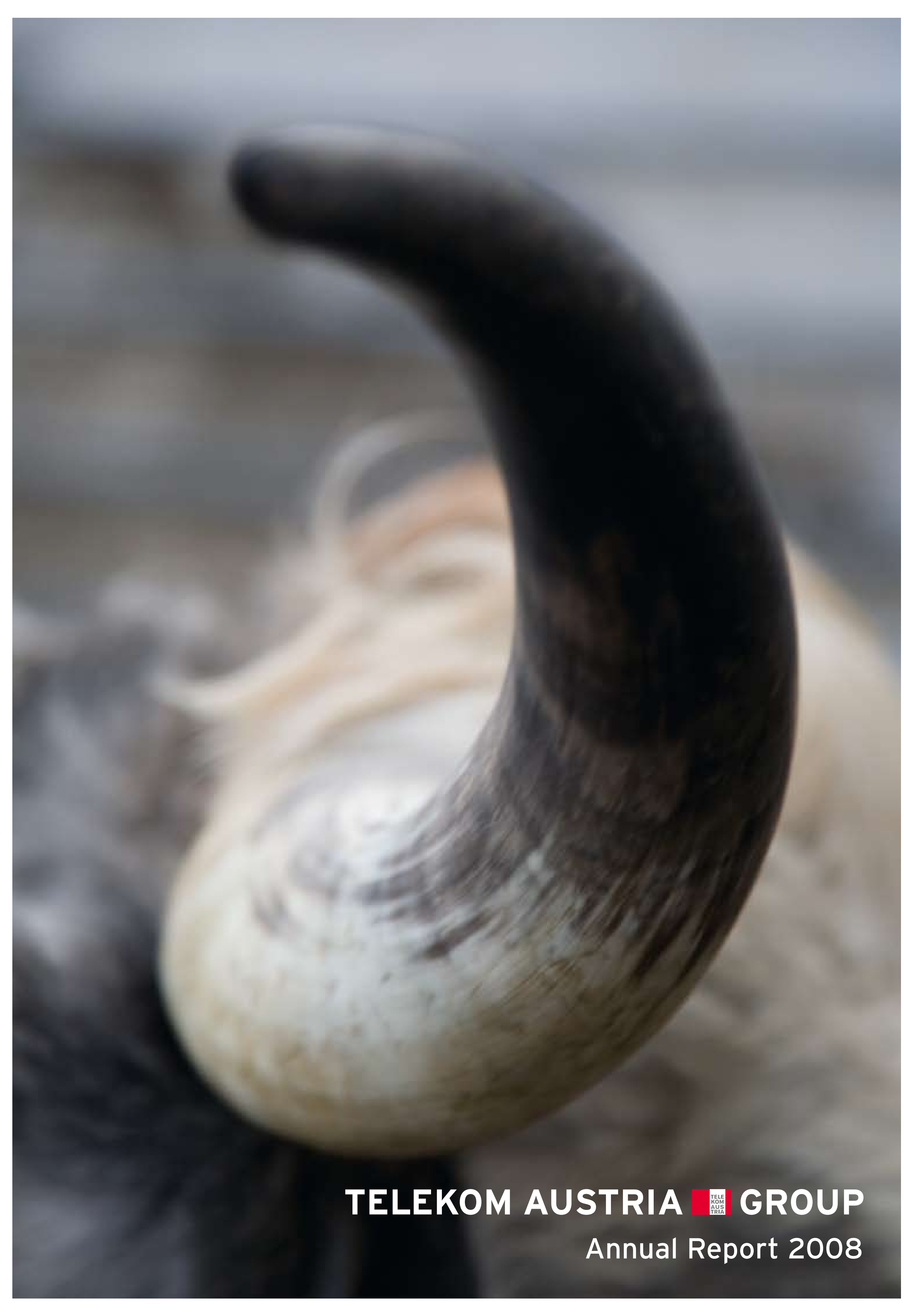

TELEKOM AUSTRIA GROUP
TELE KOM AUS TRIA
Annual Report 2008

Let's take the bull by the horns …

… and face up to the challenges of the markets we operate in. Against the backdrop of strong headwinds from the competitive and global economic environment, we are determined to consistently pursue our strategic goals and safeguard the long-term profitability of the Telekom Austria Group.

We will therefore firmly hold to our current strategy of defending our leading position on the Austrian fixed net and mobile communication markets, whilst leveraging the potential of our growth markets.

We are thus going to take the bull by the horns and safeguard the solid position of the Telekom Austria Group and its successful operations in eight countries of Central, Eastern and Southeastern Europe.

Key Figures of the Telekom Austria Group

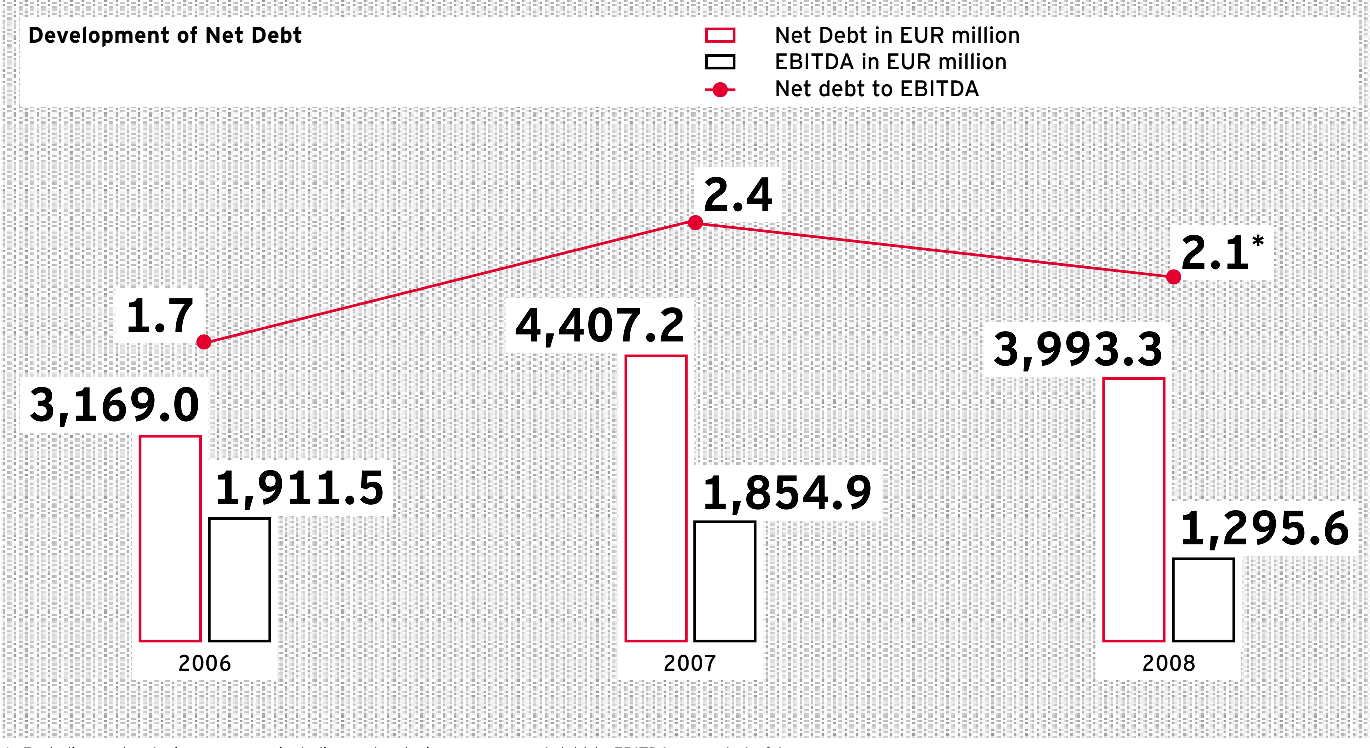
Key Operational Data

	Dec. 31, 2008	Change in %	Dec. 31, 2007	Dec. 31, 2006
Fixed Net				
Fixed access lines (in '000)	2,336.8	-4.0	2,434.4	2,642.6
of which wholesale broadband lines	66.8	-21.9	85.5	122.3
of which retail broadband lines	818.9	23.1	665.2	571.3
Total broadband lines	**885.7**	**18.0**	**750.7**	**693.6**
Mobile Communication				
Customers (in '000)				
in Austria	4,496.3	13.6	3,959.3	3,630.5
in Bulgaria	5,396.2	5.8	5,098.6	4,267.9
in Belarus	3,697.9	20.9	3,058.7	–
in Croatia	2,486.6	14.1	2,179.6	1,912.3
in Slovenia	570.6	14.7	497.3	420.9
in the Republic of Serbia	907.9	78.4	508.9	–
in the Republic of Macedonia	242.0	71.4	141.2	–
in Liechtenstein	5.9	9.3	5.4	4.8
Total	**17,803.4**	**15.2**	**15,449.0**	**10,236.4**
Employees – at year-end[1]	16,954	-3.8	17,628	15,428

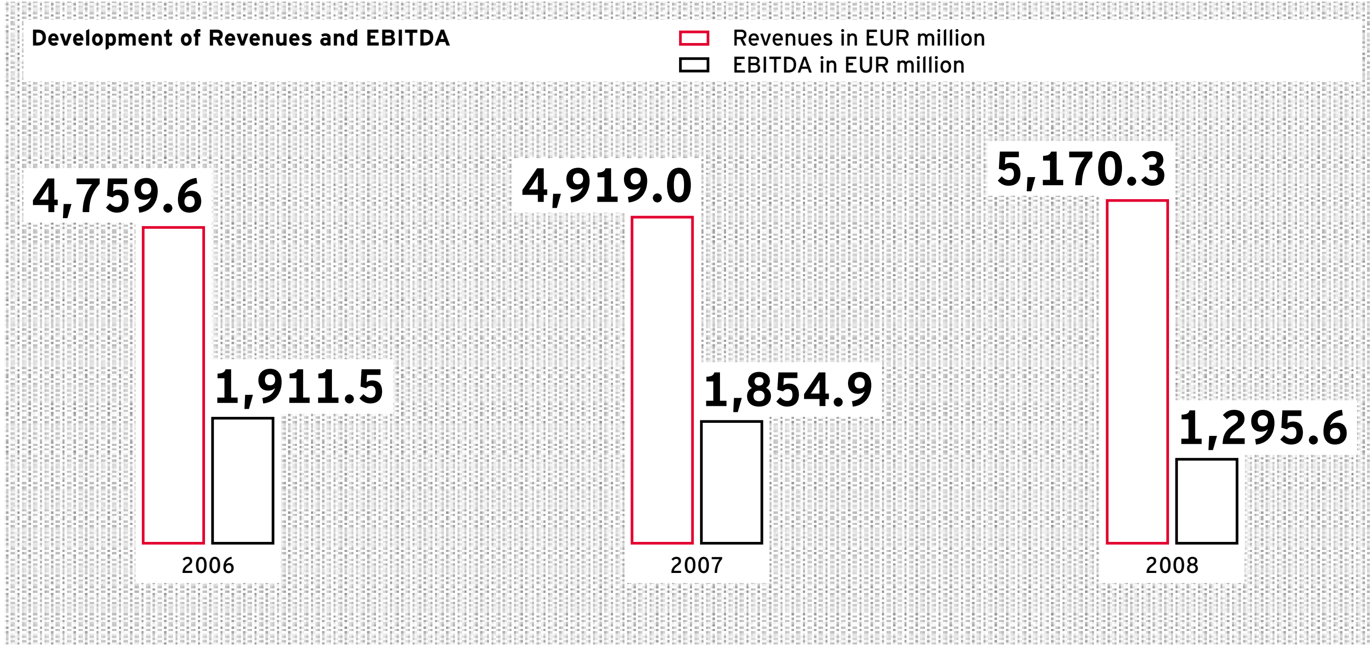
Key Financial Data (in EUR million)

