CONSOLIDATED FINANCIAL STATEMENTS 2002

Telekom Austria Aktiengesellschaft

TELEKOM AUSTRIA AG
Consolidated Balance Sheets

(in EUR '000s, except share information)

ASSETS	Dec. 31, 2002	Dec. 31, 2001
Current assets		
Cash and cash equivalents	27,337	26,393
Short-term investments	5,327	0
Accounts receivable trade, net of allowances of EUR 74,945 and EUR 47,074 as of December 31, 2002 and 2001	451,934	455,272
Receivables due from related parties	6,723	105,979
Inventories	91,261	55,786
Deferred tax assets	4,657	3,822
Prepaid expenses	81,935	25,405
Taxes receivable	22,829	38,069
Assets held for sale	30,512	0
Other current assets	142,743	128,465
Total Current Assets	**865,258**	**839,191**
Property, plant and equipment, net	5,000,659	4,591,757
Goodwill	590,727	60,244
Other intangible assets, net	725,893	20,406
Investments in affiliates	8,642	510,682
Other investments	162,682	171,504
Deferred tax assets	193,414	323,911
Due from related parties	0	218,018
Other assets	987,063	991,609
TOTAL ASSETS	**8,534,338**	**7,727,322**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	1,309,905	978,092
Accounts payable-trade	649,890	439,529
Accrued liabilities	256,790	131,296
Payables to related parties	37,198	15,982
Deferred income	129,963	55,266
Income taxes payable	6,077	0
Other current liabilities	141,210	59,969
Total Current Liabilities	**2,531,033**	**1,680,134**
Long-term debt, net of current portion	2,079,885	2,005,226
Lease obligations, net of current portion	1,076,354	1,086,874
Employee benefit obligations	232,529	378,125
Other	104,997	76,569
Stockholders' Equity		
Common stock, issued and outstanding shares 500,000,000 with zero par value	1,090,500	1,090,500
Additional paid in capital	452,498	451,677
Retained earnings	969,626	956,837
Accumulated other comprehensive income (loss)	(3,084)	1,380
Total Stockholders' Equity	**2,509,540**	**2,500,394**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**8,534,338**	**7,727,322**

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,		**2002**	**2001**	**2000**
Operating revenues	a)	3,118,064	2,659,660	2,814,397
Operating expenses	b)			
Materials		(196,434)	(71,908)	(108,167)
Employee costs, including benefits and taxes		(571,329)	(567,128)	(856,718)
Idle workforce		(29,389)	(51,952)	(8,881)
Depreciation and amortization		(1,016,312)	(904,075)	(913,744)
Impairment charges		(41,871)	(145,126)	(2,145)
Net loss from retirement of long lived assets		(18,715)	0	0
Other operating expenses		(1,186,639)	(1,114,910)	(1,223,918)
Operating income (loss)		**57,375**	**(195,439)**	**(299,176)**
Other income (expense)				
Interest income	c)	88,191	82,683	78,552
Interest expense	d)	(244,628)	(240,986)	(239,914)
Dividend income		448	2,229	1,405
Equity in earnings of affiliates		140,543	195,450	36,314
Other, net		1,882	(44,005)	(38,196)
Income (loss) before income taxes, minority interests and extraordinary items		**43,811**	**(200,068)**	**(461,015)**
Income tax (expense) benefit		(26,112)	94,913	178,829
Minority interests		(4,910)	530	75
Income (loss) before extraordinary items		**12,789**	**(104,625)**	**(282,111)**
Extraordinary loss, net of tax		0	0	(3,453)
Net income (loss)		**12,789**	**(104,625)**	**(285,564)**
Basic and fully diluted earnings per share		0.03	(0.21)	(0.57)
Basic and fully diluted earnings per share excluding extraordinary items		0.03	(0.21)	(0.56)
a) includes revenues from related parties of		147,990	293,459	289,818
b) includes operating expenses from related parties of		178,857	314,769	309,094
c) includes interest income from related parties of		4,992	17,619	3,138
d) includes interest expense from related parties of		938	749	13,045

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements Of Cash Flows

(in EUR '000s, except share information)

Twelve months ended December 31,	2002	2001	2000
Cash generated from operations			
Net income	12,789	(104,625)	(285,564)
Adjustments to reconcile net income to cash generated from operations			
Depreciation, amortization and impairment charges	1,058,183	1,049,201	915,889
Employee benefit obligation – non cash	(49,840)	3,145	262,058
Allowance for doubtful accounts	39,184	14,818	26,483
Change in deferred taxes	33,498	(94,969)	(180,726)
Equity in earnings of affiliates in excess of dividends received	(45,801)	(80,731)	30,805
Stock purchase plan	0	0	7,196
Loss (gain) on sale of investments	195	0	(524)
Loss on disposal / retirement of equipment	17,280	38,922	35,161
	1,052,699	**930,386**	**1,096,342**
Changes in assets and liabilities, net of effect of businesses acquired			
Accounts receivable-trade	175,522	24,401	94,224
Due from related parties	3,759	69,050	(12,508)
Inventories	6,052	19,030	4,920
Prepaid expenses	(13,792)	(8,874)	2,005
Other assets	4,772	(47,568)	7,808
Accounts payable-trade	10,979	(85,734)	143,480
Employee benefit obligation	(102,565)	(73,592)	(61,985)
Accrued liabilities	3,881	(54,414)	38,723
Due to related parties	17,088	3,830	(27,054)
Other liabilities	230	170,490	7,282
	105,926	16,619	196,895
	1,171,414	**842,380**	**1,007,673**

Twelve months ended December 31,	2002	2001	2000
Cash from (used in) investing activities			
Capital expenditures, including interest capitalized	(560,742)	(459,039)	(601,538)
Acquisitions and investments (net of cash acquired)	(665,128)	(4,759)	(334,662)
Proceeds from sale of equipment	49,819	12,106	16,133
Purchase of investments - short-term	(1,629)	(2,790)	(176)
Purchase of investments - long-term	(1,107)	0	0
Sale (purchase) of American call for stock option plan	2,609	0	(12,527)
Proceeds from sale of investments - short-term	6	8	36,336
Proceeds from sale of investments - long-term	225	1,285	2,719
	(1,175,947)	**(453,189)**	**(893,715)**
Cash from (used in) financing activities			
Principal payments on bonds	(72,673)	(61,845)	(202,030)
Proceeds from issuance of long-term debt	127,857	0	377,553
Principal payments on long-term debt	(406,294)	(335,159)	(138,151)
Change in short-term bank borrowings	237,973	74,968	387,710
Changes in financing with ÖIAG	0	0	(492,516)
Changes from financing with mobilkom austria	114,921	(73,166)	268,520
Proceeds from sale of tax benefits	0	14,547	0
Dividends paid	0	0	(140,549)
	1,784	**(380,655)**	**(476,503)**
Effect of exchange rate changes	**3,693**	**142**	**158**
Net increase (decrease) in cash and cash equivalents	**944**	**8,678**	**(362,387)**
Cash and cash equivalents at beginning of period	**26,393**	**17,715**	**380,102**
Cash and cash equivalents at end of period	**27,337**	**26,393**	**17,715**

see accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated Statements Of Changes In Stockholder's Equity

(in EUR '000s, except per share information)

	COMMON STOCK Number of shares	Par value	Additional paid in capital	Retained earnings (see note 20)	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance January 31, 2000	**500,000,000**	**1,090,500**	**452,105**	**1,487,575**	**(107)**	**3,030,073**
Dividends declared				(140,549)		(140,549)
Stock purchase plan			7,924			7,924
Change in stock options			(8,352)			(8,352)
Comprehensive loss						
Net loss				(285,564)		(285,564)
Unrealized losses on securities, net of EUR 62 deferred income tax					(121)	(121)
Foreign currency translation adjustment					201	201
Total comprehensive loss						(285,484)
Balance December 31, 2000	**500,000,000**	**1,090,500**	**451,677**	**1,061,462**	**(27)**	**2,603,612**
Comprehensive income						
Net loss				(104,625)		(104,625)
Net unrealized loss on securities, net of EUR 83 deferred income tax					(162)	(162)
Foreign currency translation adjustment					14,630	14,630
Accumulative effect of accounting change, net of EUR 5,646 deferred income tax					(10,959)	(10,959)
Unrealized net loss of hedging activities, net of EUR 954 deferred income tax					(2,102)	(2,102)
Total comprehensive loss						(103,218)
Balance December 31, 2001	**500,000,000**	**1,090,500**	**451,677**	**956,837**	**1,380**	**2,500,394**
Comprehensive income						
Sale of call options, net of EUR (424) income tax			821			821
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
Balance December 31, 2002	**500,000,000**	**1,090,500**	**452,498**	**969,626**	**(3,084)**	**2,509,540**

see accompanying notes to consolidated financial statements

(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 communication services as well as internet services. The Company also provides services through pay phones and supplying telephones and technical equipment for telephone communication. These activities are conducted and operated primarily in Austria.

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

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

In 1998, Telecom Italia SpA ("Telekom Italia"), through its subsidiary STET Internationale Netherlands NV, became a strategic investor in the Company by acquiring 25% plus one share in Telekom Austria AG from the Austrian government. Telecom Italia previously owned 29.78% of Telekom Austria but sold 75,000,000 shares on November 4, 2002 in a private placement, reducing its level of ownership to 14.78% as of December 31, 2002.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), continues to be a significant shareholder owning approximately 47.17% of the voting common stock of the Company. In addition to the transactions described in note (6), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of the Company. The government holds the taxing authority for the Austrian operations of Telekom Austria and imposes taxes such as income and value added taxes on the Company.

All of the Company's interests in mobile communications business are held through mobilkom austria AG & Co KG ("mobilkom KG") and mobilkom austria AG and its subsidiaries, collectively these companies are referred to as mobilkom austria. Prior to a change in tax status in the first quarter 2001 this group was called mobilkom austria AG (note (18)). Through June 28, 2002, the Company owned 75% minus one share of the common stock in mobilkom austria AG and a 74.999% interest in mobilkom KG. The remaining 25% plus one share of the common stock in mobilkom austria AG and 25.001% interest in mobilkom KG were held by AUTEL Beteiligungs GmbH ("Autel") a subsidiary of Telecom Italia Mobile SpA, a publicly-traded subsidiary of Telecom Italia.

On June 28, 2002, the Company acquired 100% of Autel, including its 25.001% equity interest in mobilkom austria, 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 austrias' 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 presentation.

In December 2001, the RTR enacted a regulation that revised the manner in which phone calls that are both i) initiated and terminated within Austria and ii) require inter-connection between multiple networks, are controlled. Historically, the Company served as a central hub through which all such calls were inter-connected based on agreements in place between the Company and Austrian alternative service providers or mobile phone operators. Accordingly, the Company would recognize revenue and a trade receivable on the interconnection fee charged to the provider on whose network the call was initiated and recognize expense and a trade payable to the provider on whose network the call was terminated. As a result of the new regulation, the Company is no longer a party to such transactions unless the call either originates or terminates on its network. Had the new regulation been in place during 2001 and 2000, revenues and expenses in the accompanying consolidated statements of operations would have been lower by EUR 257,243 and EUR 220,692 for the years ended December 31, 2001 and 2000, respectively, all of which relates to the fixed-line segment. This reduction in revenue would not have a significant impact on consolidated operating or net income:

Year ended December 31,	**2001 adjusted**	**2001 as reported**	**2000 adjusted**	**2000 as reported**
Revenues	2,402,417	2,659,660	2,593,705	2,814,397
Operating expenses	(2,597,856)	(2,855,099)	(2,892,881)	(3,113,573)
Operating income	(195,439)	(195,439)	(299,176)	(299,176)

Principles of consolidation

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

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 as cash and cash equivalents. Money market deposits with original maturities of more than three months are classified as short-term investments along with marketable securities.

