enables high-performance services on the basis of high data transmission rates of up to 384 Kbits/s which is 40 times higher than the rate provided by GSM technology. In future, peaks of 2 Mbits/s can be reached in selected areas.

UMTS Coverage: the number of households covered by the UMTS network as a percentage of the total population.

UMTS Launch: commercial start of the sale of UMTS services.

Universal Service: minimum range of public telecommunications services to which all end users must have access at an affordable price irrespective of their place of residence or business location. In Austria this is regulated by the Telecommunications Act 2003, § IV, para. 26-33.

Value added services: services that extend beyond the usual product range provided by a telecommunications network or enhancing existing services.

VIP.parking: mobile solution for the payment of parking fees based on SMS technology (Short Message Service) at VIPnet, Croatia.

VoIP: Voice over IP (Internet Protocol) – refers to the use of the Internet as a means of voice transmission (IP telephony).

WDM (Wavelength Division Multiplexing): modulation process in which two or more separate signals are transmitted over a single fiber optic cable, with a separate wavelength (color of the light spectrum) being used for each signal.

Wholesale: reseller; in the telecommunications industry it refers to providers of voice telephony, data communications, mobile communications and Internet services.

WLAN (Wireless Local Area Network): wireless local network in which high-frequency radio waves are used for communicating between the appliances connected in the network.

xDSL: collective term for all types of broadband network access lines based on traditional copper lines at a short distance to the switching center (4 km). The most important xDSL technologies are ADSL (asymmetric), SDSL (symmetric), HDSL (high data rate) and VDSL (very high) digital subscriber line.

Stock Exchange & Finance

ADR (American Depositary Receipt): an ADR is a depositary receipt issued by US banks which evidences the ownership of a certain number of American Depositary Shares (ADS), the value of which depends upon the value of the foreign share originals.

ARPU (Average Revenue Per User): average revenue per customer; traditional figure in the mobile communications industry.

At-equity: see equity method.

ATX (Austrian Traded Index): the key index of the Vienna Stock Exchange.

Audit Committee: US stock exchange guidelines require companies traded on US stock exchanges to establish an audit committee. This body supervises the company's reporting process, and oversees the production of the company's financial statements.

Code of Ethics: companies traded on the New York Stock Exchange are required to issue a code of ethics. This policy includes written rules for managers in the financial area and also mandates complete, timely, transparent, exact and understandable reporting and announcements, and establishes penalties for violation of these rules.

Compliance Guidelines: corporate regulations that specify organizational measures to prevent stock trading based on price-relevant information that is not yet available to the public as well as the confidential treatment of such insider information.

Corporate Governance: "corporate constitution;" the corporate governance code represents a set of rules for the responsible management and control of a company.

DAX: German stock index.

Disclosure Committee: supports the Management Board in fulfilling its responsibility to ensure that all information released to shareholders and the public is correct and complete, and reflects the actual financial and operating position of the Group.

DJ Euro Stoxx Telecom: The Dow Jones Stoxx Telekom Index comprises 25 European telecommunications companies.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), adjusted: Telekom Austria defines adjusted EBITDA as net result excluding interest, taxes, depreciation and amortization, impairment charges, dividend income, income from investments in associates, other non-operating income and expenses, minority interest and the cumulative effect of the change in accounting principles. This equals operating income before depreciation, amortization and impairment charges.

Euro Medium Term Note Program (EMTN): internationally recognized documentation (terms and conditions) for securities, which also forms the basis for subsequent issuances.

Equity Method: method used to value stakes in companies when a significant influence can be exercised on business policies (associated companies). The proportional share of annual profit/loss is added to or subtracted from the book value of the investment. Distributions reduce the book value by a proportional amount.

Form 20F: annual report prepared in accordance with standards issued by the US Securities and Exchange Commission (SEC), which must be published each year by issuers that are listed in the US but domiciled in other countries.

FTSE 300 Eurotop: European stock index that includes 300 blue chips in western Europe and is weighted by market capitalization.

FTSE4Good Index: group of indexes, which includes companies that meet international standards for responsibility to the environment and stakeholders (owners, employees, customers, society).

IFRS (International Financial Reporting Standards): accounting standards drawn up by the International Accounting Standards Board (IASB – formerly International Accounting Standards Committee, IASC), whose task is to draw up generally accepted international accounting standards. In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the IASB they also comprise the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the interpretations of the Standing Interpretations Committee (SIC).

ICS (Internal Control System): serves to maintain security, order and economic efficiency of all processes within the company.

IPO (Initial Public Offering): the first offering by a company not previously traded on a stock exchange; frequently called "new emission" or "going public."

MSCI World Index: stock index published by Morgan Stanley Capital International (MSCI), which is based on more than 1,400 stock prices from 20 countries. In addition to the world index, MSCI also publishes regional indexes (MSCI Europe Index).

Net Debt: debt less cash and cash equivalents.

Net Gearing (debt-to-equity ratio): net debt divided by equity; an indicator of financial security.

OTC (Over the Counter) Market: market where securities are traded directly between dealers outside the stock exchange.

Rating (BBB, Baa2): credit rating for issuers and bond quality assigned by Standard & Poor's and Moody's with the following meaning: An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. (Source: S&P)

ROCE (Return on Capital Employed): operating income divided by average equity plus average net debt, an indicator that measures the yield on capital used in the company.

ROE (Return on Equity): net profit divided by average equity, an indicator that measures the yield on equity.

Sarbanes-Oxley Act (SOA): comprehensive US law to reform corporate governance rules and corporate reporting.

SEC (US Securities and Exchange Commission): US regulatory authority for capital markets.

SFAS (Statement of Financial Accounting Standards): Binding set of accounting standards for companies which prepare their balance sheets according to U.S. GAAP.

Stock Option Program: a company grants options to key managers for the purchase of shares, which may be exercised at an agreed price after agreed performance criteria are met.

Exchangeable Notes: debt instruments issued by companies, which give the holders of these notes the right to exchange them under certain conditions for one or more shares of a stock corporation, which are owned by the issuing company.

Use the search function to look for a particular term in the annual report under: **http://ar2004.telekom.at**

Online Annual Report
The Annual Report 2004 of Telekom Austria is also available in a user-friendly onine version on the Internet. This data base-supported online report provides fast access to information, search functions, a sitemap, a glossary, Excel and pdf downloads, linked content, and direct subject access to compile a report for your special interests under:
http://ar2004.telekom.at

Form 20-F
The annual report as filed with the US Securities and Exchange Commision (SEC) is refered to as Form 20-F and is available in English directly from Telekom Austria Investor Relations department or on the corporate website under
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Forward-looking Statements
This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as "believe", "intend", "anticipate", "plan", "expect" and similar expressions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- the effects of our tariff reduction initiatives or other marketing initiatives;
- the impact of insolvencies of our major customers or international suppliers;
- the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- our ability to achieve cost savings and realize productivity improvements;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings of our newly integrated subsidiaries;
- our ability to secure the licenses we need to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of our domestic and international investments, joint ventures and alliances;
- the impact of our new business strategies and transformation process including the reintegration of subsidiaries and restructuring of operations;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditures;
- the outcome of current and future litigation in which we are or will be involved;
- the level of demand for our shares which can affect our business strategies;
- our ability to further reduce our existing workforce;
- concerns over health risks associated with the use of wireless handsets or radio frequency emissions from transmission masts;
- changes in the law including regulatory, civil servants and social security, pensions and tax law; and
- general economic conditions, government and regulatory policies, new legislation and business conditions in the markets we serve.

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