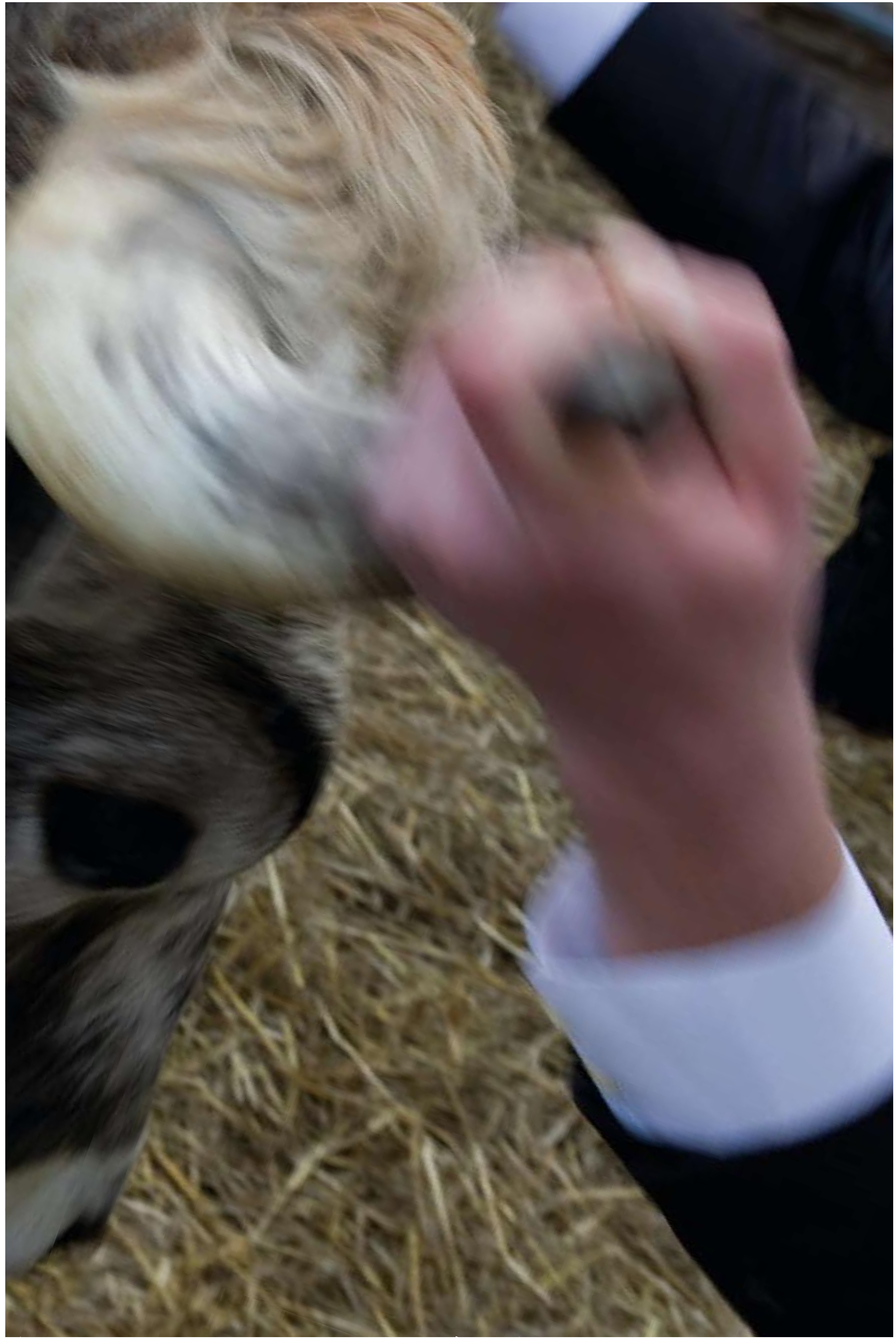
	Dec. 31, 2008	Change in %	Dec. 31, 2007	Dec. 31, 2006
Telekom Austria Group[2) 3)]				
Operating revenues	5,170.3	5.1	4,919.0	4,759.6
of which generated abroad in %	44.6		35.9	31.9
EBITDA	1,295.6	-30.2	1,854.9	1,911.5
of which generated abroad in %	55.9		31.0	28.3
Operating income	135.5	-82.2	761.4	777.1
Net income/loss	-48.8	-109.9	492.5	561.8
Free cash flow[4]	756.2	-22.5	975.8	913.2
Cash flow generated from operations	1,563.8	-10.2	1,742.0	1,589.9
Capital expenditures[5]	807.6	-5.1	851.3	996.7
Net debt[5]	3,993.3	-9.4	4,407.2	3,169.0
Equity	2,155.6	-16.0	2,565.3	2,823.5
Equity ratio in %	24.0	-15.8	28.5	37.3
EBITDA margin in %	25.1		37.7	40.1
Net debt to EBITDA[5]	3.1x[6]		2.4x	1.7x
Return on Invested Capital – ROIC in %[5]	1.2	-86.0	8.6	10.0
Return on Equity – ROE in %[5]	-2.1	–	18.3	19.6
Key Stock Exchange Data				
Performance per share in EUR	-0.11	–	1.09	1.19
Cash Flow per share in EUR	1.71	-20.8	2.16	1.93
Market capitalization as of Dec. 31, in EUR billion	4.7	-46.6	8.8	10.2
Stock price as of Dec. 31 in EUR	10.30	-45.9	19.03	20.30
Stock price – high in EUR	19.50	-9.5	21.55	21.09
Stock price – low in EUR	8.10	-52.1	16.90	16.66
Dividend per dividend-bearing share in EUR[7]	0.75	0.0	0.75	0.75

1) Full-time employees
2) The consolidated financial figures 2008 include restructuring expenses of EUR 632.1 million.
3) The consolidated financial figures for 2008 include the financial results of Velcom. The consolidated financial figures for 2007 include the financial results of Velcom for the period Oct. 3, 2007 to Dec. 31, 2007. The financial results of Velcom are not included in the results for 2006.
4) Defined as cash flow after interest rates, taxes, changes in working capital and capital expenditures in existing business
5) For definitions see glossary
6) Net debt to EBITDA excluding restructuring expenses amounts to 2.1x
7) According to proposal of the Annual General Meeting



* Excluding restructuring expenses, including restructuring expenses net debt to EBITDA amounts to 3.1x





Restructuring program launched

Total outlay of EUR 632.1 million to safeguard competitiveness in the Fixed Net segment

Between 2003 and 2008 the Fixed Net segment saw the number of fixed access lines decline from 3.0 million to 2.3 million. We are facing up to the resulting challenges and have initiated a comprehensive restructuring program to adjust capacities and costs to current business volumes with a view to safeguarding future earnings power.

Growth trend continued

17.8 million customers in the Mobile Communication segment

In 2008 we increased our customer base in all eight countries of the Mobile Communication segment, achieving a total growth of 15.2% to 17.8 million. Our focus on qualitative growth is also reflected in an improvement in the segment's EBITDA margin of 0.7 percentage points to 39.5% in the year under review. To safeguard this earnings power, we concentrate on maintaining our innovation and service leadership, increasing our contract customer base and further expanding our data product portfolio.

Fixed Net segment's attractiveness enhanced

885,700 fixed access broadband lines – an increase of 18%

We are not standing idly by as mobile communications continue to substitute fixed net telephony. Instead we are taking the bull by the horns and countering this trend with attractive cross-segment product bundles and innovative broadband offerings such as aonTV. In 2008 we reduced the decline in the number of fixed access lines by more than half compared to the previous year; broadband already accounts for more than one third of all access lines.

Core markets stabilized

Total revenues of EUR 5,170.3 million, roughly 70% of which in euro

Our operational scope encompasses both stable core markets and dynamic growth markets. Roughly 70% of total revenues and two thirds of EBITDA (excluding restructuring expenses) are generated in euro. We counter the foreign currency risk in certain markets in Eastern and Southeastern Europe with an adequate risk management policy.

Financial basis strengthened

Net debt cut by EUR 413.9 million

We have our finances under control: In 2008 the Telekom Austria Group generated free cash flow from operations of almost EUR 1.6 billion. In addition to this strong internal financial basis, external sources of financing were further diversified throughout 2008 and at the beginning of 2009 through the successful placement of a corporate bond. This will cover the contractual repayment requirements up to and beyond 2010.

Balanced shareholder remuneration

EUR 0.75 per share established as a minimum dividend floor

We are not relaxing our stable dividend policy. As this is our top priority for our allocation of capital we have defined a minimum floor of EUR 0.75 per share and a payout ratio of 65% of net income for 2009–2012. Surplus cash flow will be used for investments in growth projects or share buybacks – depending on which option can generate greater value.

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- Average board meeting attendance of 93% in 2008
- Disclosure of the remuneration of the individual members of the Management Board
- Stock option program for roughly 300 employees, individual investment as a prerequisite

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- Proposed minimum dividend floor of EUR 0.75 per share in 2008 and also of the period 2009-2012
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- 13.3 million Mobile Communication subscribers in Southeastern Europe
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- Revenue growth of 5.1% to EUR 5,170.3 million
- Restructuring expenses in Fixed Net segment totaling EUR 632.1 million
- Net debt/EBITDA (excluding restructuring expenses): 2.1x (2007: 2.4x)
- Reduction of headcount by 3.8% to 16,954 employees
- Outlook: stable revenue and EBITDA development in 2009, free cash flow 2009–2012: EUR 3.2 billion

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Hans Tschuden, Boris Nemsic and Hannes Ametsreiter

As of March 31, 2009 Boris Nemsic resigned from the position of Chairman of the Management Board of the Telekom Austria Group.
As of April 1, 2009 Hannes Ametsreiter assumed the position of Chairman of the Management Board of the Telekom Austria Group.

Introduction by the Management Board

Dear Shareholders,

We can either bemoan the challenging market and economic conditions or we can "take the bull by the horns". The illustrations in our 2008 Annual Report have been chosen to emphasize that the Telekom Austria Group is determined to take the bull by the horns. In this spirit we have resolutely faced up to the challenges presented by our markets and pursued our operational goals with both success and determination, while at the same time taking important steps to safeguard the future profitability of our Group.