Marketable securities

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

Inventories

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

Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Plant and equipment under capital lease and leasehold improvements are amortized on 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
Communication equipment	4 - 10
Software	4 - 8
Furniture, fixtures and other	3 - 8
Buildings and leasehold improvements	10 - 50

(all amounts in EUR '000s)

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. In the years ended before December 31, 2001 these gains or losses were reflected in other income or expense.

Goodwill and other intangible assets

The Company accounts for goodwill and other intangible assets in accordance with the provisions of SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". These statements require that goodwill and other intangible assets with indefinite useful lives not be amortized, but tested for impairment in accordance with SFAS No. 142 at least annually, but also on an interim basis if an event or circumstance indicates that an asset may be impaired. Other intangible assets with estimable useful lives are amortized over their respective useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Asset".

The goodwill impairment test is a two-step evaluation. The first step requires the Company to compare the fair value and carrying value of any reporting unit, as defined by SFAS No. 142, to which goodwill has been allocated. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists and the second step of the impairment test must be performed. In the second step, the implied fair value of goodwill, determined by allocating the aggregate fair value of the reporting unit to all identifiable tangible and intangible assets, is compared to its carrying amount. Any shortfall in fair value compared to carrying value is recognized as an impairment loss.

In each reporting period, the Company is required to reevaluate its decision that an other intangible asset has an indefinite useful life each reporting period. If a nonamortizable intangible asset is subsequently determined to have a definite 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 on the straight-line method over their estimated useful life, as shown below:

	Years
Wireless and wireline licenses	10 - 15
Patents and proprietary rights	5 - 20
Subscriber base	6
Other	10 - 30

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

The Company accounts for long-lived assets in accordance with the provisions of SFAS No.144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets held for sale are reported at the lower of the carrying amount or estimated proceeds less cost to sell.

Internally developed software

Certain direct and indirect development costs associated with internal-use software, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects, are capitalized and 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

Generally, advertising and promotional costs are expensed as incurred and totaled EUR 153,737, EUR 75,368 and EUR 73,920 for the years ended December 31, 2002, 2001 and 2000, respectively.

(all amounts in EUR '000s)

Research and development costs

Research and development costs are expensed as incurred and amounted to EUR 30,338, EUR 21,817 and EUR 28,190 for the years ended December 31, 2002, 2001 and 2000, respectively and are classified in the consolidated statement of operations according to their functional nature.

Income taxes

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

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

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

Earnings per share

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

Concentration of risks

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

Foreign currency translation

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

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

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

Revenue recognition

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, local and fixed line 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 the service is provided. Cash discounts and incentives are accounted for as reductions in revenues when granted.

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

The installation of customer lines in residences is a separate service and the Company provides this installation service in situations where it is not providing other services. Revenue on such installation work is recognized when the installation work is completed.

The Company has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby the Company grants some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of the counterparty. The Company does not recognize revenue or an obligation to the counterparty 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 Company provides mobile communications services to individuals and commercial and non-commercial organizations through mobilkom austria. mobilkom austria generates revenue primarily by providing digital wireless services as well as value-added services, text and multimedia messaging, m-commerce and information services to a lesser extent, mobilkom austria generates revenue from the sale of wireless handsets.

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

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

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

Activation fees in excess of related expenses are deferred. Activation fees are recognized as revenues over the average expected contract term. When direct incremental expenses exceed revenues the amounts are not deferred.

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

Allowance for doubtful accounts

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

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

Stock compensation

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

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

In 2000, under the stock purchase plan, each eligible employee was allowed to purchase shares worth up to a specified amount at a discount. The Company reported the whole discount as compensation expense in 2000 as no vesting period was agreed. Application of the fair-value approach proscribed by SFAS No. 123, *Accounting for Stock-Based Compensation,* would not effect the amount of compensation expense recognized under this combination plan.

Derivative financial instruments

Prior to the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138, derivative instruments which were not designated as hedges of specific assets, liabilities, or firm commitments were marked to market with any resulting gains or losses recognized in earnings. If there was a direct connection between a derivative instrument and an underlying transaction and a derivative was so designated, gains and losses did not affect earnings until the underlying transaction was realized.

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

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

The Company has entered into various foreign currency forward contracts which are accounted for as free standing derivatives. These forward contracts serve as economic hedges of the Company’s operating exposure to fluctuations in foreign currencies. Changes in the fair values of such forward contracts are recorded directly in income.

Fair value of financial instruments

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

The fair value of some investments is estimated based on quoted market prices. For other investments, mainly in unconsolidated subsidiaries and equity investments, for which there are no quoted market prices, the Company estimates the fair value to approximate the carrying value based on the audited financial statements, if available. Those investments are tested for impairment if losses are generated over an extended period or 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.

(all amounts in EUR ‘000s)

Changes in accounting principles

Effective January 1, 2002 the Company adopted SFAS Nos. 141, 142, 144 and EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)".

The adoption of SFAS No. 141 changed, prospectively, the manner in which the Company accounts for business combinations, primarily relating to the identification and recognition of goodwill and intangible assets.

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

Year ended December 31,	**2002**	**2001**	**2000**
Reported net income (loss)	12,789	(104,625)	(285,564)
Add back amortization			
Goodwill		50,444	24,366
Goodwill included in equity in earnings from mobilkom austria		25,362	1,267
Goodwill included in equity in earnings, others		1,639	13,933
Adjusted net income	**12,789**	**(27,180)**	**(245,998)**
Basic and diluted earnings (loss) per share			
Reported net income (loss)	0.03	(0.21)	(0.57)
Add back amortization			
Goodwill		0.10	0.05
Goodwill included in equity in earnings from mobilkom austria		0.05	0.00
Goodwill included in equity in earnings, others		0.00	0.03
Adjusted net income	**0.03**	**(0.06)**	**(0.49)**

Adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", changed, prospectively, the criteria which must be met to classify and account for assets to be disposed of by sale as assets held-for-sale, requires assets meeting the held-for-sale criteria be reported separately in the balance sheet and proscribes various incremental disclosure requirements. SFAS No. 144 also expands the concept of discontinued operations to include components of an entity that comprise operations and cash flows that can be clearly distinguished from the rest of the entity and eliminates any accrual of future operating losses associated with discontinued operations. As a result of the adoption of SFAS No. 144, the Company classified assets associated with previously initiated disposal activities meeting the criteria specified in SFAS No. 144 as held-for-sale separately in the consolidated balance sheet. Aside from their required classification in the balance sheet, such assets will continue to be accounted for in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", until disposal. In addition, under SFAS No. 144 the Company included "net loss from retirement of Long-Lived Assets" in arriving at operating income in 2002. In prior years such losses were included in "other, net".

EITF 01-9, addresses the income statement characterization of cash consideration given by a vendor to a customer, specifically whether that consideration should be presented in the vendor's income statement as a reduction of revenue or as a cost or expense, and when to recognize the "cost" of a sales incentive and how to measure it. The issue concludes that cash consideration given by a vendor to a customer is presumed to be a reduction of revenue unless the vendor receives an identifiable benefit sufficiently separable from the customer's purchase of the vendor's products and the vendor can reasonably estimate the fair value of that benefit. The adoption of EITF Issue 01-9 did not have a material impact on the Company's financial statements.

(all amounts in EUR '000s)

In December 2002, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and proscribes specific guidance on the content, placement and format of required disclosures. The adoption of SFAS No. 148 did not have a material impact on the Company's financial statements.

New accounting pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which the entity incurs a legal obligation associated with the retirement of a tangible long-lived asset. SFAS No. 143 also requires the enterprise to record the contra to the initial obligation as an increase to the carrying amount of the related long-lived asset and to depreciate that cost 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. Enterprises are required to adopt SFAS No. 143 for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 as of January 1, 2003 and is currently evaluating the impact of the adoption.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces previous accounting guidance provided by EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", and requires companies to recognize costs associated with exit or disposal activities only when a liability for these costs is incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closings, or other exit or disposal activities. The provisions of SFAS No. 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Although management believes the adoption of SFAS No. 146 will not have a material impact on the Company's financial statements, adoption of the statement will result in differences in the timing of recognition and measurement of expenses relating to exit and disposal activities.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which adopts a characteristics based approach to identify contracts that qualify as guarantees, clarifies that a guarantor is required to recognize a liability for the non-contingent aspect of most guarantees at inception of the guarantee, provides guidance regarding measurement of any such liability and enhances the disclosure requirements of guarantors. The provisions of FIN No. 45 applicable to initial recognition and measurement of non-contingent liabilities associated with a guarantee are applicable to guarantees issued or modified after December 31, 2002. Management believes the adoption of these provisions will not have a material effect on the Company's financial statements. The disclosure requirements of FIN No. 45 are effective for all interim and annual periods ending after December 15, 2002 and have been fully incorporated in these financial statements.

In November 2002, the Emerging Issues Task Force reached consensus on EITF Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables", which addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. The Issue also provides guidance with respect to the effect of certain customer rights due to vendor nonperformance on the recognition of revenue allocated to delivered units of accounting and addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the vendor. Finally, this Issue provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The Issue is effective for annual reporting periods beginning after June 15, 2003. The Company has not yet determined the impact, if any, of the expected adoption of Issue 00-21.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", which provides guidance regarding the consolidation of certain entities in which equity investors do not have the characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 introduces the concept of variable interest entities, explains how to identify a variable interest entity, and requires that the primary beneficiary of any variable interest entity consolidate that entity. FIN No. 46 also requires certain disclosures regarding variable interest entities if the reporting entity is the primary beneficiary of the variable interest entity or if that enterprise holds a significant variable interest in a variable interest entity but is not the primary beneficiary. A transferor of financial assets to a qualifying special-purpose entity ("QSPE") subject to the reporting requirements of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", is not required to consolidate that QSPE. The accounting provisions of FIN No. 46 are effective immediately for all variable interest entities created after January 31, 2003 and no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003 for variable interest entities created before February 1, 2003. Certain disclosure provisions of this interpretation are effective for financial statements initially issued after January 31, 2003. The Company does not believe the adoption of FIN No. 46 will have a material effect on its financial statements.

(2) BUSINESS COMBINATION

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

mobilkom austria operates mobile telecommunication networks and provides ancillary services in Austria, Croatia, Slovenia and Liechtenstein. The operations include wireless internet access.

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

On June 28, 2002, the Company acquired 100% of Autel, which held a 25.001% equity interest in mobilkom, from STET Mobile Holding NV, an affiliate of Telecom Italia, bringing its total interest in mobilkom austria to 100%. Consequently, the Company has consolidated the balance sheet of mobilkom austria as of December 31, 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. As a result of the acquisition, the Company gained strategic and operating control of mobile communications service providers in Austria, Croatia, Slovenia and Liechtenstein.

Autel is a non-operating holding company, the sole purpose of which was to hold its parent's investment in mobilkom austria. The aggregate purchase price was EUR 693,064, including EUR 3,064 of acquisition related costs. The following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	120,558
Tangible assets	229,774
Intangible assets	388,165
Goodwill	431,304
Other long-term assets	64,012
Current liabilities	(167,781)
Long-term liabilities	(238,640)
Deferred tax liability from acquisition	(134,328)
Net assets acquired	**693,064**

Goodwill of EUR 102,957 is expected to be deductible for tax purposes.

The estimated proportional fair value, by class, of the intangible assets acquired through the acquisition of Autel are as follows:

Wireless operating licenses	101,863
Subscriber base	121,241
Brand name	159,161
Other	5,900
	388,165

(all amounts in EUR '000s)

The intangible asset recognized related to brand name is not subject to amortization. Intangible assets recognized related to wireless operating licenses and subscriber base have weighted average useful lives of 14.8 and 6.0 years, respectively. Other intangible assets are comprised primarily of easement rights and have a weighted average useful life of 5.3 years. The weighted average useful life of acquired amortizable intangible assets in total is 11.0 years.

The pro forma consolidated results of operations for the years ended December 31, 2002 and 2001, as if Autel had been acquired at the beginning of 2002 and 2001, respectively, are estimated to be:

	2002	**2001**
Revenues	3,908,226	3,943,455
Net income	29,844	36,084
Net income excluding amortization of goodwill and taxes thereon	29,844	105,479
Basic and fully diluted earnings (loss) per share	0.06	0.07
Basic and fully diluted earnings per share excluding amortization of goodwill and taxes thereon	0.06	0.21

The pro forma results include amortization of the intangible assets presented above, interest expense on debt assumed to finance the purchase and income taxes as well as other adjustments including amortization of fair value adjustments to long-term debt and pension benefit obligations and the reversal of deferred gain not representing a liability. The pro forma results of operations are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of each period presented, nor are they necessarily indicative of future consolidated results. During 2001, an unusual charge was made due to the change in tax status of mobilkom austria, as described in note (18).

On May 21, 2002, the Company purchased the remaining 2.5% interest of Jet2Web Internet Services GmbH, a consolidated Austrian internet subsidiary. The Company acquired this interest for total consideration of EUR 7,851, consisting of EUR 6,761 in cash, communication services with a fair value of EUR 1,090 and the assumption of net liabilities in the amount of EUR 860. Given the insignificant percentage of voting shares acquired, and considering the level of separately identifiable intangible assets, the Company recorded the total consideration paid as goodwill. The acquisition was to eliminate the minority interest.

On January 1, 2002 the Company sold a 75% interest in Output Service GmbH ("OSG"), a formerly consolidated subsidiary, for EUR 26. The Company accounts for its remaining 25% interest in OSG using the equity method of accounting.

In January 2002, the Company purchased 26% of World direct eBusiness Solutions GmbH ("World direct") for EUR 565 and signed a purchase option agreement for an additional 25% interest. The purchase price for the additional 25.1% interest was fixed at EUR 534 and prepaid. The Company is providing all financial funds to and consolidates World direct, since it is effectively controlled by the Company.

The following acquisitions were completed by mobilkom austria prior to June 28, 2002. These acquisitions impacted the Company's equity in earnings of mobilkom austria as well as mobilkom austria's basis in the acquired companies and, therefore, are presented for information purposes. All amounts noted below represent 100% of the acquisition as recorded in the books and records of mobilkom austria while, as described above, the Company's proportionate share of mobilkom austria's earnings was only 74.999% at the time the acquisitions were completed.

On May 28, 2002, mobilkom austria purchased an additional 5% of VIPnet d.o.o. ("VIPnet"), a consolidated Croatian subsidiary, for EUR 11,076 resulting in goodwill recognized of EUR 7,326 and bringing its ownership interest to 71%. Management paid a purchase price exceeding net assets acquired because a long-term strategic aim is to acquire all of the remaining stock held by other shareholders.

On February 27, 2001, mobilkom austria purchased, through intermediate subsidiaries, 75% plus one share of Si.mobil telekomunikacijske storitve d.d., Ljubljana ("Si.mobil"), a cellular phone service provider in Slovenia with 15% market share and approximately 155,000 customers, for EUR 145,811 in cash plus assumption of the seller's shareholder loan totaling EUR 3,591. mobilkom austria began immediately to manage the business and controls the board of directors. As the acquisition price was contractually fixed and management's intent was to acquire the remaining 25% less one share, the Company recorded the acquisition of 100% of Si.mobil and recognized a liability in the amount of the contractually agreed purchase price totaling EUR 42,795. Accordingly, the total purchase price of

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EUR 188,606 was allocated to the assets and liabilities acquired based on fair market value and the balance of EUR 186,157 was recorded as goodwill.

Subsequent to the closing, mobilkom austria committed to provide Si.mobil with shareholder loans totaling EUR 117,209, EUR 58,000 of which was advanced to Si.mobil in 2002 and EUR 52,169 in 2001.

During 2002, the Company renegotiated the final closing of the remaining 25% less one share of Si.mobil. A new agreement was reached stating that the final closing was postponed until 2007.

(3) INVESTMENTS IN AFFILIATES

As of December 31, 2002, the investments in affiliates comprise 26.0% interests in Herold Business Data ("Herold"), Omnimedia Werbegesellschaft mbH ("Omnimedia") and 25.1% interest in OSG and a 49.0% interest in paybox österreich AG ("Paybox").

In 1998, the Company acquired its 26% interest in Herold, which is engaged in the media and information business and is the provider of the telephone directory in Austria including electronic versions. Goodwill was amortized over five years and amortization for each of the years 2001 and 2000 was EUR 841. As of January 1, 2002 the Company ceased amortization in accordance with the provisions of SFAS Nos. 141 and 142.

In October 2001, the Company purchased 26% of the common stock of Omnimedia, a marketing and advertising company for EUR 3,401. In accordance with SFAS Nos. 141 and 142, goodwill totaling EUR 3,161 was not amortized in 2001 and 2002.

In July 2002, the Company sold its 49% interest in Walky Talky Telekom GmbH, which was acquired in April 2000 for a purchase price of EUR 7,703 for one Euro and realized a loss of EUR 252 recorded in equity of earnings of affiliated companies.

The acquisition of a 49% interest in Paybox for a total purchase price of EUR 5,699 was completed by mobilkom austria prior to June 28, 2002. This acquisition impacted the Company's equity in earnings of mobilkom austria and, therefore, is presented for information purposes. An impairment charge of EUR 4,462 was recorded in the year ended December 31, 2002, as the business model assuming the market roll-out of payments via mobile phones was materially changed due to the decision of the majority shareholder to cancel the support of the main products.

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

Year ended December 31,	**2002**	**2001**	**2000**
Revenues	68,045	67,491	333,561
Operating income (loss)	7,833	10,922	(35,306)
Net income (loss)	8,285	6,867	(45,790)

At December 31,	**2002**	**2001**
Total current assets	81,914	86,185
Total assets	92,911	97,382
Current liabilities	70,129	72,021
Long-term debt	3,846	2,921
Total liabilities	73,975	74,942
Total stockholders' equity	18,936	22,440

(4) MARKETABLE SECURITIES

Debt securities originating from cross border lease transactions entered into in 1998 and 1999 (see note (14)) are classified as held-to-maturity as the Company is contractually obligated to hold these securities until maturity. The securities are bonds of triple A rated issuers and held by a custodian. Through a further asset based swap the cash inflows from the securities are transformed into the cash flow stream required to match a specified portion of the lease payments. The securities are pledged to a counter-party in the swap agreement. No sales of securities occurred in 2002, 2001 and 2000. 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.

(all amounts in EUR '000s)

At December 31, 2002	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Non-current assets				
Available-for-sale				
debt securities	5,908	298	1	6,205
equity securities	2,456	0	258	2,198
mutual funds	11,516	37	1,008	10,545
Held-to-maturity	138,454	21,015	0	159,469
At December 31, 2001				
Non-current assets				
Available-for-sale				
mutual funds	8,747	20	244	8,523
Held-to-maturity	158,274	4,308	0	162,582

The contractual maturity of debt securities classified as held-to-maturity were as follows at December 31, 2002.

	Amortized cost	Fair value
Held-to-maturity		
Due after one year through five years	6,558	7,354
Due after five years through ten years	131,896	152,115
	138,454	159,469

Proceeds from sales of available-for-sale securities amounted to EUR 7,070 and EUR 8 in 2002 and 2001, respectively. Gross realized gains from sales of available-for-sale securities were EUR 46 in 2002. In 2001 and 2000 no such gains or losses occurred. The specific identification method was used to determine the cost in computing realized gains and losses.

(5) ACCOUNTS RECEIVABLE - TRADE

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

	2002	2001
Allowance beginning of the year	**47,074**	**72,202**
Foreign currency adjustment	2	(34)
Change in consolidated entities	32,838	0
Reclassification to accruals for sold receivables	(26,485)	0
Charged to expenses	39,184	15,069
Amounts written-off	(17,668)	(40,163)
Allowance at the end of the year	**74,945**	**47,074**

	December 31, 2002	December 31, 2001
Accounts receivable trade, gross	526,879	502,346
Allowances	(74,945)	(47,074)
Accounts receivable trade, net	451,934	455,272

Of these receivables EUR 219,920 are held-for-sale due to the securitization program described in the following paragraphs.

(all amounts in EUR '000s)

In January 2002, the Company entered into a revolving period securitization and sold trade receivables to a Qualifying Special Purpose Entity (QSPE) unrelated to the Company. The Company retains servicing responsibilities relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the QSPE, the Company retains interests in the sold receivables (retained interests). These retained interests are initially measured at estimated fair values, which the Company believes approximate historical carrying values, and are subsequently measured based on a periodic evaluation of collections and delinquencies. A maximum of EUR 250,000 may be transferred to the trust under the program. Although mobilkom austria has the same contract with a different trust the total amount is limited to EUR 290,000 for Telekom Austria and mobilkom austria together. The maximum amount for mobilkom austria is EUR 80,000. At December 31, 2002, retained interest occurred for mobilkom austria as the program limit was exceeded by EUR 7,930. Given the short-term, lower-risk nature of the assets securitized, market movements in interest rates would not impact the carrying value of the Company's retained interests.

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

The allowances recorded for sold receivables are classified as accrued liabilities. At December 31, 2002 the accrual totaled EUR 62,481 of which EUR 36,860 relates to mobilkom austria.

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

In the period ended December 31, 2002, the net cash received from the QSPE develops as follows:

Gross trade receivables sold to QSPE	2,044,513
Collections made on behalf of and paid to the QSPE	(1,732,372)
Deferred purchase price	(104,616)
Unearned discount	(4,100)
Liquidity and program fees	(8,499)
Increase in retained interests	(7,930)
Net cash received from QSPE during the period	**186,996**

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

(6) RELATED PARTY TRANSACTIONS

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

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

Österreichische Post AG and its subsidiaries ("the Post"), a subsidiary of ÖIAG, which provide postal services, charged the Company for services received such as postal charges, rent, repair and administration. The Company charged the Post for IT support, voice telephony, technical services, rent, repair and other services.

(all amounts in EUR '000s)

The terms of the services provided by Telekom Austria to government entities are generally based on standard pricing policies. However, the Company is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to an appropriate compensation from the government on a contractual basis. The reimbursement was EUR 41,670, EUR 43,032 and EUR 83,574 in 2002, 2001 and 2000, respectively. The reimbursement in 2000 was a result of negotiations with the government which led to an additional one time payment for the remaining amounts for the years 1998, 1999 and 2000. Beginning January 1, 2001, the new contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period.

Telecom Italia and subsidiaries charged the Company for technical and management services and interconnection fees while the Company charged Telecom Italia for interconnection services.

One of the Company's consolidated subsidiaries, Telekom Finanzmanagement GmbH ("TFG"), provides treasury services for the Company and, until December 29, 2000, for subsidiaries of ÖIAG. As of December 31, 2001, the Company held investments accounted for under the equity method of accounting in an amount of EUR 510,682, essentially all of which related to mobilkom austria. As mobilkom austria is consolidated since June 28, 2002 investments in affiliates only include investment interests described in note (3) and amount to EUR 8,642.

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

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

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

At December 31,	**2002**	**2001**
ÖIAG	4,296	11,590
Telecom Italia	435	0
Affiliated companies and other	1,992	235
mobilkom austria – accounts receivable	0	25,691
mobilkom austria – financing short-term	0	68,463
Total receivables due from related parties	**6,723**	**105,979**
mobilkom austria – financing long-term	**0**	**218,018**

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

At December 31,	**2002**	**2001**
ÖIAG	4,997	4,761
Telecom Italia	0	1,663
Affiliated companies and other	32,201	8,723
mobilkom austria – accounts payable	0	835
Total	**37,198**	**15,982**

As of December 31, 2002, EUR 25,032 of the total balance due to affiliated companies and other relate to Omnimedia, which mainly provides marketing and advertising services to the Company.