In the Fixed Net segment the main strategic goal is to stabilize cash flow. In 2008 we cut the decline in fixed access lines by more than half compared to the previous year, and continued to develop new business areas such as aonTV, making significant progress toward meeting this goal. In the Mobile Communication segment we are safeguarding our core business and fully leveraging the growth potential of our international markets. We also succeeded in expanding our subscriber base by 15.2% to 17.8 million customers in the reporting year. Given the dynamics of our markets, this success is built on a multitude of initiatives and endeavors which, taken together, advance the value-oriented growth of your company.

The trend toward fixed-to-mobile substitution continued in the Fixed Net segment. More than 75% of voice minutes in Austria are already carried over mobile networks and in 2008 the Austrian fixed line market registered a 9.1% decline in voice minutes. In the Mobile Communication segment we are not only confronted with fierce competition and price pressure, we also have to compensate for the negative impacts of regulatory decisions, such as the EU decision on international roaming. We are tackling these challenges boldly, with the creativity that is required to generate added value for our customers through innovative products and services. In Austria we enjoyed great success in 2008 with product bundles comprising fixed net voice telephony, mobile communication, broadband internet, mobile broadband and TV. Thanks to these cross-segment products we reduced line loss by more than half from 8.4% in the previous year to 4.0%, and in the final quarter of 2008 we even registered growth for the first time in 12 years. The number of aonTV customers more than tripled to 63,800, and the number of fixed access broadband lines rose by 18.0% to 885,700. In the Mobile Communication segment we maintained our innovation and quality leadership, increasing customer numbers in eight countries. Even in Austria, one of the most competitive markets in Europe, we registered some 500,000 net additions. Our two subsidiaries in the Republic of Serbia and the Republic of Macedonia, which only launched commercial operations in 2007, are also developing successfully and have won 907,900 and 242,000 customers respectively.

In the 2008 financial year the Telekom Austria Group was able to increase operating revenues by 5.1% to EUR 5,170.3 million. The 4.4% decline in Fixed Net revenues to EUR 2,038.8 million was more than offset by a strong increase in the Mobile Communication segment of 11.7% to EUR 3,390.9 million.

The development of results was impacted by the comprehensive restructuring program for the Fixed Net segment presented in November 2008. Despite the extensive measures adopted in previous years, the resources in the Fixed Net segment are still not in line with the declining business volumes and thus erode the segment's efficiency and profitability. Two thirds of the approximately 8,500 employees in the Fixed Net segment have civil servant status and their contracts cannot be terminated. The restructuring program, which requires expenses totaling EUR 632.1 million, is directed toward 1,250 employees. We expect that a number of these employees will accept the social plan that was put forward. The remaining members of staff, who can no longer be employed within the company, will be permanently released from their duties, for which a non-cash restructuring provision of EUR 617.4 million was created pursuant to IFRS in 2008.

The restructuring program in the Fixed Net segment led to a negative EBITDA of EUR 21.3 million, and a 30.2% decline in Group EBITDA to EUR 1,295.6 million. Excluding these restructuring expenses Telekom Austria Group EBITDA rose by 3.9% to EUR 1,927.7 million. In the Mobile Communication segment EBITDA improved by 13.8% to EUR 1,340.6 million in 2008. The consolidation of Velcom, as well as higher contributions from Austria, Slovenia and Bulgaria, were more than able to compensate for start-up costs in the Republic of Serbia and the Republic of Macedonia. Due to an increase in depreciation, amortization and impairment charges of 6.1% to EUR 1,160.1 million and the expenses for the restructuring program, operating income of the Telekom Austria Group declined by 82.2% to EUR 135.5 million. As a result of the restructuring expenses and higher interest expenses, the Group reported a net loss of EUR 48.8 million and a loss per share of EUR 0.11 for the 2008 financial year.

We are willing to accept this decline in earnings because we are convinced that the restructuring program will guarantee the stability of the Telekom Austria Group going forward. Despite the reported net loss for the 2008 financial year, we will still be able to propose an unchanged dividend of EUR 0.75 per eligible share at the Annual General Meeting on May 20, 2009 based on the Group's solid operating performance. We are also committed to offering you, the shareholders of Telekom Austria AG, a fair and dependable dividend policy in the years to come. In our cash use policy that we updated at the end of January 2009 we defined an unchanged pay-out ratio of 65% of net profit for the period 2009 to 2012. We also established a minimum divided floor of EUR 0.75 per share. The decision whether to resume the share buyback program as a form of shareholder remuneration will be taken after publication of the results for Q2 2009. The program was temporarily suspended in October 2007 because net debt to EBITDA had exceeded our target ratio of 2.0.

We still have ambitious plans for the next few years: For the period 2009 to 2012 we anticipate a free cash flow of roughly EUR 3.2 billion, which will be evenly deployed to remunerate shareholders, reduce net debt and make growth investments. In 2009 we intend to keep revenues stable compared to 2008 and generate EBITDA of approximately EUR 1.9 billion. Capital expenditures for 2009 will amount to roughly EUR 800 million. The further diversification of external financing resources in the reporting year, the successful issue of a corporate bond for EUR 750 million in January 2009 and the Group's cash flow generation will cover the Telekom Austria Group's refinancing needs beyond 2010.

Based on this outlook, we can assure you that we will continue to boldly take the bull by the horns, mastering the present and future challenges in our markets, in the interests of the shareholders and the other stakeholders of the Telekom Austria Group. At the same time, we would like to thank you for the confidence you have placed in us, and also our employees for their commitment to executing the Telekom Austria Group's growth strategy.

Sincerely,

Boris Nemsic, Chairman of the Management Board (until March 31, 2009)
Hans Tschuden, Vice Chairman of the Management Board
Hannes Ametsreiter, Member of the Management Board (Chairman of the Management Board as of April 1, 2009)

Corporate Governance Report

Telekom Austria Group Commitment

Sustainable company management and control

Corporate Governance provides an effective framework for the responsible company management and control of the Telekom Austria Group with the aim of achieving sustainable value creation. The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the implementation of the strategy and the company's current situation, including risks. The rules of internal procedure for the Supervisory Board, the Audit Committee and the Management Board provide the legal framework for the duties and scope of action of the Supervisory and Management Boards.

Austrian Corporate Governance Code

Telekom Austria Group voluntary commitment to compliance since 2003

The Telekom Austria AG shares have been listed on the Vienna Stock Exchange since December 2000. The Austrian Corporate Governance Code enjoys widespread acceptance in this market place. The Code, as currently amended, can be viewed at www.corporate-governance.at or www.telekomaustria.com.

The Telekom Austria Group committed itself to voluntary compliance with the Code in 2003. The Group complies with all the legal requirements laid down in 33 "L Rules". The Code also defines 45 "C Rules", where deviations must be explained. The Telekom Austria issues the following statement regarding Rule 28:

Stock option plans for the Management Board, including the exercise hurdle in the form of the earnings per share target, are decided by the Supervisory Board in order to ensure that they are in line with the annual budget. The basis and mode of operation of the stock option program were presented to the Annual General Meeting on June 4, 2003 and May 23, 2006.

Regular external evaluation

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria's compliance with the provisions of the Code is evaluated externally. The most recent evaluation, which was carried out by KPMG in early 2008, confirms the correctness of the published statements of the Telekom Austria Group regarding compliance with the Code.

Members of the Management Board

The Management Board of the Telekom Austria Group comprises Boris Nemsic, the Chairman of the Management Board, Hans Tschuden, the Vice Chairman of the Management Board and Chief Financial Officer, and, since January 1, 2009, Hannes Ametsreiter. Rudolf Fischer resigned from the Management Board as of August 31, 2008.

Boris Nemsic – Chairman of the Management Board, until March 31, 2009
Boris Nemsic, born in 1957, earned his diploma as an electrical engineer at the Sarajevo Technical University in 1980 and was awarded a doctorate by the Vienna University of Technology in 1990. After employment at Ascom and Bosch Telekom in Austria, Germany and Switzerland, he was hired as head of network planning at mobilkom austria AG in 1997. In November 1998 he took over as managing director of the Croatian subsidiary Vipnet. In May 2000 Boris Nemsic was appointed CEO of mobilkom austria. As of July 2002 he was also appointed to the Management Board of the Telekom Austria Group, where he was responsible for the Mobile Communication segment. On May 24, 2006 Boris Nemsic also assumed the position of Chairman of the Management Board of the Telekom Austria Group in addition to his responsibility for the Mobile Communication segment. In addition to his functions within the Group, Boris Nemsic is a member of the Supervisory Board of Frequentis AG. Boris Nemsic holds no further comparable functions outside the Group.

Hans Tschuden – Vice Chairman of the Management Board and Chief Financial Officer since April 1, 2007, appointed until March 31, 2012
Hans Tschuden was born in 1958. He graduated from the Vienna University of Economics and Business Administration and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberger Group, first in controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. From 1995 he served as managing director of Keramo Wienerberger in Belgium before moving to Steinzeug Abwassersysteme in Cologne in 1998. In 1999, he became a member of the Wienerberger Management Committee and in May 2001 joined the Management Board of Wienerberger AG as CFO. Hans Tschuden has been the Chief Financial Officer of the Telekom Austria Group since April 1, 2007. On January 1, 2009 he was appointed Vice Chairman of the Management Board of the Telekom Austria Group. Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK-Pensionskassen AG and HFA Zwei Mittelstandsfinanzierungs-AG. Hans Tschuden holds no other comparable positions outside the Group.

Hannes Ametsreiter – CEO of the Fixed Net segment since January 1, 2009
Chairman of the Management Board as of April 1, 2009, appointed until December 31, 2013
Hannes Ametsreiter was born in 1967. He studied journalism and communication together with sport science in Salzburg. After completing his doctorate, he continued his education with an MBA at Pepperdine University in the U.S.A. He began his professional career as an international brand manager with Procter & Gamble, before taking up a position in product management at mobilkom austria in 1996. In 2001 he became Chief Marketing Officer of mobilkom austria and in 2002 he also took over responsibility for the customer service unit. From 2005 to 2006 he also acted as CMO of Mobiltel in Bulgaria. On July 1, 2007 Hannes Ametsreiter was appointed Chief Marketing Officer of Telekom Austria TA AG. On January 1, 2009 he was appointed to the Management Board of the Telekom Austria Group with responsibility for the Fixed Net segment, becoming CEO of Telekom Austria TA AG, while at the same time serving as Chief Marketing Officer of mobilkom austria. Hannes Ametsreiter holds no other positions outside the Group.

Rudolf Fischer was born in 1953. In 1998 he became a member of the Management Board of Telekom Austria AG. In 2001 he assumed responsibility for the Fixed Net segment of the Telekom Austria Group, and from May 24, 2006 to August 31, 2008 served as the Vice Chairman of the Management Board of the Telekom Austria Group. Rudolf Fischer resigned from the Management Board of the Telekom Austria Group and Telekom Austria TA AG as of August 31, 2008.

Responsibilities of the Management Board Members

Boris Nemsic* Chairman of the Management Board	Hans Tschuden Vice Chairman of the Management Board and CFO	Hannes Ametsreiter** Member of the Management Board
Mobile Communication Segment	Investor Relations	Fixed Net Segment
International Business Development and Group Strategy	Treasury	
Group Communications	Corporate Planning & Group Reporting	
Group Human Resources	Group Accounting and Taxes	
Group Auditing	Risk Management and Internal Control System	
Group and Company Law		
Information Security		

* Boris Nemsic resigned from the Management Board of the Telekom Austria Group as of March 31, 2009.
** As of April 1, 2009 Hannes Ametsreiter assumed the position of Chairman of the Management Board of the Telekom Austria Group in addition to his former functions and responsibilities.

Members and Committees of the Supervisory Board

Eight shareholder and four personnel representatives

The Supervisory Board of Telekom Austria comprises eight members, who are elected by the Annual General Meeting, and four who are delegated by the Works Council. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria. As the Articles of Association lay down an age limit of 65, two shareholder representatives resigned from the Supervisory Board in 2008.

The Supervisory Board has set up three committees to provide effective support for its work:

- The Audit Committee is responsible for auditing and preparing the approval of the annual financial statements as well as auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Other important tasks include preparing the Supervisory Board's proposal for the selection of the auditor, monitoring the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. The members of the Audit Committee are Peter Michaelis, who serves as Chairman, Wilfried Stadler, who acts as the financial expert, Peter Oswald, Rainer Wieltsch, Michael Kolek and Wilhelm Eidenberger.
- Peter Michaelis and Edith Hlawati constitute the Chairing and Remuneration Committee. The Chairing Committee confers regularly with the Chairman of the Management Board, prepares the meetings of the Supervisory Board and is authorized to make decisions on matters of urgency. In its capacity as the Remuneration Committee, the Chairing Committee is responsible for concluding contract negotiations with the Management Board, defining the remuneration of the Management Board;
  it also sets the targets for the calculation of performance-related bonuses and monitors the achievement of goals.
- The Personnel and Nomination Committee deals with appointments to the Management Board and met three times in 2008. The Committee comprises Peter Michaelis, the Chairman, Edith Hlawati and Michael Kolek.

Supervisory Board Activities in the Reporting Year

High board meeting frequency also in 2008

During 2008 the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, the positioning and development of the Fixed Net and Mobile Communication segments as well as matters relating to the Management Board at six meetings of the Supervisory Board, one strategy workshop, five meetings of the Audit Committee and three meetings of the Personnel and Nomination Committee. The focal areas of the Supervisory Board's work and of its committees in the year under review are explained in greater detail in the Report by the Supervisory Board. Particular mention should be made of Hannes Ametsreiter's appointment to the Management Board, the measures to safeguard the earnings power of the Fixed Net segment and the intensive work carried out by the Audit Committee in connection with the fundamental principles of the risk management system, the internal control system and internal audit. In 2008 all committee meetings were attended by all members. All members of the Supervisory Board attended the strategy workshop and three of the six Supervisory Board meetings. Average attendance at all meetings of the Supervisory Board in 2008 was 93%.
No member of the Supervisory Board attended fewer than 50% of Supervisory Board meetings.

Independence of Supervisory Board Members

Criteria in line with the Austrian Corporate Governance Code

In 2009 the guidelines to determine the independence of members of the Supervisory Board adopted in 2006 were adjusted to comply with the modified provisions of the Austrian Corporate Governance Code and now conform to Appendix 1 of the Code. Accordingly, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behavior.

The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati, in which Edith Hlawati is a partner, was authorized by the Supervisory Board in 2006. The hourly fees conform to local practice. The amount of the fees that have been paid is reported on page 97.

Members of the Supervisory Board

Name (Date of Birth)	Other Supervisory Board Positions and Comparable Functions	First Appointed	End of Current Term of Office, or Date of Retirement	Independent Pursuant to Rules 53 and 54 of the Austrian Corporate Governance Code
Peter Michaelis, Chairman (1946)	OMV AG, Austrian Airlines AG, Österreichische Post AG, APK Pensionskassen AG	June 28, 2001	2012	Independent pursuant to Rule 53, but not to Rule 54
Edith Hlawati, Vice Chairwoman (1957)	Österreichische Post AG	June 28, 2001	2012	yes
Henrietta Egerth-Stadlhuber (1971)	Austria Wirtschaftsservice GmbH	May 20, 2008	2012	yes
Stephan Koren (1957)	BAWAG PSK Leasing GmbH, BAWAG PSK Versicherungs-AG, Österreichische Kontrollbank AG, Omnimedia Werbegesellschaft mbH, Wiener Stadtwerke Holding AG, BWA Beteiligungs- und Verwaltungs-AG, Bausparkasse Wüstenrot AG, Austria Wirtschaftsservice GmbH	September 17, 1999	2012	no
Peter J. Oswald (1962)	-	May 20, 2008	2012	yes
Wilfried Stadler (1951)	Investkredit Investmentbank AG, Wienstrom GmbH, ATP Planungs- u. Beteiligungs AG, Die Furche – Zeitschriften Betriebsges. mbH, Trodat Holding GmbH	July 15, 2005	2012	yes
Harald Stöber (1952)	Deutsche Messe AG Hannover	June 4, 2003	2012	no
Rainer Wieltsch (1944)	OMV AG, Austrian Airlines AG, Österreichische Post AG, Bundesrechenzentrum GmbH, Pavatex SA	June 12, 2002	2012	yes
Wolfgang C. Berndt (1942)		May 23, 2006	May 20, 2008	
Johann Haider (1942)		June 4, 2003	May 20, 2008	
Members of the Supervisory Board Delegated by the Works Council				
Wilhelm Eidenberger (1962)	-	April 30, 2001		
Silvia Bauer (1968)	-	January 30, 2009		
Michael Kolek (1960)	Österreichische Industrieholding AG, APK Pensionskassen AG, Telekom Austria TA AG, Telekom Austria Personalmanagement GmbH	March 20, 2002		
Werner Luksch (1967)	mobilkom austria AG	August 3, 2007		
Markus Hinker (1959)	-	July 15, 2005	January 27, 2009	

Remuneration of the Members of the Supervisory Board in the Financial Year Under Review

Name	Remuneration awarded for the 2007 financial year and paid out in 2008 in EUR	Meeting attendance allowance 2008 in EUR
Peter Michaelis	30,000	3,300
Edith Hlawati	22,500	1,800
Henrietta Egerth-Stadlhuber	-	900
Wilhelm Eidenberger	-	2,700
Markus Hinker	-	1,500
Michael Kolek	-	3,300
Stephan Koren	15,000	1,200
Werner Luksch	-	1,800

Name	Remuneration awarded for the 2007 financial year and paid out in 2008 in EUR	Meeting attendance allowance 2008 in EUR
Peter J. Oswald	-	1,800
Wilfried Stadler	15,000	2,400
Harald Stöber	15,000	1,800
Rainer Wieltsch	15,000	3,300
Wolfgang C. Berndt	15,000	1,200
Johann Haider	15,000	600
Hans Jörg Schelling*	1,521	-

* retired on Feb. 6, 2007

The Annual General Meeting held on May 20, 2008 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairman and EUR 15,000 for all other members for 2007. Remuneration for members of the Supervisory Board for 2007 was paid out following the Annual General Meeting in 2008. Until further notice, the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2008 remuneration amounting to TEUR 174, including expenses, was paid to members of the Supervisory Board.

Management Board Remuneration Report

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. It comprises a basic salary and a performance-based remuneration which is contingent upon the achievement of targets defined by the Supervisory Board. These targets are based equally on financial figures such as Economic Value Added (EVA) or free cash flow generated from operations as well as on strategic objectives. The members of the Management Board are also granted stock options within the framework of the multi-year stock option program ESOP. These options require participants to hold an investment in the company through the purchase of Telekom Austria stocks and represent a form of compensation based on the Telekom Austria share price.

In 2008 total expenses for the basic salaries of members of the Management Board amounted to TEUR 1,129 with additional performance-based payments of TEUR 1,449. No benefits were derived from the multi-year stock option program in 2008. Consequently, the remuneration received by the Management Board in the 2008 financial year was approximately 31% lower than in 2007.

Remuneration of the Individual Members of the Management Board in 2008

Director's remuneration in TEUR	Basic salary	Performance-based remuneration	Multi-year stock options	Total remuneration 2008
Boris Nemsic	475	552	-	1,027
Rudolf Fischer*	273	495	-	768
Hans Tschuden	381	402	-	783
Total	**1,129**	**1,449**	**-**	**2,578**

* Rudolf Fischer resigned from the Management Board of the Telekom Austria Group as of August 31, 2008.

In addition to their regular remuneration, members of the Management Board also receive a contribution to a voluntary pension plan amounting to 10% of their fixed gross annual salary. When they leave the company upon termination of contract, the amount of the severance payment is based upon the length of their employment and is limited to one gross annual salary.

Stock Option Program

Investment in Telekom Austria shares as the prerequisite

The Telekom Austria Group regards its "ESOP" stock option program as an important element of good corporate governance, as it aligns the interests of the participating managers with the shareholders' expectations of corporate value enhancement. The Telekom Austria Group established a multi-year Employee Stock Option Program (ESOP) in 2004, in which some 300 employees participate each year. Participants are required to make an investment by purchasing Telekom Austria shares, experiencing just like any other shareholder, both share price appreciations and depreciations. Furthermore, the options may only be exercised if earnings per share reach the target value defined by the Supervisory Board. A detailed description of the stock option program can be found on page 120.

In 2008 Boris Nemsic, Hans Tschuden and Rudolf Fischer were each granted 120,000 options with an exercise price of EUR 19.39 from the tranche ESOP 2008+, contingent upon the purchase of 4,800 Telekom Austria shares each, which must be held until the options are exercised. The options have an exercise period expiring on May 31, 2012 and their exercise is contingent upon the achievement of the earnings per share target described above. Due to the restructuring measures, however, this target value had not been reached on December 31, 2008.

In order to meet the eligibility requirements of the multi-year Employee Stock Option Program ESOP, the members of the Management Board held the following investments in Telekom Austria shares as of December 31, 2008: Boris Nemsic 20,931, Hans Tschuden 15,000 and Hannes Ametsreiter 14,742. No options were exercised by members of the Management Board in 2008.

Directors and Officers (D&O) Insurance

The Telekom Austria Group has concluded and also pays the costs of a Directors and Officers (D&O) insurance policy for the members of the Group's Management Board, managing directors and the members of the Supervisory Board.

Auditor's Fees

Classification according to service performed

The expenses of the Telekom Austria Group for the annual audit of the 2008 annual financial statements amounted to EUR 1.6 million, compared to EUR 2.3 million in the previous year. Consultancy fees in 2008 amounted to EUR 0.1 million, the same amount as in the previous year. Expenses for tax consultancy and other services totaled EUR 0.5 million compared to EUR 0.4 million in 2007.