(all amounts in EUR '000s)

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

Year ended December 31,	2002	2001	2000
Revenues			
mobilkom austria	72,879	222,231	216,727
ÖIAG	56,660	55,344	63,905
Telecom Italia	14,361	13,448	9,186
Other	4,090	2,436	0
Total	**147,990**	**293,459**	**289,818**
Interest income			
mobilkom austria	4,988	17,619	3,010
Other	4	0	128
Total	**4,992**	**17,619**	**3,138**
Expenses			
mobilkom austria	43,590	207,172	221,005
ÖIAG	44,989	66,421	61,490
Telecom Italia	23,559	25,841	26,599
Other	66,719	15,335	0
Total	**178,857**	**314,769**	**309,094**
Interest expense			
mobilkom austria	837	731	386
ÖIAG and other	101	18	12,659
Total	**938**	**749**	**13,045**

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

(7) INVENTORIES

Inventories consist of:

At December 31,	2002	2001
Spare parts, cables and supplies	36,830	47,758
Merchandise	54,431	8,028
Total	**91,261**	**55,786**

(8) GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

At December 31,	2002	2001
Wireless and wireline licenses	544,893	650
Patents and proprietary rights	47,100	1,205
Brandnames	158,934	0
Subscriber base	120,999	0
Other	37,952	28,956
Total intangibles	909,878	30,811
Less accumulated amortization	(183,985)	(10,405)
Net intangibles	**725,893**	**20,406**

(all amounts in EUR '000s)

Amortization expense was EUR 27,410, EUR 53,339 and EUR 26,802 for the years 2002, 2001 and 2000, respectively.

In 2002, the main additions to licenses, brandnames and subscriber base relate to the acquisition of mobilkom austria. Information regarding intangible assets acquired by mobilkom austria prior to June 28, 2002 is presented for information purposes as such activity impacted the Company's equity in earnings. All amounts noted below represent 100% of the acquisition as recorded in the books and records of mobilkom austria while, as described above, the Company's proportionate share of mobilkom austria's earnings was only 74.999% at the time the acquisitions were completed.

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 6,495 and EUR 8,283 was capitalized in 2002 and 2001, respectively, on the UMTS license. The UMTS license was not amortized in 2002, because it has not been placed in commercial services.

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

Upon adoption of SFAS 142 on January 1, 2002, as described in note (1), the Company ceased amortizing goodwill. The following tables illustrate the changes in net book value of goodwill by segment for the period ended December 31, 2002 and 2001, respectively:

	Internet	Data communications	Mobile communications	Total
Goodwill, January 1, 2002	**59,904**	**340**	**0**	**60,244**
Acquisitions	8,724	1,100	563,153	572,977
Impairment	(40,893)	0	0	(40,893)
Translation adjustment	1,620	0	(3,221)	(1,601)
Goodwill, December 31, 2002	**29,355**	**1,440**	**559,932**	**590,727**

	Internet	Data communications	Total
Goodwill, January 1, 2001	**216,785**	**453**	**217,238**
Acquisitions	477	0	477
Disposals	(115)	0	(115)
Amortization	(50,331)	(113)	(50,444)
Impairment	(119,950)	0	(119,950)
Translation adjustment	13,038	0	13,038
Goodwill, December 31, 2001	**59,904**	**340**	**60,244**

In 2002 and 2001, impairment charges in the amount of EUR 40,441 and EUR 119,950 were recorded for goodwill originally recorded from the acquisition of Czech On Line ("COL"). The acquisition was based on a business plan assuming the full liberalization of the Czech market in the year 2001. As this was first postponed to the year 2002 and currently the liberalization of the Czech market overall remains unsatisfactory with regard to interconnection and limited wholesale offers to alternative operators, the business of COL has not developed as originally expected. This resulted in an impairment charge in both years subsequent to the acquisition. The valuation of the reporting unit in 2002 was based on forecasted cash flows and used the weighted average cost of capital employed of 13.2% as discount rate. The impairment loss was recorded in the internet segment in 2002. In 2001 the impairment losses of goodwill were originally not allocated to segments, but were reclassified in 2002 to the segments for comparability purposes.

(all amounts in EUR '000s)

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

At December 31, 2002	Acquisition cost	Accumulated amortization	Carrying value
Wireless and wireline licenses	544,893	(139,043)	405,850
Subscriber base	120,999	(10,083)	110,916
Other	85,052	(34,859)	50,193
Total	**750,944**	**(183,985)**	**566,959**

At December 31, 2001	Acquisition cost	Accumulated amortization	Carrying value
Wireline license	770	(32)	738
Other	30,160	(10,492)	19,668
Total	**30,930**	**(10,524)**	**20,406**

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

2003	56,007
2004	54,582
2005	52,756
2006	50,097
2007	47,746
Thereafter	305,773

The total carrying amount of intangible assets, other than goodwill, not subject to amortization is EUR 158,934 as of December 31, 2002. This amount relates entirely to the value of brandnames.

(9) PROPERTY, PLANT AND EQUIPMENT

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

At December 31,	2002	2001
Land	62,462	64,031
Buildings and leasehold improvements	653,010	655,807
Communications network and other equipment	9,358,138	7,819,867
Capital leases	16,207	6,779
Software	325,387	105,686
Construction in progress, network	235,263	102,143
	10,650,467	8,754,313
Less accumulated depreciation (other than capital leases)	(5,640,965)	(4,157,643)
Less accumulated depreciation, capital leases	(8,843)	(4,913)
Property, plant and equipment, net	**5,000,659**	**4,591,757**

Total interest capitalized and amortization and depreciation expenses for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Interest capitalized	2,635	2,893	3,876
Depreciation and amortization expense	989,878	875,912	889,088
Thereof			
Amortization expense of software	42,623	24,276	16,499
Amortization expense of leased assets	2,341	1,025	2,611

(all amounts in EUR '000s)

In the period ended December 31, 2002, 2001 and 2000, respectively, impairment charges of EUR 977, EUR 23,181 and EUR 2,145 are included in depreciation. These impairment charges related primarily to buildings which the Company no longer uses. The impairments recorded related to these buildings equals the carrying value in excess of estimated fair value.

(10) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2002	2001
Current portion of long-term debt	458,995	413,470
Short-term debt	737,144	471,768
Lines of credit	5,823	5,354
Current portion of lease obligations	107,943	87,500
Total	**1,309,905**	**978,092**

The weighted-average interest rate on lines of credit was 4.02% and 4.77% in 2002 and 2001, respectively. As of December 31, 2002 the Company has unused committed lines of EUR 100,000 and recorded commitment fees for these unused lines of EUR 240, which are 0.1% of the committed lines. The credit line will expire on April 2, 2003 and is expected to be renewed on a three months roll forward basis.

The current portion of lease obligations increased mainly due to the reclassification of certain payments under the cross border lease that will become due in 2003.

(11) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

At December 31,	2002	2001
Taxes, other than income	8,517	10,138
Employees	67,384	57,928
Customer discounts	53,240	49,438
Customer retention programs	37,693	0
Exit costs	8,363	1,912
Bad debt for sold receivables	62,481	0
Other	19,112	11,880
Total	**256,790**	**131,296**

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

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

During the year ended December 31, 2001, the Company formally terminated certain leases, which require the Company to refurbish the properties as they are vacated. Upon termination of the leases the Company had recorded an accrual totaling EUR 1,912. The Company utilized EUR 1,456 and released EUR 456 of this accrual in 2002. As of December 31, 2002, the Company recorded an accrual totaling EUR 8,363 for certain lease contracts, that cannot be terminated, but the Company will move out in 2003, and accrued the minimum lease payments until the end of the lease contracts.

(12) DEFERRED INCOME

At December 31,	2002	2001
Unearned income	122,850	48,728
Unamortized balance on sale of tax benefits	58,686	54,558
	181,536	103,286
Less non-current portion	(51,573)	(48,020)
Deferred income net of non-current portion	129,963	55,266

(all amounts in EUR '000s)

The deferred income mainly relates to access fees, monthly base fees, leased lines to commercial customers, and as of December 31, 2002 prepaid mobile fees and rental income from site sharing relating to mobilkom austria. These fees are amortized over the period the service is provided.

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

(13) LONG-TERM DEBT

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

At December 31,	Maturity	2002	2001
Bonds and debentures	2003-2006	175,537	249,641
Bank debt	2003-2011	2,347,652	2,169,055
Other	2008	15,691	0
		2,538,880	2,418,696
Less current portion of long-term debt		(458,995)	(413,470)
Long-term debt, net of current portion		**2,079,885**	**2,005,226**

Most of the bonds were issued and loans granted while the Company was still owned by the government. Of the bank total debt, amounts of EUR 1,751,264 and EUR 2,032,650 at December 31, 2002 and 2001, respectively, are guaranteed by the Federal Republic of Austria. From the total long-term debt, as of December 31, 2002 and 2001, respectively, EUR 286,947 and EUR 268,390 are denominated in Japanese Yen and Swiss Francs. The Company uses cross currency swaps to reduce the exposure to the risks of adverse changes in exchange rates as described in note (19).

The interest rates of these loans vary between 4.4% and 7.3%. The weighted average interest rate for the periods ended December 31, 2002 and 2001, respectively, were 5.2% and 5.4% for bank debt and 3.7% and 5.0% for bonds.

The following loans are not guaranteed by the government as they were entered into after the privatization of the Company.

In March 2000, the Company entered into a loan agreement for EUR 145,000 with the European Investment Bank. As of December 31, 2002 the loan is outstanding in full 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. If these ratios are not met, the bank would be entitled to receive collateral from the Company.

Further, in October 2000 the Company entered into a loan agreement for EUR 232,553. As of December 31, 2002 the loan is outstanding in full in accordance with the repayment terms. Under the terms of the contract the Company has to maintain certain investments, otherwise the loan becomes due. The interest rates vary depending on the rating of the Company.

As of December 31, 2002, EUR 260,160 of a syndicated loan granted to mobilkom austria was outstanding. The original loan totaled EUR 305,000 and was guaranteed by Telekom Austria AG.

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

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

As of December 31, 2002, the Company was in compliance with all covenants agreed in the different loan agreements mentioned above.

As of December 31, 2002 loans to VIPnet's minority shareholders in the amount of EUR 15,061 are outstanding.

(all amounts in EUR ‘000s)

In March 1999, Si.mobil also issued 5,000 bonds with a par value of Deutsche Mark 1,000. The bonds incur interest of 6% and are payable semiannually through March 1, 2006.

The year-end average interest rates for the long-term debt excluding interest rate swap agreements for 2002 and 2001 are as follows:

	2002	2001
Bonds	5.32%	4.32%
Bank debt	3.49%	5.42%

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

2003	458,995
2004	423,931
2005	596,450
2006	532,217
2007	161,808
Thereafter	365,479

(14) LEASING

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

Future minimum lease payments for noncancelable operating leases, capital leases and cross border leases as of December 31, 2002 are:

	Cross border leases	Capital leases	Operating leases
2003	102,719	5,340	69,122
2004	112,878	2,137	64,239
2005	122,292	56	55,963
2006	138,022	18	53,533
2007	163,038	0	52,251
after 2007	1,049,353	0	12,767
Total minimum lease payments	1,688,302	7,551	307,875
Less amount representing interest	(511,268)	(289)	
Present value of lease payments	1,177,034	7,262	
Less current portion	(102,719)	(5,223)	
Non-current lease obligations	**1,074,315**	**2,039**	

Total rent expense was EUR 67,666, EUR 52,130 and EUR 52,299 in 2002, 2001 and 2000, respectively.

Cross border leases

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

(all amounts in EUR '000s)

In 2001, the Company entered 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 Payment Undertaking Agreements ("PUA") with several counter-parties whereby the counter-parties 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 relates to the total gain from the sale of the tax benefits which amounted to EUR 14,547, EUR 44,437 and EUR 7,337 in 2001, 1999 and 1998, respectively. The Company is amortizing these amounts over the term of the lease. The cash deposits, the securities purchased in connection with the PUA contracts 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 of offset does not exist. Accordingly, interest income and expenses totaling EUR 70,634, EUR 58,598 and EUR 56,773 have been recognized in 2002, 2001 and 2000, respectively.