Other Corporate Governance Instruments

Risk management, internal control system, Code of Conduct and compliance guidelines

The Telekom Austria Group's risk management system with its focus on strategic risks and opportunities enables the group-wide identification, evaluation and management of risk on the basis of a defined risk policy as well as strategic and operational objectives. The effectiveness of the Telekom Austria Group's risk management system is subject to external evaluation by the auditors pursuant to Rule 83 of the Corporate Governance Code and, along with the effectiveness of the internal control system, is monitored by the Audit Committee. The internal control system of the Telekom Austria Group safeguards the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. The latter is supported by a Code of Conduct that is binding throughout the Group. A special reporting system has been put in place to manage the communication of confidential information about legally dubious procedures or violations of the Code of Conduct. The Code of Conduct is available at www.telekomaustria.com. To prevent violation of insider trading regulations, the Telekom Austria Group has implemented group-wide compliance guidelines which are also communicated to employees in regular training programs.

Vienna, February 13, 2009

The Management Board

Report by the Supervisory Board

Ladies and Gentlemen,

Extensive discussions about the strategic orientation of the Telekom Austria Group

For the Telekom Austria Group 2008 was marked by the continuation of the growth trend in the Mobile Communication segment and the necessary restructuring measures in the Fixed Net segment. The prime objective of the Telekom Austria Group continues to be a sustainable increase in shareholder value, a goal that can be achieved with a clearly focused strategy and a strong awareness of costs. In 2008 the Supervisory Board extensively discussed the strategic focus of the Telekom Austria Group, as well as the positioning and further consolidation of the two segments Fixed Net and Mobile Communication, at six meetings of the Supervisory Board and a strategy workshop. The focal areas in the Fixed Net segment encompassed a marketing offensive and a personnel restructuring program to safeguard competitiveness and improve operational efficiency in combination with general cost-cutting measures. The discussions concerning the Mobile Communication segment centered upon safeguarding market leadership in Austria and further developing international activities. Against the backdrop of the current situation on the financial markets, the Supervisory Board also dealt in depth with the Telekom Austria Group's financing policy, which is not only extremely solid but was also further diversified in the year under review.

Personnel changes on the Supervisory and Management Boards

In 2008 a number of personnel changes were made at the top management level of Telekom Austria AG. After reaching the statutory age limit Wolfgang C. Berndt and Johann Haider both resigned from the Supervisory Board. The election of the new Supervisory Board took place at the Annual General Meeting 2008. Henrietta Egerth-Stadlhuber, an expert in the field of research and innovation, and Peter J. Oswald, who will contribute his international expertise and also strengthen the Audit Committee, were appointed to the Supervisory Board as new members. All other shareholder representatives were re-elected to the board. Following the resignation of Rudolf Fischer as of August 31, 2008, the Supervisory Board assigned interim responsibility for Fixed Net operations to Boris Nemsic and requested the Personnel and Nomination Committee to make the necessary preparations for filling this position. On December 16, 2008 the Supervisory Board appointed Hannes Ametsreiter as a member of the Management Board with responsibility for the Fixed Net segment. Furthermore, the Supervisory Board

appointed Hans Tschuden as Vice Chairman of the Management Board. I would like to offer my warmest thanks to the former members of the Supervisory Board for their constructive contributions to the successful development of the Telekom Austria Group. In particular, I would like to thank Rudolf Fischer, who in his capacity as CEO of the Fixed Net segment contributed not only to the success of the initial public offering of Telekom Austria AG but also to co-shaping the Group's strategic orientation and decision-making as well as the telecommunications infrastructure in Austria.

Additional duties of the Audit Committee

At five meetings in 2008, the Audit Committee of the Supervisory Board carried out its additional duties under the terms of the Company Law Amendment Act (URÄG 2008) and adjusted its Rules of Internal Procedure accordingly. In May 2008 the Audit Committee was further expanded with the appointment of Wilfried Stadler as the financial expert, as well as Peter Oswald and Wilhelm Eidenberger. Following a tender for auditing services, the Audit Committee closely examined all the bids and in April 2008 made a well-founded recommendation to the Supervisory Board. The adoption of a pre-approval policy should further guarantee the independence of the auditor, in particular with regard to the performance of additional non-auditing services. Other areas of the Supervisory Board's activities included an intensive discussion of the basic principles of the risk management system, the internal control system and the internal audit of the Telekom Austria Group. In addition, quarterly results were subjected to in-depth reviews. During the audit of the annual financial statements and the consolidated financial statements for 2008, the Audit Committee received regular reports on the results of the auditing procedure for both statements. The outcome of the Audit Committee meetings was communicated to the Supervisory Board on a regular basis. After the resignation of Rudolf Fischer, the Personnel and Nomination Committee addressed the question of his succession at three meetings in 2008.

Six of the eight shareholder representatives declare their independence

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code and to responsible company management and control aimed at sustainable value generation. The Supervisory Board has laid down criteria for determining the independence of its members. Six of the eight shareholder representatives are deemed to be independent pursuant to Rule 53 of the Austrian Corporate Governance Code. The annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2008 received unqualified opinions from KPMG Austria Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Management Report and the Group Management Report are consistent with the annual financial statements and consolidated financial statements. After prior consultation with the Audit Committee, and extensive discussions and review, the Supervisory Board approved the 2008 annual financial statements in accordance with § 125 Para. 2 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee and after detailed discussion and review it also approved the consolidated financial statements pursuant to § 245 of the Enterprise Code and IFRS, the Management Report and the Group Management Report and Corporate Governance Report. The Supervisory Board approved the Management Board's proposal to pay a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to thank the members of the Management Board and all our employees for their commitment in 2008 and to ask them for their constructive support to overcome the challenges that lie ahead. I would also like to thank our growing number of customers in Austria and abroad for the confidence they have placed in the Telekom Austria Group. Finally, I would like to appeal to the shareholders of Telekom Austria AG to show the same loyalty during these volatile and challenging times on the stock exchange markets as they have done in the past.

Peter Michaelis
Chairman of the Supervisory Board
Vienna, February 2009

Investor Relations

Free float

68.80%

of Telekom Austria shareholding

Shareholder Structure

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000. At year-end 2008, 460 million shares were issued, of which 442.4 million were in circulation; the remaining shares were held as treasury shares by the company itself. On July 17, 2008 Capital Research and Management Company, which at year-end 2007 had held 5.02% of the shares, reported a reduction to 22,716,784 shares or 4.94% of the shares issued. After the reporting period, on January 28, 2009, Capital Research & Management announced that it had increased its stake to 5.16% or 23,750,887 shares. As the managers of the individual funds controlled by this company make their investment decisions independently of one another, these shares are regarded as free float, which amounts to 68.80%.

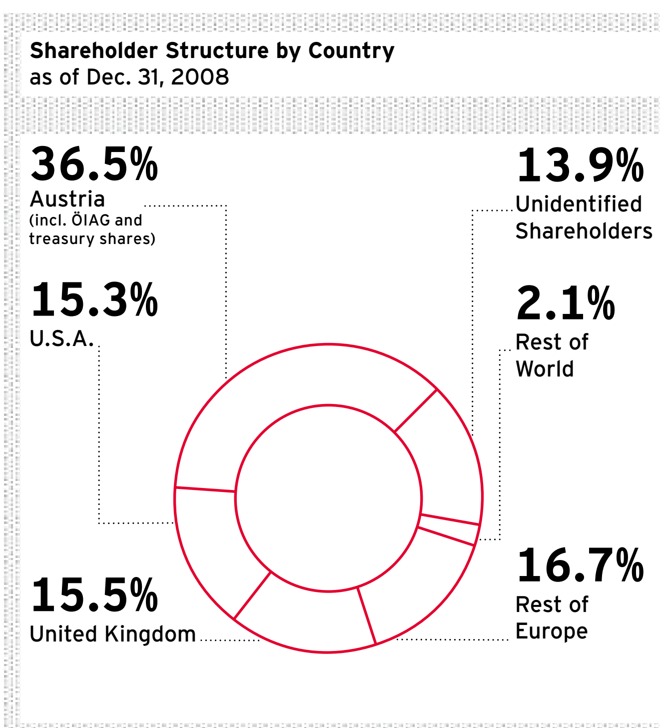
International shareholder structure

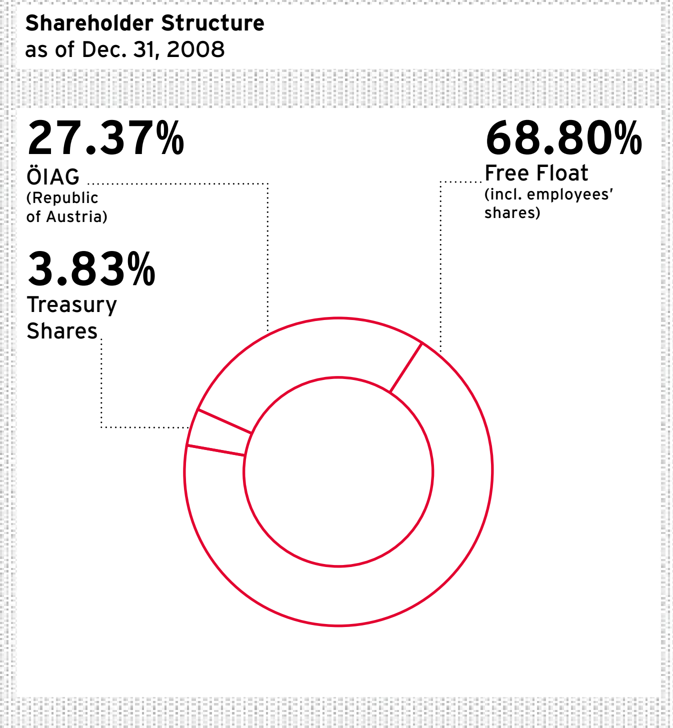
In a shareholder analysis carried out as of December 31, 2008, more than 80% of the shares were identified. According to this survey, roughly 36.5% of the shares are held by Austrian investors (including ÖIAG and treasury shares), approximately 15.3% by investors from the U.S.A. and 15.5% by British investors. Most of the remaining stock is held in other European countries. As of December 31, 2008 the Telekom Austria Group held 3.83% in treasury shares. The percentage of shares owned by employees remained stable at 0.3% compared to the previous year.

Share Buyback and Dividend Policy

Steady dividend of EUR 0.75 per share

With a view to increasing the corporate value, the Telekom Austria Group pursues a dividend policy which seeks to strike a balance between appropriate shareholder remuneration and profitable growth investments. The allocation of capital presented in January 2009 for the period 2009 to 2012 stipulates an unchanged payout ratio of 65% of net profit and a minimum dividend floor of EUR 0.75 per share. The share buyback program was temporarily suspended in the previous year, as the net debt to EBITDA target ratio of 2.0 had been exceeded. The decision whether to resume the program will be taken after publication of the results for Q2 2009.





Factors which will be taken into consideration for the final decision include the level of net debt, general sentiment on the financial markets and the sustainability of the company's operational performance. Apart from share buybacks as a form of shareholder return, treasury shares may be used to service stock options and convertible bonds, issued to employees or used as consideration for acquisitions, or for resale or retirement in accordance with the resolution of the Annual General Meeting. In compliance with this mandate, approximately 0.2 million shares were awarded to employees within the framework of the Employee Participation Program in December 2008 (2007: 0.5 million shares).

Due to the strong cash flow, the Management Board of the Telekom Austria Group will ask the Annual General Meeting to be held on May 20, 2009 to approve a dividend of EUR 0.75 per eligible share, even though the creation of a non-cash restructuring provision for the Fixed Net segment resulted in a net loss in the year under review. Based on a share price of EUR 10.30 per share at year-end 2008, this represents a dividend yield of 7.3%.

Let's take the bull by the horns – #1
It is not just when faced with stiff challenges on the markets and stock exchanges that the Telekom Austria Group concentrates on transparency in reporting its corporate development and cash use policy. In 2008 investor relations were further intensified and clear criteria were defined for the allocation of capital.

For the period 2009 to 2012 we have defined a balanced and stable dividend policy with a minimum dividend floor of EUR 0.75 per share. The potential resumption of the share buyback program will be evaluated after Q2 2009.

Resolutions Passed by the Annual General Meeting 2008

The eighth Annual General Meeting of Telekom Austria AG was held on May 20, 2008 at the Austria Center Vienna. It was attended by approximately 400 shareholders or roughly 40% of the share capital and adopted, inter alia, the following resolutions:

- The discharge of the members of the Management Board and the Supervisory Board for the financial year 2007.
- Election of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors for the 2008 financial year
- Payment of a dividend of EUR 0.75 per eligible share
- Election of the Supervisory Board: Henrietta Egerth-Stadlhuber and Peter J. Oswald were elected in place of Wolfgang C. Berndt and Johann Haider (both of whom had exceeded the statutory age limit), re-election and acceptance of mandate by all other shareholder representatives on the Supervisory Board
- Extension of the authorization of the Management Board to buy back shares during an 18 month period for a price between EUR 9 and EUR 30 per share

Financial and Economic Crisis Impacts Capital Markets

During the year under review the lending crisis that had unfolded in the U.S. mortgage sector in summer 2007 developed into a global financial crisis. Many financial institutions were forced to make massive write-downs to their loan portfolios with only state support ensuring their survival. The result was extreme volatility on the financial markets and rising financing costs for businesses. During the course of 2008, this development began to have an increasing impact on the real economy, leading to a further slump in share prices from October 2008 onward. After several record years in a row, the ATX, the Vienna Stock Exchange's leading index, registered its worst performance since its inception 18 years ago, falling by 61.2%. The German DAX plunged by 40%. The Dow Jones Index on the New York Stock Exchange fell by almost 34%, the strongest decline since the economic crisis in 1931.

ATX
-61.2%
decline in 2008

Development of the Telekom Austria Share Price

The DJ Stoxx Telecom, the leading index for the telecommunications industry, was unable to escape the extremely negative sentiment on the capital market and fell by 37% in a year-on-year comparison. The Telekom Austria share lost almost 46% of its value, closing the year at EUR 10.3, the biggest share price loss since the IPO in November 2000. Despite the ICT sector's relative resilience to cyclical trends compared to other industries, this development could not be prevented. Fears of an economic recession in Eastern and Southeastern Europe, Telekom Austria Group's growth market, also had a negative impact on the development of the company's share price.

As the Telekom Austria share price fell, the market capitalization of the Telekom Austria Group declined from EUR 8.8 billion to EUR 4.7 billion. Telekom Austria shares are bearer shares and are traded in the Prime Market Segment of the Vienna Stock Exchange. With a weighting of 14.7% at year-end 2008, the Telekom Austria share ranked second in the ATX, the Vienna Stock Exchange's leading index. Turnover from trading (double count without over-the-counter trading) decreased by approximately 28% to EUR 11.2 billion compared to the previous year. Turnover from over-the-counter-trading (double count) fell by almost 82% to roughly EUR 762 million in 2008. 60,489 option contracts with a value of EUR 89.4 million, with Telekom Austria as the underlying instrument, were traded on the Austrian Futures and Options Exchange (ÖTOB) in 2008. Internationally the Telekom Austria share is listed in the sectoral index DJ Stoxx Telecom and the FTSE 300 Eurotop index.

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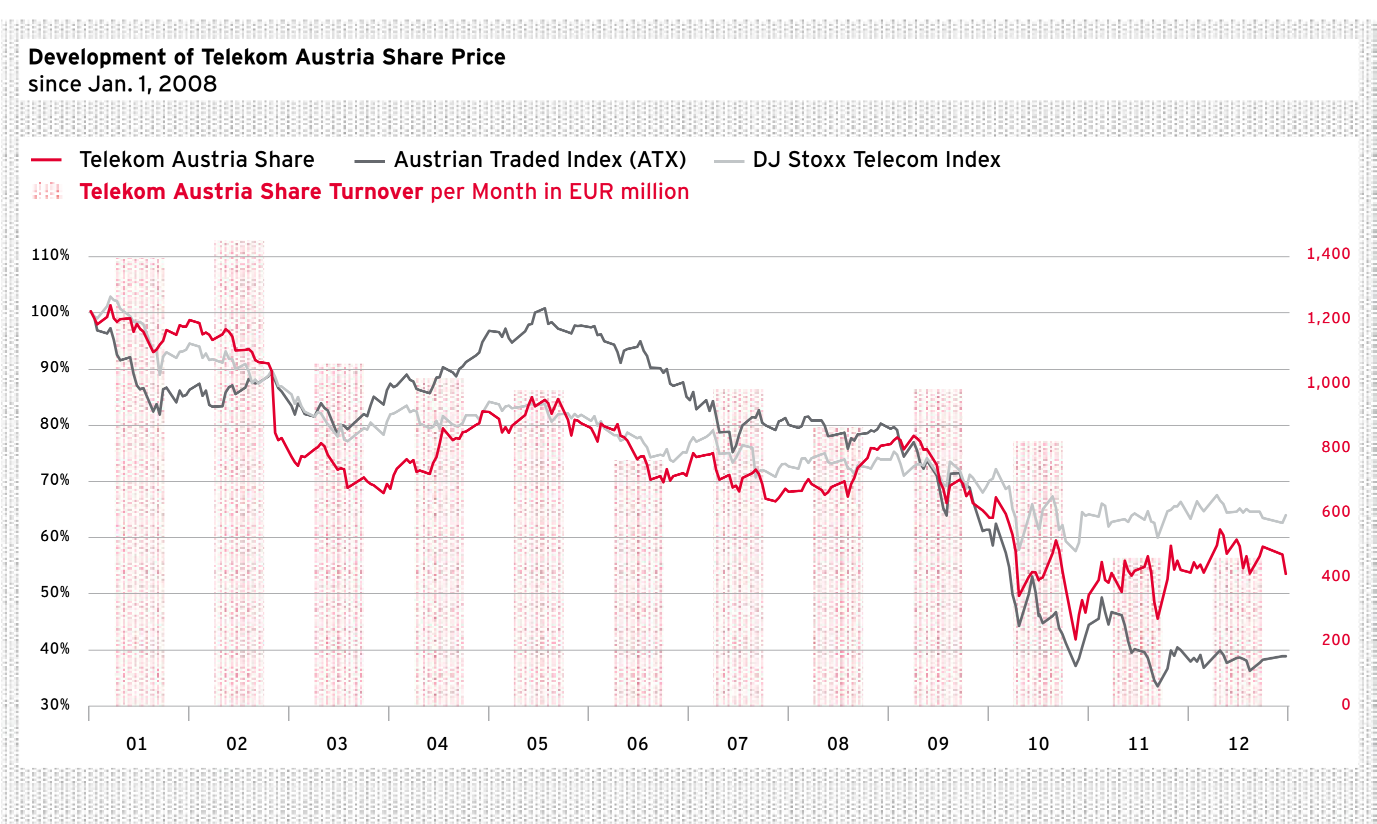
Development of Telekom Austria Share Price
since Jan. 1, 2008



Open Dialogue with Investors

The Telekom Austria Group responded to the uncertainty on the capital markets by intensifying communication with analysts, institutional and private investors. Top management used 17 road shows and 11 international investor and telecommunications conferences to provide detailed information about the Group's strategy and economic situation and quarterly and annual results. Analysts and investors also received information about the Telekom Austria Group during 239 one-on-one meetings, 162 telephone conferences and 44 Group presentations. A Capital Market Day held at the end of January 2009 was attended by approximately 60 Austrian and international analysts. The Management Board provided detailed information regarding the Telekom Austria Group's strategy and the challenges facing the two segments, and also announced an update of the cash use policy for the period 2009 to 2012. Detailed material and a recording of the event are available at www.telekomaustria.com/ir/capital-market-day.php.

In the year under review, 28 financial institutions carried out analyses of the Telekom Austria share. A list of these analyses, including updates and the names of the respective contact persons are available at www.telekomaustria.com/ir/analyst-coverage.php.

Multi-Year Overview of the Telekom Austria Share

	2008	2007	2006
Stock price low in EUR	8.10	16.90	16.66
Stock price high in EUR	19.50	21.55	21.09
Stock price as of Dec. 31 in EUR	10.30	19.03	20.30
P-E ratio as of Dec. 31	-	17.5	17.1
Performance per share in EUR	-0.11	1.09	1.19
Cash flow per share	1.71	2.16	1.93
Market capitalization in EUR billion	4.7	8.8	10.2
Average stock exchange turnover/day in EUR million	44.5	62.9	50.5
Number of outstanding shares	460,000,000	460,000,000	500,000,000
Number of outstanding shares as of Dec. 31	442,398,222	442,211,742	461,692,527
Common Stock in EUR	1,003,260,000	1,003,260,000	1,090,500.000
Weighting ATX	15%	10%	11%
Weighting DJ Stoxx Telecom	1.2%	1.3%	1.8%

Telekom Austria Stock Data

Stock Number	72000
Symbol	TKA
ISIN	AT0000720008
Reuters	TELA.VI
Bloomberg	TKA AV
Traded on	Vienna Stock Exchange

Diversification of External Financing

In 2008 the Telekom Austria Group concluded two long-term financing instruments with a total nominal value of EUR 845 million and maturities of between two and eight years. They include a promissory note loan with a nominal value of EUR 300 million, funding resources from the Österreichische Kontrollbank with a total nominal value of EUR 250 million, financing support from the European Investment Bank of EUR 125 million as well as other unilateral loans. Taking into account other agreements concluded in the year under review, the Group could rely on committed lines of credit with a total volume of EUR 1.2 billion at year-end 2008. In addition to this, other lines of credit are available totaling EUR 678 million in the form of unilateral credit agreements and a EUR 300 million Multi-Currency Short-Term and Medium-Term Treasury Notes Program.

In January 2009 a corporate bond for EUR 750 million was successfully issued. The proceeds of this bond and the cash flow will cover the Telekom Austria Group's financing requirement for the contractual repayment of loans up to and beyond 2010.