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. As mobilkom austria is consolidated since June 28, 2002 at December 31, 2002 assets and lease obligations relating to these transactions totaling EUR 203,386 are now included in the figures below. Total assets and liabilities recorded in connection with the cross border leases are as follows:

At December 31,	**2002**	**2001**
Securities held-to-maturity, non-current	138,454	158,274
Other assets	1,038,580	1,008,572
Thereof current	103,978	82,421
Lease obligations	1,177,034	1,166,846
Thereof current	102,719	82,421

In 2001, two banks issued letters of credit to the trust for the liabilities of the Company. As of December 31, 2002 these letter of credits totaled EUR 107,776.

(15) EMPLOYEE BENEFIT OBLIGATIONS

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

At December 31,	**2002**	**2001**
Contractual termination benefits	132,346	287,300
Service awards	57,862	59,186
Severance	32,612	21,751
Pensions	9,709	9,888
Total	**232,529**	**378,125**

Contractual termination benefits

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs ("VRIPs") to eligible employees meeting the criteria detailed in the programs and recorded appropriate accruals. Under the terms of these programs employees are eligible to receive payments over a maximum period of 7.5 years until the day of retirement and the benefits are indexed to inflation.

As of December 31, 2002, the accrual for the VRIPs relate to 1,723 employees. In connection with the VRIPs, the Company made payments of EUR 95,262, EUR 68,456 and EUR 61,985 in 2002, 2001 and 2000, respectively.

An obligation for voluntary termination benefits is recognized when the eligible civil servant, who cannot be terminated involuntarily, accepts the offer. The present value of the obligation is determined based on current compensation levels and the law. An annual increase of 2.5% for future years and a discount rate of 4.5% are used. VRIPs are not funded.

(all amounts in EUR '000s)

On January 1, 2002 a new law was enacted that allows voluntary early retirement of Austrian civil servants as early as at the age of 55. In the year ended December 31, 2002 the Company reversed EUR 57,366 of these accruals because 656 employees either elected early retirement under the new law or qualified for early retirement as the result of medical disability. Consequently, the Company's obligation under the VRIPs was reduced as these former employees are now covered by the governmental retirement plan. Expenses associated with the VRIPs as well as the reversals of accruals are reflected as a reduction of employee costs in the accompanying consolidated statement of operations.

Actuarial assumptions

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

At December 31,	2002	2001	2000
Actuarial assumptions:			
Discount rate	5.0%	5.0%	5.5%
Rate of compensation increase	3.7%	3.6%	3.5%
Rate of increase of pensions	1.1%	1.1%	1.7%

Service awards

Civil servants and employees (together "employees") are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two months salary after 25 years of service and four months salary after 40 years of service. Employees with at least 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 a reconciliation of the changes of service award for the years ended December 31, 2002 and 2001, respectively:

	2002	2001
Accrual at the beginning of the year	**59,186**	**60,289**
Change in reporting entities	2,744	0
Service cost	2,348	2,433
Interest cost	3,024	3,255
Recognized actuarial losses (gains)	(6,930)	(1,967)
Benefits paid	(2,510)	(4,824)
Accrual at the end of the year	**57,862**	**59,186**

Severance

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

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

(all amounts in EUR '000s)

The following table provides a reconciliation of the changes of severance benefit obligations for the years ended December 31, 2002, 2001 and 2000, respectively:

	2002	2001	2000
Service cost	3,926	1,893	1,452
Interest cost	1,311	924	816
Amortization of unrecognized net obligation	221	29	0
Curtailment loss	683	1,876	0
Net periodic benefit cost	**6,141**	**4,722**	**2,268**

	2002	2001
Projected benefit obligation at the beginning of the year	22,415	16,328
Change in reporting units	4,249	0
Service cost	3,926	1,893
Interest cost	1,311	924
Actuarial losses	7,459	6,658
Curtailment loss	683	1,876
Benefits paid	(3,194)	(5,264)
Projected benefit obligation at the end of the year	36,849	22,415
Unrecognized net actuarial losses	(16,093)	(7,968)
Accrued liability at the end of the year	20,756	14,447
Voluntary severance obligation	11,856	7,304
Total accrued severance liabilities at the end of the year	**32,612**	**21,751**

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.

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 of 27.5% until September 30, 2000, of the compensation of active civil servants (including contributions from the civil servants). The contribution to the Austrian government was increased to 29.6% in 2002. Beginning October 2005 the contribution will be reduced to 28.3%. Contributions to the government, net of the share contributed by civil servants, were EUR 52,647, EUR 56,380 and EUR 59,064 in 2002, 2001 and 2000, 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 6,961, EUR 4,669 and EUR 1,364 in 2002, 2001 and 2000, respectively.

Defined benefit pension plan

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

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

(all amounts in EUR ‘000s)

The pension benefits for 2002, 2001 and 2000 are shown in the following table:

	2002	2001	2000
Service cost	0	0	0
Interest cost	424	504	695
Amortization of actuarial gain	(50)	(59)	(17)
Amortization of unrecognized transition obligation	343	343	343
Net periodic pension benefit cost	**717**	**788**	**1,021**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2002 and 2001, respectively:

	2002	2001
Projected benefit obligation at the beginning of the year	8,926	9,145
Service cost	0	0
Interest cost	424	504
Actuarial losses (gains)	(128)	90
Benefits paid	(895)	(813)
Projected benefit obligation at the end of the year	8,327	8,926
Unrecognized net gain	1,725	1,647
Unrecognized transition obligation	(343)	(685)
Accrued pension liability	**9,709**	**9,888**

(16) IDLE WORKFORCE

In connection with its formation and privatization the Company was required to retain a significant number of employees that are recognized as civil servants under Austrian law. Despite the Company's conclusion that the service of such employees is redundant and they are not required to report to work, they may not be involuntarily terminated according to Austrian law. For the years ended December 31, 2002, 2001 and 2000, respectively, the Company had an average of 592, 614 and 261 redundant employees who are referred to as the idle workforce. In addition, beginning January 1, 2002, the Company expanded its definition of idle workforce to include employees who are on medical leave and have applied for early retirement, of which there are 292 for the period ended December 31, 2002. As a result of the change in definition, the Company reclassified prior year costs of EUR 2,024 and EUR 1,290 associated with an average of 56 and 38 such employees from employee costs in the 2001 and 2000 statement of operations to idle workforce.

Additionally, the Company periodically offers voluntarily termination benefits to selected employees. Costs associated with these special programs were EUR 9,412 and EUR 27,916 for the period ended December 31, 2002 and 2001, respectively. Such costs are included in idle workforce.

Costs related to the idle workforce are reported separately in the accompanying consolidated statements of operations.

(17) STOCK BASED COMPENSATION

Stock option plan

On October 4, 2000, the shareholders of Telekom Austria approved stock option plans for employees of the Company and mobilkom austria. Under this plan, the Company may grant a total of 4,686,881 options, each of which entitle eligible grantees upon exercise of the option to receive at their choice either cash equal to the difference between the average quoted price of Telekom Austria stock during the five trading days preceding the exercise and the IPO price of EUR 9 or shares at an exercise price of EUR 9. One option is convertible into one share. The options granted may be exercised on specific dates between May 31, 2002, and February 27, 2004, as long as the average share price during the five days prior to exercise exceeds the initial public offering price by 30% or more. The Company will recognize compensation expense over the applicable service periods if the performance hurdles are met.

On November 21, 2000, the Company granted all 4,686,881 options. In 2002 and 2001, respectively, 520,766 and 733,188 options were forfeited, therefore, 3,432,927 and 3,953,693 options are outstanding as of December 31, 2002 and 2001, respectively.

(all amounts in EUR '000s)

As the stock option plans are accounted for in accordance with APB Opinion 25 and related interpretations, the amount of the liability is measured each period based on the current stock price. As the stock price as of December 31, 2002 and 2001 did not exceed the hurdle, no compensation expense was recorded in 2002 and 2001.

Stock purchase plan

ÖIAG, the selling shareholder, approved a stock purchase plan for employees of Telekom and its subsidiaries in which the Company has at least a 50% interest. Under the stock purchase plan, each eligible employee was allowed to purchase shares worth up to EUR 1.8 at a total discount of 45% from the offering price made up of the 5% Austrian retail discount and an additional 40% employee discount if they purchase at least EUR 0.7 worth of shares. The maximum benefit to each employee was EUR 0.7. In 2000, the Company reported a capital contribution by ÖIAG of EUR 7,924 and compensation expense of EUR 7,196.

(18) INCOME TAXES

Income (loss) before income taxes, minority interests and extraordinary items is attributable to the following geographic locations:

	2002	2001	2000
Domestic	33,710	(199,049)	(460,184)
Foreign	10,101	(1,019)	(756)
Total	**43,811**	**(200,068)**	**(460,940)**

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

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

	2002	2001	2000
Current			
Domestic	1,097	(292)	68
Foreign	5,771	0	0
	6,868	(292)	68
Deferred			
Domestic	15,627	(94,278)	(178,784)
Foreign	3,617	(343)	(113)
	19,244	(94,621)	(178,897)
Total	**26,112**	**(94,913)**	**(178,829)**

Benefits of operating loss carryforwards of EUR 8,641, EUR 7,799 and EUR 194,991 were included in the deferred tax expense (benefit) for the years ended December 31, 2002, 2001 and 2000, respectively.

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

	2002	2001	2000
Continuing operations	26,112	(94,913)	(178,829)
Extraordinary items	0	0	(1,779)
Other comprehensive income	(1,024)	(6,683)	(62)
Additional paid in capital	(424)	0	4,162
	24,664	**(101,596)**	**(176,508)**

(all amounts in EUR '000s)

The Company is subject to income taxes in Austria at a rate of 34% of taxable income. The following table shows the principal components for the difference between the reported income tax expense (benefit) and the amount of income tax expense (benefit) that would result from applying the Austrian statutory income tax rate to income (loss) before income taxes, minority interests and extraordinary items:

	2002	2001	2000
Income tax expense (benefit) at statutory rate	14,896	(68,023)	(156,719)
Tax incentives	(3,626)	(2,105)	(19,613)
Tax rate differential on equity in earnings of affiliates	(2,552)	9,008	(12,913)
Nondeductible goodwill amortization and impairment charges	4,388	647	8,700
Tax benefit recognized for prior year goodwill amortization and impairment	0	(40,080)	0
Change in valuation allowance	11,008	5,456	0
Other	1,998	184	1,716
Income tax expense (benefit)	26,112	(94,913)	(178,829)
Effective income tax rate	**59.6%**	**47.4%**	**38.8%**

Tax incentives principally consist of research incentives for 2002 and 2001 and principally consist of investment tax credits for 2000.

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

	2002	2001
Deferred tax assets		
Goodwill	44,615	108,588
Deferred deduction for write downs of investments in subsidiaries	76,858	82,467
Operating loss carryforwards	207,232	193,325
Long-term debt	13,362	15,707
Other liabilities	5,542	0
Other	12,354	15,775
Total deferred taxes	**359,963**	**415,862**
Valuation allowance	(16,214)	(5,456)
Deferred tax assets, net of valuation allowance	**343,749**	**410,406**
Deferred tax liabilities		
Property, plant and equipment	(39,683)	(48,313)
Other intangible assets	(88,178)	0
Accrued liabilities	(4,892)	(3,043)
Other assets	(13,866)	(17,543)
Employee benefit obligation	(30)	(8,714)
Other	(12,351)	(5,570)
Total deferred tax liabilities	**(159,000)**	**(83,183)**
Net deferred tax	**184,749**	**327,223**

At December 31, 2002, the Company had approximately EUR 639,768 of operating loss carryforwards. Thereof EUR 109,058 relate to foreign subsidiaries. The expiration dates are as follows:

Years	**Amount**
2003	26
2004	8,341
2005	28,959
2006	42,667
2007	26,946
2008	934
2009	1,185
Total	**109,058**

(all amounts in EUR '000s)

The remaining amount of operating loss carryforwards are in Austria and do not expire. Their annual usage is limited to 75% of the taxable income in Austria 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, 2002 the Company has recognized a net deferred tax asset of EUR 171,404 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 672,174 over an indefinite period in Austria. Additionally, certain foreign subsidiaries will need to generate future taxable income exclusive of reversing taxable differences of approximately EUR 54,688 in order to realize the deferred tax asset, net of valuation allowance, that has been recognized in those jurisdictions. 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, net of the existing valuation allowance. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

During the year ended December 31, 2002 a deferred tax expense of EUR 16,214 and a separate deferred tax benefit of EUR 5,456 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.