Rating by External Agencies

Since its first bond issue in 2003, Telekom Austria AG has been subjected to regular evaluations by Moody's Investor Service and Standard & Poor's, the two largest and most renowned rating agencies. In November 2008 Moody's Investor Service reiterated both the A3 rating and the stable outlook. In November 2008, Standard & Poor's revised the outlook from stable to negative, but at the same time confirmed the long-term and the short-term ratings of BBB+ and A-2 respectively. The revision was attributed to the personnel costs in the Fixed Net segment and increased economic risks in the Group companies in Eastern and Southeastern Europe.

Financial Calendar

February 25, 2009
Results for the Financial Year 2008

May 13, 2009
Results for the First Quarter 2009

May 20, 2009
Annual General Meeting Austria Center Vienna

May 26, 2009
Ex-Dividend Day

May 28, 2009
Dividend Payment Date

August 19, 2009
Results for the First Half 2009

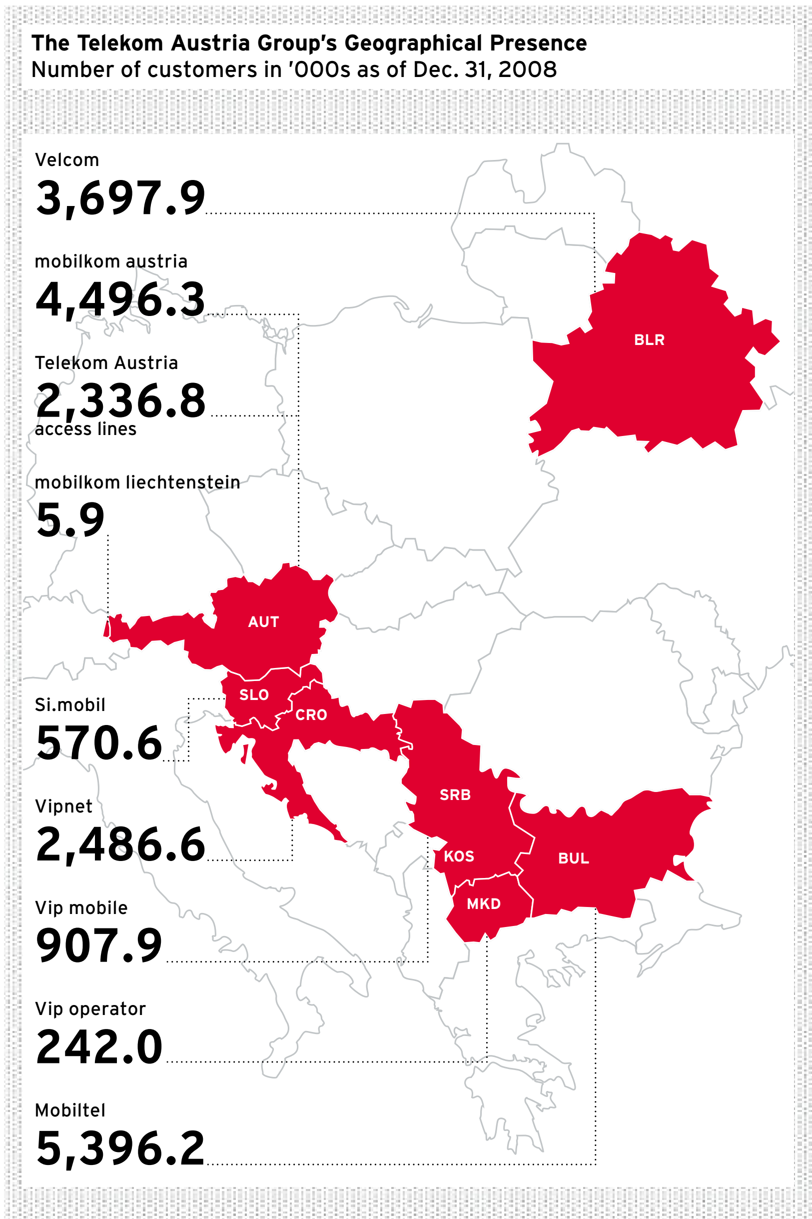
November 12, 2009
Results for the First Nine Months 2009

Business Model and Markets

Telekom Austria Group – Strong in Austria, Southeastern and Eastern Europe

With 2.3 million access lines in the Fixed Net segment and 17.8 million customers in the Mobile Communication segment, the Telekom Austria Group generated revenues totaling EUR 5,170.3 million in 2008. Both segments operate under the umbrella of the listed company Telekom Austria AG, which defines the Group's strategic and financial goals and acts as an interface with the capital market.

Following the sale of small subsidiaries in the Czech Republic and Slovakia at the end of November 2008, the business activities of the Fixed Net segment are now concentrated upon Austria. As a result of the successful policy of expansion pursued in recent years the operational scope of the Mobile Communication segment has been extended beyond Austria to cover Bulgaria, Belarus, Croatia, Slovenia, Liechtenstein, the Republic of Serbia and the Republic of Macedonia.



The Telekom Austria Group's Geographical Presence
Number of customers in '000s as of Dec. 31, 2008

Expansion Changes Company Profile

The sustained migration of fixed net customers to mobile communication networks in recent years and in particular the successful strategy of internationalization pursued by the Telekom Austria Group have fundamentally changed the company's profile. While at the time of the IPO in 2000 roughly two thirds of revenues were generated by the Fixed Net segment, this figure had declined to approximately 38% by the end of the 2008 financial year. In the same period the share of revenues attributable to the international subsidiaries rose from 4% to 45%.

The consolidated balance sheet of the Telekom Austria Group shows the high fixed-assets-to-total-assets ratio that is so typical for the industry. Long-term assets account for over 80% of total assets. While the vast majority of tangible assets pertain to the Fixed Net segment, most of the intangible assets and goodwill are attributable to the Mobile Communication segment. They are mainly the result of the acquisitions of companies and mobile communications licenses made in previous years. With a free cash flow (cash flow after interest rates, taxes, changes in working capital and capital expenditures in existing business) of EUR 756.2 million in 2008 and a broad financing base, the Telekom Austria Group can rely on sufficient financial resources to continue its strategy aimed at striking a balance between growth investments and attractive shareholder remuneration.

"Successful in Eight Countries"

Boris Nemsic, Chairman of the Management Board, CEO Mobile Communication (until March 31, 2009)

The Telekom Austria Group is solidly positioned with successful operations in eight countries in Central, Southeastern and Eastern Europe. Our leading position in the Austrian fixed line and mobile communications markets gives us stability and our international activities provide the drive for further growth. We are still convinced of the long-term potential of these growth markets and we will continue to do our utmost to exploit the opportunities they offer with first-class service and product innovations.

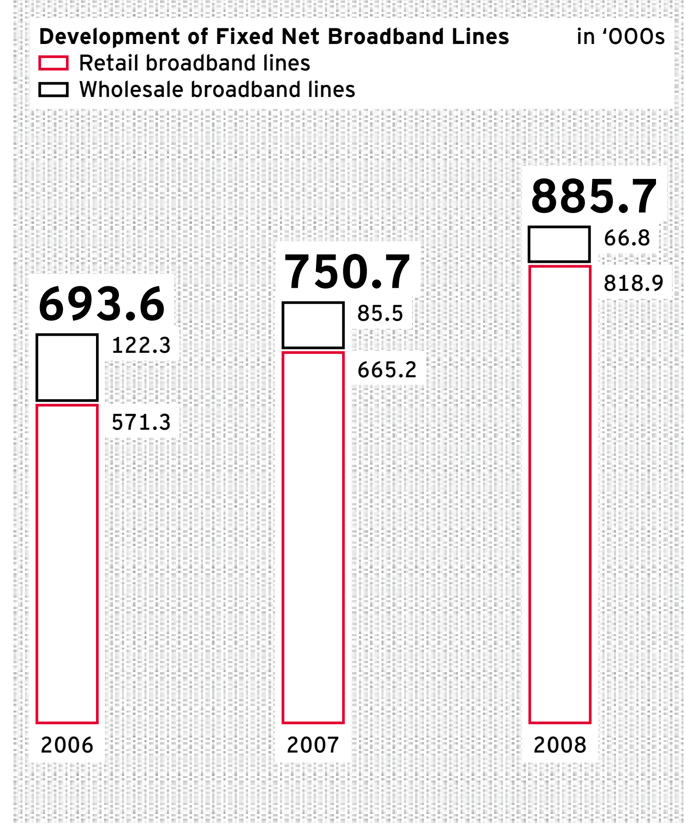
The Group's diversification over several regions and the two operating segments as well as a sensible management of risks are the guarantee for positive corporate development even under changed conditions.

Fixed Net Segment – Market Leader in Austria

The Telekom Austria Group is market leader in the fixed net business in Austria, and serves both residential and business customers with voice telephony, value-added services, internet access as well as data & IT solutions. Within the scope of its wholesale business the segment also provides technological infrastructure to other operators of fixed net, mobile communications and internet services. Due to the company's position as the former monopolist, a large part of its business is subject to regulation by the national regulatory authority which also intervenes in pricing matters.

For several years the biggest challenge facing the Fixed Net segment has been fixed-to-mobile substitution. In comparison with other European markets the pace of this shift has been extraordinarily dynamic in Austria, where 75% of voice minutes are already carried over mobile communications networks. Mobile broadband is also making steady inroads into market share for internet access. At the same time, the number of fixed access lines declined from just under 3.3 million in 2000 to 2.3 million at the end of 2008. However, this downward trend was significantly slowed in 2008 through the introduction of attractive product bundles, which combine fixed net and mobile telephony as well as broadband internet, mobile broadband and TV services. The success of these product bundles also had a positive impact on the broadband business, with the number of fixed net broadband lines rising by 18.0% to 885,700 (including wholesale) in the year under review.

The Fixed Net is focused on the stabilization of cash flow by means of a market-oriented product portfolio and attractive pricing schemes. In cooperation with mobilkom austria, the Fixed Net segment is also striving to clearly position itself against alternative mobile communications providers. At the same time, the continuation of the cost-cutting program should lead to increased efficiency.