As of December 31, 2002, a deferred tax liability has not been provided for the excess in the amount of EUR 1,912 for financial reporting over the tax basis of an investment in a foreign subsidiary that is essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. It is not practicable to estimate the amount of the related unrecognized deferred tax liability.

(19) FINANCIAL INSTRUMENTS

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

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

By their nature, all such instruments involve risk, including market risk and credit risk of nonperformance by counter-parties, and the maximum potential loss may exceed the amount recognized in the balance sheets. However, at December 31, 2002 and 2001, in management's opinion the probability of nonperformance of the counter-parties in these financial instruments was remote.

Credit risk

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

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

Market risk

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

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 2002 and 2001, respectively, no hedge ineffectiveness occurred.

Interest rate swap agreements

The Company entered into interest rate swaps to reduce the aggregate exposure to changes in floating interest rates of the debt portfolio. Fixed interest rate payments as of December 31, 2002, ranged from 6.7% to 3.0%. Floating-rate payments are based on rates tied to different inter-bank offered rates.

The following table indicates the types of swaps in use at December 31, 2002 and 2001, 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:

	2002	2001
Variable to fixed swaps in EUR		
Notional amount in EUR	181,682	181,682
Average receive rate	3.35%	4.01%
Average pay rate	6.47%	6.38%
Average maturity in years	2.4	3.0
Variable to fixed swaps in Japanese Yen ("JPY")		
Notional amount in JPY	10,000,000	10,000,000
Notional amount in EUR	86,392	86,708
Average receive rate	0.01%	0.02%
Average pay rate	3.15%	3.15%
Average maturity in years	1.5	2.5

Foreign exchange agreements

The Company entered into foreign currency denominated loans, because of low interest rates connected to loans denominated in Japanese Yen and Swiss Francs ("SFR"). The use of cross currency swaps allows the Company to reduce the exposure to the risk of adverse changes in exchange rates. Fixed interest rates as of December 31, 2002, range from 6.4% to 7.7%.

Additionally, the Company entered into a foreign currency forward contract to cover the exposure from a loan and interest payments denominated in Swiss Francs.

The following table indicates the types of foreign exchange agreements in use at December 31, 2002 and 2001, and if applicable their weighted-average interest rates, the weighted-average remaining terms and the respective exchange rates of the contracts:

(all amounts in EUR '000s)

	2002	2001
Cross Currency Swaps EUR – SFR		
Notional amount in EUR	176,635	235,028
Notional amount in SFR	300,000	400,000
Average receive rate – SFR	5.47%	5.58%
Average pay rate – EUR	7.65%	7.74%
Average maturity in years	2.4	2.7
Cross Currency Swaps EUR – JPY		
Notional amount in EUR	73,554	73,554
Notional amount in JPY	10,000,000	10,000,000
Average receive rate – JPY	3.15%	3.15%
Average pay rate – EUR	6.41%	6.41%
Average maturity in years	1.5	2.5
Foreign Currency Forward Contract – SFR		
Notional amount in EUR	0	74,446
Notional amount in SFR	0	105,906
Forward exchange rate	–	1.42
Exchange rate as of the balance sheet date	–	1.48
Term of the contract	–	Nov. 2002
Forward exchange contracts – US $		
Notional amount in EUR	3.599	0
Notional amount in US $	3.600	0
Forward exchange rate (weighted)	1.00	–
Exchange rate as of the balance sheet date	1.05	–
Longest term of the contracts	March 2003	–

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

The following table summarizes the fair values of financial instruments:

	2002 Carrying amount	2002 Fair value	2001 Carrying amount	2001 Fair value
Financial instruments				
Cash	27,337	27,337	26,393	26,393
Accounts receivable-trade	451,934	451,934	455,272	455,272
Balances due from related parties	6,723	6,723	105,979	105,979
Accounts payable-trade	(649,890)	(649,890)	(439,529)	(439,529)
Payables to related parties	(37,198)	(37,198)	(15,982)	(15,982)
Securities held-to-maturity	138,454	159,469	158,274	162,582
Securities available-for-sale	18,948	18,948	8,523	8,523
Long-term debt	(2,079,885)	(2,203,008)	(2,005,226)	(2,102,008)
Derivative financial instruments				
Interest rate swap agreements	(20,996)	(20,996)	(20,317)	(20,317)
Cross currency swap agreements	36,034	36,034	43,998	43,998
Foreign currency forward contract	(160)	(160)	(2,173)	(2,173)

(all amounts in EUR '000s)

(20) SHAREHOLDERS' EQUITY

Accounting for derivative and hedging activities

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

For derivatives designed either as fair value or cash flow hedges, changes in the time value of the derivatives are excluded from the assessment of hedge effectiveness and are recorded in earnings. Hedge ineffectiveness, determined in accordance with SFAS No. 133 had no impact on the Company's earnings for years ended December 31, 2002 and 2001, respectively. No fair value hedges or cash flow hedges were derecognized or discontinued during the years ended December 31, 2002 and 2001, respectively.

Unrealized gains and losses recorded in other comprehensive income are as follows:

	December 31, 2002	December 31, 2001
Unrealized Losses		
Gross	(17,148)	(18,581)
Less income tax	5,559	6,317
Net of income tax	(11,589)	(12,264)
Unrealized Derivative Gains		
Gross	1,890	0
Less income tax	(643)	0
Net of income tax	1,247	0
Unrealized net loss	**(10,342)**	**(12,264)**

Additionally, the Company recorded its share of mobilkom austria's derivative loss of EUR 1,064, net of deferred income taxes of EUR 376. This resulted in a total loss of EUR 13,061, net of deferred income taxes as of December 31, 2001.

Other comprehensive income

Other comprehensive income consist of the following items:

	Unrealized gain (loss) on securities	Unrealized gain (loss) on hedging activities	Foreign currency translation	Accumulated other comprehensive income
Balance January 1, 2000	**122**	**0**	**(229)**	**(107)**
Changes, net of income tax	(121)	0	201	80
Balance December 31, 2000	**1**	**0**	**(28)**	**(27)**
Cumulative effect of accounting change, net of income tax	0	(10,959)	0	(10,959)
Changes, net of income tax	(162)	(2,102)	14,630	12,366
Balance December 31, 2001	**(161)**	**(13,061)**	**14,602**	**1,380**
Changes, net of income tax	(687)	2,719	(6,496)	(4,464)
Balance December 31, 2002	**(848)**	**(10,342)**	**8,106**	**(3,084)**

Sale of American call option

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

(all amounts in EUR '000s)

In May 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 96-13, proceeds from the sale of the options have been credited directly to additional paid in capital in the accompanying statement of changes in shareholders' equity.

Restricted earnings

Dividend distributions are based on earnings determined in accordance with Austrian accounting standards for Telekom Austria AG on a stand-alone basis. As of December 31, 2002, no retained earnings as determined under Austrian accounting rules were available for potential distribution.

(21) REVENUES

Year ended December 31,	2002	2001	2000
Revenues from services	2,931,892	2,555,596	2,700,521
Revenues from sales of merchandise	186,172	104,064	113,876
Total	**3,118,064**	**2,659,660**	**2,814,397**

(22) OTHER OPERATING EXPENSES

Year ended December 31,	2002	2001	2000
Interconnection	361,608	562,736	655,013
Repairs	167,496	137,345	133,346
Services received	186,516	98,653	72,491
Advertising and marketing	153,737	75,368	73,920
Rental expenses	67,666	52,130	52,299
Commission expenses	25,347	4,531	4,072
Bad debt expenses	39,184	15,069	26,483
Legal and other consulting	54,368	55,304	59,058
Charges from related parties	32,980	35,062	40,433
Travel expenses	23,363	24,676	35,644
Other taxes	8,665	5,242	8,411
Energy	21,285	21,752	21,835
Training expenses	11,773	7,131	11,859
Other	32,651	19,911	29,054
Total	**1,186,639**	**1,114,910**	**1,223,918**

(23) OTHER, net

Year ended December 31,	2002	2001	2000
Foreign exchange losses	(216,261)	(63,632)	(89,430)
Foreign exchange gains	211,422	56,474	80,474
Loss from retirement of long-lived assets	0	(39,020)	(35,161)
Other	6,721	2,173	5,921
Total	**1,882**	**(44,005)**	**(38,196)**

In accordance with SFAS No. 144, as amended, the net loss from retirement of long-lived assets is presented in 2002 in operating income.

(24) EXTRAORDINARY ITEMS

In 2000, the Company recorded an extraordinary loss of EUR 3,453, net of tax of EUR 1,779, representing management's commitment to contribute EUR 5,232 to the Austrian fund for forced laborers. This fund was established by the Parliament of the Federal Republic of Austria and representatives of Austrian companies in response to claims filed by forced laborers and their descendants as a result of activity between 1938 and 1945. In April 2001, the Company paid EUR 5,232 to the Austrian fund for forced labor victims.

(all amounts in EUR '000s)

(25) COMMITMENTS AND CONTINGENCIES

In the normal course of business the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2002. 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.

The Company is aware that other telecommunication companies have recently recorded impairment charges related to certain investments in UMTS technology. The Company believes UMTS remains technologically viable and intends to continue supporting the development of UMTS technology. Further, the Company believes that future cash flows generated by UMTS will be sufficient to recover the carrying amount of its investment. The Company's total investment in the Austrian UMTS license and technical equipment as of December 31, 2002 is EUR 226,974 including capitalized interest of EUR 15,422.

At December 31, 2002, the Company has a carrying value of EUR 7,261 in assets related to its right to use telephone lines owned by Global Crossing. Though Global Crossing is under bankruptcy protection, the Company continues to utilize the leased lines with uninterrupted service. Therefore no impairment has been taken as of December 31, 2002.

(26) CASH FLOW STATEMENT

Following is a summary of supplemental cash flow information:

Year ended December 31,	2002	2001	2000
Cash paid for			
Interest	173,940	180,436	190,278
Income taxes	10,558	10,235	0
Cash received for			
Interest	11,122	18,176	30,882
Tax refunds	21	91,255	0
Non cash investing and financing			
Dividends	28,294	267,505	0
Cross border leasing	0	86,315	0

(27) SEGMENT REPORTING

The Company's results are segmented according to the way the business is managed: Fixed line services, mobile communications, data communications, internet and other. In connection with the corporate restructuring program set forth in late 2000, the existing segments reflect certain managerial changes since the publication of our 2000 annual results. The changes are as follows:

Beginning in 2001, management started evaluating segment performance based on operating income before depreciation and amortization and idle workforce ("EBITDA"). As net losses on the disposal of long-lived assets were reclassified to operating income in 2002 in accordance with SFAS No. 144, as amended. EBITDA is further adjusted in the segment reporting to exclude such amounts.

Costs related to the idle workforce are not controlled by segment heads but are the responsibility of corporate management, and have not been allocated to any segment.

All comparative figures for 2000 have been reclassified for the changes in 2001. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (note (1)).

Fixed line services include access fees, domestic long distance services including internet, local and fixed line to mobile calls, international traffic, voice value added services, interconnection, call center services, and public payphone services. The personnel costs of the civil servants not operatively working were excluded from the fixed line segment as well as the costs for the golden handshakes and are reported separately as corporate.

(all amounts in EUR '000s)

Mobile communication services include digital mobile communications services including value-added services like text and multimedia messaging, m-commerce and information services. Prepaid services are also offered.

The mobile communication segment comprises 100% of the financial position and result of operations of mobilkom austria. As discussed in note (1), prior to June 28, 2002 mobilkom austria was accounted for as an equity method investee due to certain substantial participation rights of the minority shareholder, Telecom Italia. Despite such participating rights the day to day management of mobilkom has been, and remains the responsibility of the segments heads. Accordingly mobilkom austria is presented as a segment.

Data communication services include domestic and international leased lines, switched data services, corporate network services and additional international data service. In the years reported, the data communications segment received cash discounts from the fixed line segment for the usage of datalines. Due to a change in cost allocation strategy, these cash discounts were reduced in 2001 and 2002, compared to prior year, which effected EBIT and EBITDA of the data communication segment.

The internet includes access, portals and advertising, e-business and application service provision. The internet business is operated in Austria and the Czech Republic.

Other includes primarily the treasury activities of the Company.

	Fixed line services	Mobile communi-cations	Data communi-cations	Internet	Other	Segment totals
Year ended December 31, 2002						
External revenues	1,851,257	1,819,219	269,709	66,130	0	4,006,315
Intersegmental revenues	205,992	90,132	60,298	53,494	0	409,916
Total revenues	2,057,249	1,909,351	330,007	119,624	0	4,416,231
EBITDA	813,168	660,863	46,552	(13,409)	(70)	1,507,104
Depreciation and amortization	834,553	268,757	36,009	52,280	0	1,191,599
Income/loss from retirement of equipment	(5,051)	(11,376)	(1,894)	(720)	0	(19,041)
EBIT	(26,436)	380,730	8,649	(66,409)	(70)	296,464
Interest income	77,307	23,466	370	93	34,911	136,147
Interest expense	217,404	53,150	423	3,104	34,415	308,496
Income tax expense (benefit)	12,922	18,177	1,305	(5,712)	145	26,837
Extraordinary losses	0	0	0	0	0	0
Net income (loss)	(131,162)	312,877	9,831	(64,480)	281	127,347
Total assets	6,236,558	2,832,149	168,461	94,903	1,007,021	10,339,092
Additions to property, plant and equipment	307,531	321,656	19,888	13,291	0	662,366

(all amounts in EUR '000s)

	Fixed line services	Mobile communi-cations	Data communi-cations	Internet	Other	Segment totals
Year ended December 31, 2001						
External revenues	2,147,083	1,506,026	247,351	42,995	0	3,943,455
Intersegmental revenues	309,657	207,153	82,815	56,493	292	656,410
Total revenues	2,456,740	1,713,179	330,166	99,488	292	4,599,865
EBITDA	870,999	571,307	54,690	(20,143)	(73)	1,476,780
Depreciation and amortization	835,986	267,784	35,340	129,822	0	1,268,932
EBIT	35,013	303,523	19,350	(149,965)	(73)	207,848
Interest income	65,727	20,518	372	168	30,090	116,875
Interest expense	222,171	49,910	758	1,816	29,915	304,570
Income tax expense (benefit)	(185,275)	133,645	(5,429)	(4,346)	37	(61,368)
Extraordinary losses	0	0	0	0	0	0
Net income (loss)	(70,546)	131,772	20,934	(147,012)	63	(64,789)
Total assets	7,106,580	2,214,101	195,022	140,022	520,062	10,175,787
Additions to property, plant and equipment	397,516	363,177	31,493	20,022	0	812,208

	Fixed line services	Mobile communi-cations	Data communi-cations	Internet	Other	Segment totals
Year ended December 31, 2000						
External revenues	2,375,649	1,280,043	209,078	32,419	0	3,897,189
Intersegmental revenues	279,199	221,005	103,755	28,662	0	632,621
Total revenues	2,654,848	1,501,048	312,833	61,081	0	4,529,810
EBITDA	573,506	436,548	57,439	(5,427)	(133)	1,061,933
Depreciation and amortization	856,700	174,442	33,011	1,851	0	1,066,004
EBIT	(283,194)	262,106	24,428	(7,278)	(133)	(4,071)
Interest income	68,223	18,201	692	368	24,813	112,297
Interest expense	229,999	35,296	422	836	24,201	290,754
Income tax expense (benefit)	(176,100)	76,034	(454)	(2,463)	188	(102,795)
Extraordinary losses	3,118	1,343	336	0	0	4,797
Net income (loss)	(208,987)	167,456	31,136	(4,645)	727	(14,313)
Total assets	7,268,585	1,921,469	204,620	264,786	417,489	10,076,949
Additions to property, plant and equipment	545,454	323,074	34,560	14,605	0	917,693

(all amounts in EUR '000s)

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

Year ended December 31,	**2002**	**2001**	**2000**
EBITDA – segment totals	1.507.104	1.476.782	1.061.933
Idle workforce	(29,389)	(51,952)	(8,881)
Depreciation and amortization	(1,058,183)	(1,049,201)	(915,889)
Income/loss from retirement of equipment	(18,715)	0	0
Interest income	88,191	82,683	78,552
Interest expense	(244,628)	(240,986)	(239,914)
EBITDA – mobilkom austria prior to acquisition	(351,409)	(571,307)	(436,548)
Equity in earnings of affiliates – mobilkom prior to acquisition	142,906	197,941	125,265
Equity in earnings of affiliates – other	(2,362)	(2,491)	(88,951)
Other	10,296	(41,537)	(36,582)
Income (loss) before taxes, minority interests and extraordinary items	**43,811**	**(200,068)**	**(461,015)**
Income tax (expense) benefit	(26,112)	94,913	178,829
Extraordinary	0	0	(3,453)
Minority interests	(4,910)	530	75
Net income	**12,789**	**(104,625)**	**(285,564)**

The segment totals reconcile to the consolidated financial statements as a result of eliminating transactions and balances between consolidated segments and the results of operations by mobilkom austria prior to June 28, 2002 (note (2)). Therefore, the mobile communication column in the reconciliation for the period ended December 31, 2002 represents the results of operations of mobilkom austria for the period from January 1 through June 28, 2002, while the same column in the reconciliation for the period ended December 31, 2001 represents the results of operations of mobilkom austria for the period from January 1 through December 31, 2001. The following tables reconcile the segment totals to the accompanying consolidated financial statements:

Year ended December 31, 2002	**Segment totals**	**Eliminations**	**Mobile communications**	**Consolidated**
Total revenues	4,416,231	(391,217)	(906,950)	3,118,064
Depreciation and amortization	1,191,600	(197)	(133,220)	1,058,183
Interest income	136,147	(37,051)	(10,905)	88,191
Interest expense	308,496	(37,058)	(26,810)	244,628
Income tax (expense) benefit	26,837	1,966	(2,691)	26,112
Net income (loss)	127,347	75,986	(190,544)	12,789
Total assets	10,339,092	(1,804,754)	0	8,534,338
Additions to property, plant and equipment	662,366	(2,300)	(129,100)	530,966

(all amounts in EUR '000s)

Year ended December 31, 2001	Segment totals	Eliminations	Mobile communications	Consolidated
Total revenues	4,599,865	(227,026)	(1,713,179)	2,659,660
Depreciation and amortization	1,268,932	48,053	(267,784)	1,049,201
Interest income	116,875	(13,674)	(20,518)	82,683
Interest expense	304,570	(13,674)	(49,910)	240,986
Income tax (expense) benefit	(61,368)	100,100	(133,645)	(94,913)
Net income (loss)	(64,789)	91,936	(131,772)	(104,625)
Total assets	10,175,787	(234,364)	(2,214,101)	7,727,322
Additions to property, plant and equipment	812,208	0	(363,177)	449,031

Year ended December 31, 2000	Segment totals	Eliminations	Mobile communications	Consolidated
Total revenues	4,529,810	(214,365)	(1,501,048)	2,814,397
Depreciation and amortization	1,066,004	24,327	(174,442)	915,889
Interest income	112,297	(15,544)	(18,201)	78,552
Interest expense	290,754	(15,544)	(35,296)	239,914
Income tax (expense) benefit	(102,795)	0	(76,034)	(178,829)
Net income (loss)	(14,313)	(103,795)	(167,456)	(285,564)
Total assets	10,076,949	(92,793)	(1,921,469)	8,062,687
Additions to property, plant and equipment	917,693	0	(323,074)	594,619

In 2002, 2001 and 2000, more than 90%, 94% and 97%, respectively, of the revenues generated by the reportable segments relate to operations in Austria and essentially all of the long-lived assets were located in Austria.

(28) SUBSEQUENT EVENTS

As of January 1, 2003 management reorganized its operations into two distinct business lines: wireline, which will include fixed line, data communication and internet services, and wireless. Wireline will focus on wholesale and retail customers. Wholesale customers including telecommunication operators and service providers, will be offered network-based services, while retail customers, including business and residential end-users will be offered voice telephony, data communications, internet and other services. Wireless, operated by our wholly-owned mobile communication segment, offers a full range of digital mobile communications services to business and residential customers.

On January 7, 2003 mobilkom austria signed a partnership agreement with Vodafone to co-operate in the Austrian, Croatian and Slovenian market. The co-operation will extend the range of existing products and services of mobilkom and improve the product portfolio in particular for business customers. Both companies will collaborate in the field of roaming, purchasing, development of new products and services, technical platforms, global account management and joint marketing initiatives. With Eurocall, the first joint product to be launched in the first quarter 2003, mobilkom austria will offer favorable and transparent roaming prices to users in 26 European countries and will be receiving visitor roaming traffic as the preferred mobile operator for Vodafone customers from 26 countries.

As of January 30, 2003, mobilkom austria has acquired additional 9% of VIPnet for a total purchase price of EUR 20,920, which brings total holding to 80%.

In January 2003, the Company sold 500,000 American call options for an aggregate price of EUR 880. The underlying share of the American call options is the share of Telekom Austria AG.

In January and February 2003, credit lines totaling EUR 300,000 were made available to the Company by various banks. They expire between November 2003 and January 2004.

(all amounts in EUR '000s)

Independent Auditor's Report

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheet of Telekom Austria Aktiengesellschaft as of December 31, 2002, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended December 31, 2002. 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 audit. We did not audit the financial statements of mobilkom austria AG & Co KG and mobilkom austria AG and subsidiaries (collectively "mobilkom"), wholly-owned consolidated subsidiaries (74.999 percent owned unconsolidated subsidiaries from January 1, 2002 to June 28, 2002) whose total assets as of December 31, 2002 constitute 32.2 percent of total consolidated assets and whose revenues for the period from June 28, 2002 to December 31, 2002 constitute 30.7 percent of total consolidated revenues. The Company's equity in earnings of mobilkom for the period from January 1, 2002 to June 28, 2002 was € 142,905,720.77. The financial statements of mobilkom were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for mobilkom, is based solely on the report of the other auditors.

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

In our opinion, based on our audit 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 as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Vienna, March 12, 2003

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Independent Auditor's Report

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

We have audited the combined consolidated balance sheet 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, 2002, and the related combined consolidated statements of operations, cash flows and changes in stockholders' equity for the year then ended (not presented separately herein). These combined consolidated financial statements are the responsibility of mobilkom's management. Our responsibility is to express an opinion on these combined consolidated financial statements based on our audit.

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

In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the financial position of mobilkom as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Vienna, March 12, 2003

Grant Thornton
Wirtschaftsprüfungs-und Steuerberatungs-GmbH

Independent Auditors' Report

The Supervisory Board and Stockholders
Telekom Austria Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Telekom Austria Aktiengesellschaft ("Telekom Austria") and subsidiaries as of December 31, 2001, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for each of the years in the two year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Vienna, March 20, 2002

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

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

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

(All amounts in EUR '000s omitted)

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

The consolidated financial statements as of December 31, 2002 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.

Disclosures required to harmonize the consolidated financial statements with EC directives (sect. 245a subsect. 1 para 1 HGB)

Marketable securities

In accordance with U.S. GAAP for the valuation of securities, all securities were valued at fair value with the exception of securities that are held to maturity, even in cases where fair value exceeds cost. Gains or losses arising from changes in fair value are not recognized in earnings but are reported in a separate component of stockholders' equity. The differences between acquisition cost and fair value are shown in note (4) of the notes to the consolidated financial statements.

Contractual termination benefits

In the consolidated financial statements prepared in accordance with U.S. GAAP, a contractual termination benefit must be recognized when an employee has accepted the company's offer and the amount of the obligation can be reasonably estimated. The obligation is recorded at the present value of the expected future payment. This method contradicts the Fourth EC Directive in most cases, however.

According to the Fourth Directive an obligation must be recognized as soon as occurrence is likely and the amount can be reasonably estimated, independent of acceptance by the employee. As of December 31, 2002 and December 31, 2001 the differences between values reported in the consolidated financial statements prepared according to U.S. GAAP and values in the individual financial statements prepared according to HGB were EUR 8,248 and EUR 33,723, respectively. These figures also include the difference between present value and the undiscounted amount.

Accruals for severance payments, service awards and pensions

In the consolidated financial statements prepared according to U.S. GAAP, the accruals for severance payments and pensions are calculated according to the projected unit credit method. According to the prevailing view, the projected unit credit method does not contradict the Fourth EC Directive. Application of the corridor method does not agree with the requirements of this directive, however. The effects of using the corridor method for severance payments and pension accruals (unrecognized net actuarial gains or losses) are shown in note (15) of the notes to the consolidated financial statements.

Goodwill and intangible assets with indefinite useful lives

U.S. GAAP do not allow the amortization of goodwill and intangible assets with indefinite useful lives, but require these assets be tested for impairment at least once each year. This rule does not comply with the provisions of the Fourth and Seventh EC Directives. The resulting variance is a shortfall of EUR 88,636 in amortization.

Classification of the consolidated financial statements

The SEC requires a different classification for the consolidated financial statements than the Fourth and Seventh EC Directives. Classification pursuant to the provisions of the Fourth and Seventh EC Directives results in the following balance sheet in condensed form (values according to U.S. GAAP):

	December31, 2002	December31, 2001
ASSETS		
A. Fixed assets		
I. Intangible assets	1,460,029	128,453
II. Property, plant and equipment	4,857,250	4,543,954
III. Financial assets	171,324	673,663
	6,488,603	5,346,070
B. Other assets		
I. Inventories	91,261	55,786
II. Accounts receivable and other assets	1,641,804	1,937,412
III. Short-term investments	5,327	8,523
IV. Cash in hand, bank balances	27,337	26,393
	1,765,729	2,028,114
C. Prepaid expenses	280,006	353,138
TOTAL ASSETS	**8,534,338**	**7,727,322**
LIABILITIES AND STOCKHOLDERS' EQUITY		
A. Stockholders' equity		
I. Common stock (500,000,000 zero par value shares)	1,090,500	1,090,500
II. Additional paid in capital	452,498	451,677
III. Retained earnings	969,626	956,837
IV. Accumulated other comprehensive income (loss)	-3,084	1,380
	2,509,540	2,500,394
B. Accrued liabilities	489,319	509,931
C. Liabilities	5,405,516	4,661,731
D. Deferred income	129,963	55,266
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**8,534,338**	**7,727,322**

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

In part, 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 require the capitalization of development costs for internal-use software. HGB does not permit the capitalization of such assets.

2. Deferred taxes

(all amounts in EUR '000s) Telekom Austria 2002 47

U.S. GAAP require the capitalization of deferred taxes arising from temporary differences between the carrying amounts of an asset or liability in the U.S. GAAP balance sheet and its related tax base, as well as the capitalization of expected benefits from tax loss carry-forwards. 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 carry-forwards is prohibited by HGB.

3. 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.

4. 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 acceptance by the employee. According to the prevailing view, HGB does not allow the valuation of such obligations at present value.

5. 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 payment 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.

6. Valuation 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 on earnings. According to HGB, marketable securities must be reported at cost less any extraordinary write-downs 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.

7. Asset backed securitization

In accordance with U.S. GAAP, trade receivables that are sold to a 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). In such cases, economic ownership remains with the selling company, which must continue to record these sold receivables on its balance sheet.

8 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 this reason, HGB prescribes the lower of cost or market principle for the translation of monetary items.

9. Derivative financial instruments

According to U.S. GAAP, derivative financial instruments are 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 host contract may form a single valuation unit, changes in the value of the derivative and hedged item are not recognized.

Acquisition/manufacturing costs	Jan. 1, 2002	Additions	Additions from initial consolida-tion/merger	Disposal	Reclassifi-cation	Currency adjustments	Dec. 31, 2002
Goodwill[1]	63,105	8,725	598,943	(39,927)	-	(3,119)	627,727
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets[1]	107,660	54,480	1,035,838	(13,254)	13,940	(1,351)	1,197,313
Other intangible assets	28,955	2,046	5,508	(299)	1,839	(97)	37,952
Intangible assets	**199,720**	**65,251**	**1,640,289**	**(53,480)**	**15,779**	**(4,567)**	**1,862,992**
Land, buildings and leasehold improvements[2]	719,838	24,803	42,163	(66,690)	(4,390)	(252)	715,472
Communication networks and other equipment	7,819,869	337,076	1,269,269	(189,085)	125,881	(4,872)	9,358,138
Capital leases	6,779	254	6,715	-	2,444	15	16,207
Construction in progress	102,143	133,359	140,139	(312)	(139,714)	(352)	235,263
Property, plant and equipment	**8,648,629**	**495,492**	**1,458,286**	**(256,087)**	**(15,779)**	**(5,461)**	**10,325,080**
Investments in affiliates[3]	510,682	145,860	4,938	(648,376)	-	-	13,104
Other financial assets	162,981	10,495	9,233	(20,027)	-	-	162,682
Financial assets	**673,663**	**156,355**	**14,171**	**(668,403)**	**-**	**-**	**175,786**
Total	**9,522,012**	**717,098**	**3,112,746**	**(977,970)**	**-**	**(10,028)**	**12,363,858**

1) the difference between 1/1/2002 and 12/31/2001 is due to minor reclassifications

2) value of land thereof 64,031 62,462

3) Equity valuation of investment within consolidated accounting

Accumulated amortization and depreciation	Jan. 1, 2002	Additions	Additions from initial consolida-tion/merger	Disposal	Reclassifi-cation	Currency adjustments	Dec. 31, 2002
Goodwill[1]	2,861	40,893	34,691	(39,927)	-	(1,518)	37,000
Concessions, industrial property and similar rights and assets, and in such rights and assets[1]	58,988	66,466	239,217	(12,974)	(1,270)	(343)	350,084
Other intangible assets[1]	9,418	3,567	2,157	(296)	1,073	(40)	15,879
Intangible assets	**71,267**	**110,926**	**276,065**	**(53,197)**	**(197)**	**(1,901)**	**402,963**
Land, buildings and leasehold improvements	224,836	39,406	8,162	(26,471)	(7,002)	(49)	238,882
Communication networks and other equipment	3,874,116	905,451	596,786	(162,121)	6,955	(1,952)	5,219,235
Capital leases	4,913	2,342	1,343	-	244	1	8,843
Construction in progress	810	58	0	-	-	2	870
Property, plant and eqipment	**4,104,675**	**947,257**	**606,291**	**(188,592)**	**197**	**(1,998)**	**5,467,830**
Investments in affiliates	0	4,462	0	-	-	-	4,462
Other financial assets	0	0	0	-	-	-	0
Financial assets	**0**	**4,462**	**0**	**-**	**-**	**-**	**4,462**
Total	**4,175,942**	**1,062,645**	**882,356**	**(241,789)**	**-**	**(3,899)**	**5,875,255**

1) the difference between 1/1/2002 and 12/31/2001 is due to minor reclassifications

(all amounts in EUR '000s)

Carrying amount	Jan. 1, 2002	Additions	Additions from initial consolida-tion/merger	Disposal	Reclassi-fication	Amor-tization & Depre-ciation	Currency adjust-ments	Dec. 31, 2002
Goodwill[1]	60,244	8,725	564,252	-	-	(40,893)	(1,601)	590,727
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets[1]	48,672	54,480	796,621	(280)	15,210	(66,466)	(1,008)	847,229
Other intangible assets [1]	19,537	2,046	3,351	(3)	766	(3,567)	(57)	22,073
Intangible assets	**128,453**	**65,251**	**1,364,224**	**(283)**	**15,976**	**(110,926)**	**(2,666)**	**1,460,029**
Land, buildings and leasehold improvements	495,002	24,803	34,001	(40,219)	2,612	(39,406)	(203)	476,590
Communication networks and other equipment	3,945,753	337,076	672,483	(26,964)	118,926	(905,451)	(2,920)	4,138,903
Capital leases	1,866	254	5,372	-	2,200	(2,342)	14	7,364
Construction in progress	101,333	133,359	140,139	(312)	(139,714)	(58)	(354)	234,393
Property, plant and eqipment	**4,543,954**	**495,492**	**851,995**	**(67,495)**	**(15,976)**	**(947,257)**	**(3,463)**	**4,857,250**
Investments in affiliates	510,682	145,860	4,938	(648,376)	-	(4,462)	-	8,642
Other financial assets	162,981	10,495	9,233	(20,027)	-	-	-	162,682
Financial assets	**673,663**	**156,355**	**14,171**	**(668,403)**	**-**	**(4,462)**	**-**	**171,324**
Total	**5,346,070**	**717,098**	**2,230,390**	**(736,181)**	**-**	**(1,062,645)**	**(6,129)**	**6,488,603**

1) the difference between 1/1/2002 and 12/31/2001 is due to minor reclassifications

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, 2002 %
Fully consolidated subsidiaries:	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Beteiligungs- und Entwicklungs GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Building Systems GmbH, Vienna	100.00
Jet2Web Net Internet Betriebs GmbH, Vienna	100.00
mobilkom austria AG & Co KG, Vienna	100.00
mobilkom austria AG, Vienna	100.00
Mobilkom International GmbH, Vienna	100.00
Mobilkom International GmbH & Co KEG, Vienna	100.00
mobilkom [liechtenstein] AG, Vaduz	100.00
Jet2Web Magyarorszag Kft, Budapest	100.00
Jet2Web Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
Czech On Line a,s,, Prague	100.00
TELEIMPULS, druzba za telekomunikacije d.o.o., Ljubljana	100.00
A1 Bank AG, Vienna	100.00
Jet2Web Bizmarket e-Business Services GmbH, Vienna	85.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	75.00
VIPnet d.o.o., Zagreb	71.00
IVS Interactive Video Services GmbH, Vienna	66.67
World-Direct eBusiness Solutions GmbH, Vienna	26.00
medienprojekte + service GmbH, Klosterneuburg	[1]
Affiliated companies consolidated at equity:	
paybox österreich AG, Munich	48.98
Herold Business Data AG, Mödling	26.00
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10
Subsidiaries accounted for at cost (due to minor significance):	
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft m.b.H., Vienna	100.00

1) This company is fully consolidated even though no shares are owned.

(all amounts in EUR ‘000s)

Employees

The average number of employees during the business year 2002 was 15,714 (2001: 17,549).

Expenses for Severance Payments and Pensions:	Pensions 2002	Pensions 2001	Severance 2002	Severance 2001
Board members	92	72	38	111
Other employees	7,586	5,362	30,388	30,210
Total	**7,678**	**5,434**	**30,426**	**30,321**

Remuneration paid to the Managing Board and Supervisory Board

The remuneration expenses for the members of the Managing Board amounted to EUR 1,822, of which were bonuses of EUR 598 in 2002. The bonuses will only be paid out in case of a 100% achievement of performance goals. In 2001 the amount of remuneration was EUR 1,582 (thereof bonuses of: EUR 325). Fees paid to the members of the Supervisory Board totaled EUR 113 in 2002 and EUR 135 in 2001.

Vienna, March 12, 2003

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)

Confirmation According to Para 245a Austrian Commercial Code

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 12, 2003

KPMG Alpen-Treuhand GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner
Certified Public Accountant

Mag. Helmut Kerschbaumer
Certified Public Accountant