Expansion Steps Mobile Communication Segment

1996: Founding of mobilkom austria, Austria

1999: Founding of Vipnet, Croatia

2000: Founding of mobilkom liechtenstein, Liechtenstein

2001: Acquisition of Si.mobil, Slovenia

2005: Acquisition of Mobiltel, Bulgaria

2007: Founding of Vip mobile Republic of Serbia

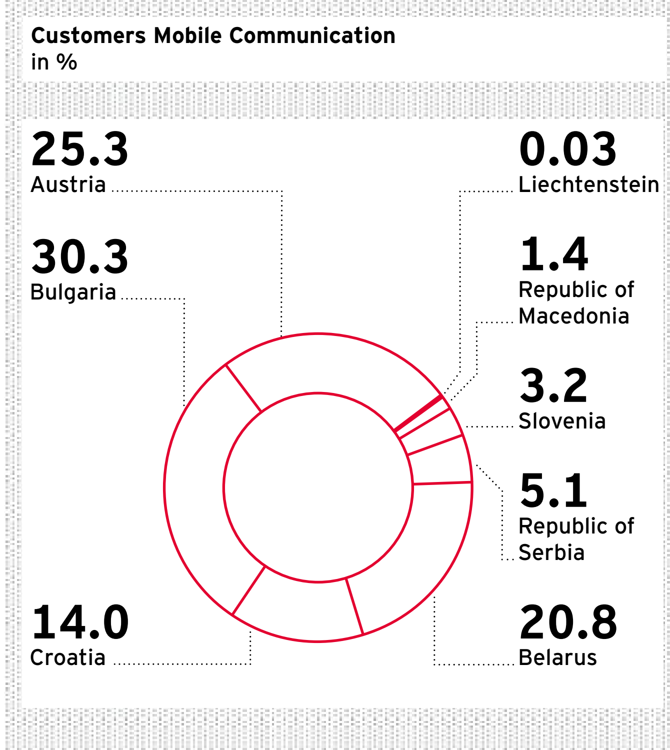
Founding of Vip operator, Republic of Macedonia

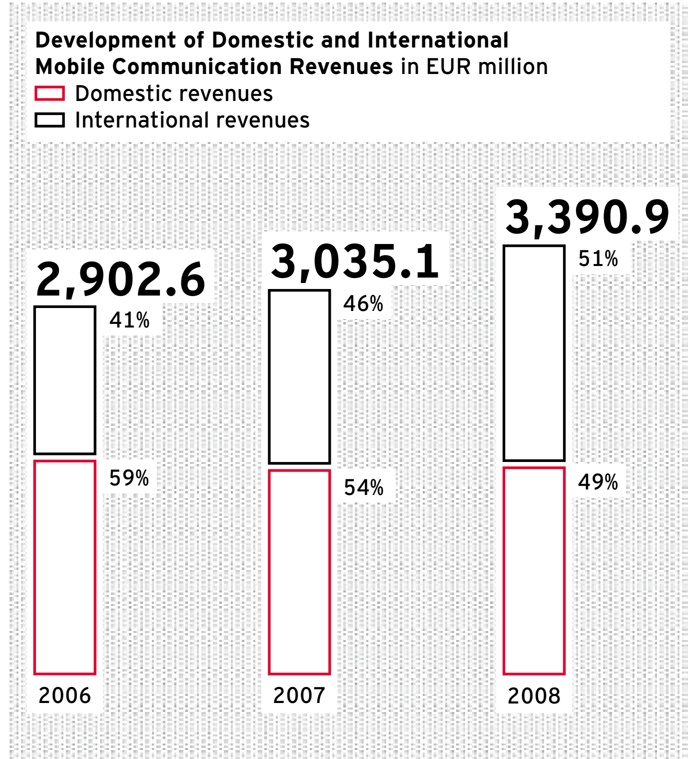
Acquisition of Velcom, Belarus

Mobile Communication Segment – Successful in Eight Countries

In 2008 the Mobile Communication segment was able to increase the number of subscribers in all countries, registering a growth of 15.2% to 17.8 million customers. Austria is regarded as a highly developed mobile communications market which is characterized by fierce price competition. In this environment mobilkom austria successfully increased its lead and expanded its market share from 40.3% to 42.5%. Bulgaria, Croatia and Slovenia still offer untapped potential in terms of share of contract customers and opportunities to roll out innovative products. The subsidiaries of the Mobile Communication segment succeed in their local markets with product developments designed to enhance customer convenience, multi-brand strategies and differentiated tariff models. In 2007 the Telekom Austria Group entered the Belarusian market by acquiring Velcom. At the same time, greenfield operations were successfully launched in the Republic of Serbia and the Republic of Macedonia only a few months after the purchase of both licenses. While Velcom is the second-largest operator in Belarus with a market share of 44.8%, the start-up companies were able to win a market a share of 9.1% in the Republic of Serbia and 10.7% in the Republic of Macedonia after only 18 months of operations. As average revenues per user (ARPU) and the actual penetration rates in these markets are well below Western European levels there is still potential for substantial growth.

The most important factors behind the Mobile Communication segment's success are innovative products and services and a high-capacity network infrastructure with high transmission speeds. Therefore, continuous investments in network technologies such as UMTS, HSDPA and HSUPA are imperative. Moreover, the cooperation agreement with Vodafone, which has been in place since 2003, also contributes to maintaining a technological edge in the area of product development and provides considerable business advantages at international level. In recent years the mobile data business has registered massive growth, accounting for 25.8% of the segment's traffic-related revenues in 2008. Regulation remains an important external disrupting factor as it impacts both roaming tariffs for cross-border calls and termination charges applied to other providers. The business model of the Mobile Communication segment is aimed at achieving a steady increase in cash flow by providing optimal service to existing customers and further expanding market shares. The challenge is to offer innovative products and solutions with a view to enhancing customer convenience and ultimately generating higher revenues.

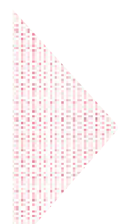




Corporate Strategy

Strategic Focus of the Telekom Austria Group

- Increase in shareholder value
- Internationalization creates sustainable growth potential
- Leverage synergies in Austria through product bundles from both segments
- Transfer of know-how and synergies through inter-segmental and cross-border cooperation



Stabilization of cash flow in the Fixed Net segment

Increase cash flow in the Mobile Communication segment

The prime objective of the Telekom Austria Group is a sustainable increase in shareholder value. The emphasis of the value management system is upon a cashflow-oriented valuation of corporate decisions and their impact on shareholder remuneration. The profitability of existing business areas should also be safeguarded by means of cost optimization and the exploitation of inter-segmental and cross-border synergies.

In the Fixed Net segment the main objective is to stabilize cash flow from operations with innovative products and the consistent implementation of a cost-cutting program. The Mobile Communication segment seeks to maintain market leadership in Austria and fully leverage the potential of its existing international markets. Southeastern and Eastern Europe remains the target region for any further expansion steps. In Austria, where both segments face fierce competition, the Telekom Austria Group is able to clearly position itself with product packages, which cut across segments, and offer customers comprehensive communications solutions from a single source.

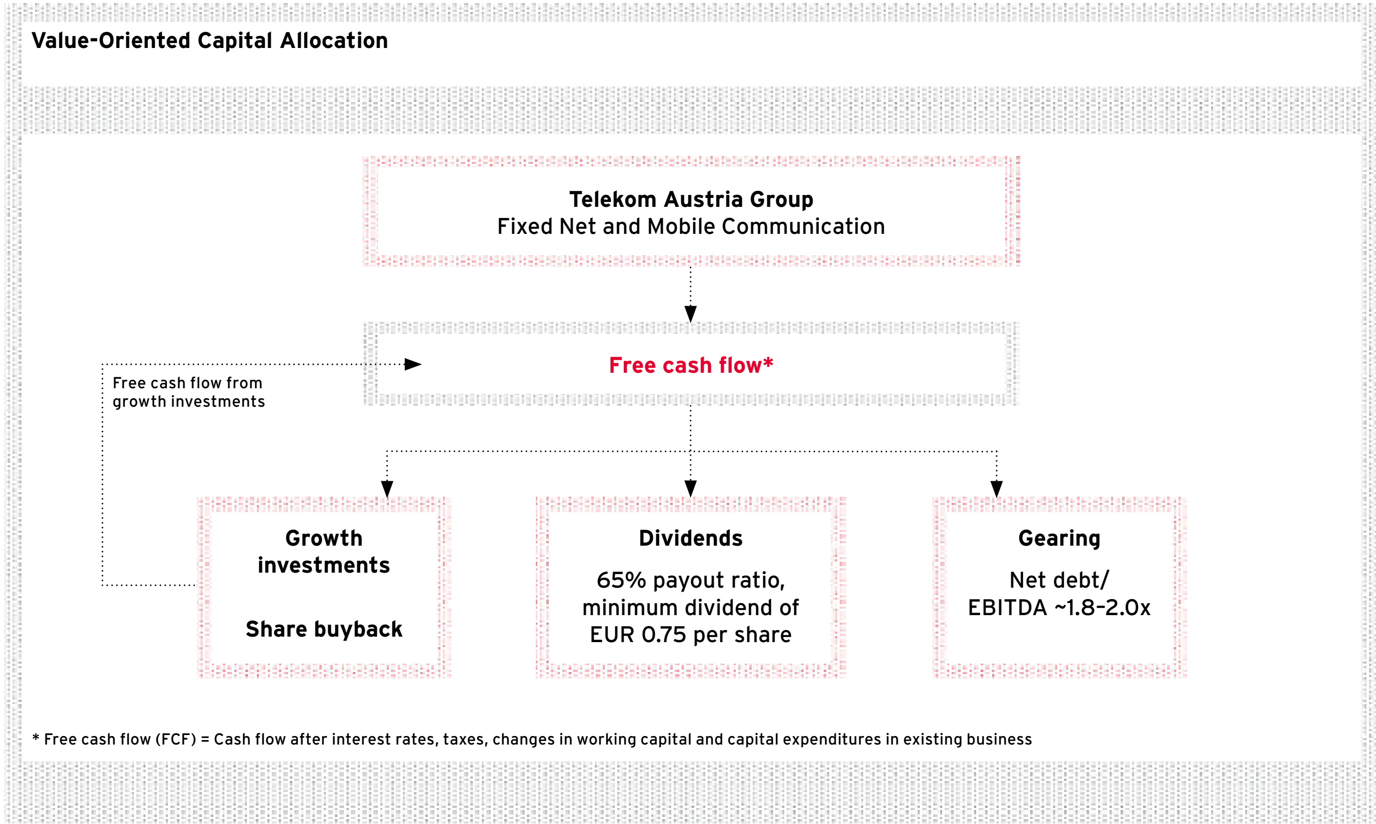
The strategy of the Telekom Austria Group is directed toward achieving a balance between value-oriented growth investments and continuous attractive shareholder remuneration. Growth investments are only made if they can produce a greater increase in shareholder value

"Attractive Dividend Policy"

Hans Tschuden, Vice Chairman of the Management Board, Chief Financial Officer

The principles that govern our capital allocation are in keeping with our strategic focus on enhancing corporate value. A balanced use of the free cash flow will ensure a steady increase in shareholder value. In this context, an attractive dividend policy is a top priority. We have therefore set a minimum dividend floor of EUR 0.75 per share for the period 2009 to 2012.

Surplus cash flow will be used for investments in growth projects or for share buy-backs and the choice between these two alternatives will be based on the amount of value each generates.



than share buybacks. In the medium term, the goal is to achieve a net debt to EBITDA ratio of between 1.8 and 2.0. This figure may be temporarily exceeded for profitable investment projects provided that stable investment grade ratings are not threatened. Growth investments and acquisitions are financially assessed by discounting the respective cash flow, taking into account the risk-weighted financing costs.

Fixed Net Segment

Strategic Goals – Fixed Net Segment

- Safeguard the existing core business
- Develop innovative business areas
- Consistent implementation of cost-cutting measures
- Migrate network infrastructures to ALLmediaNET

Market-Oriented Product Portfolio

To successfully safeguard the future of the Fixed Net segment, an attractive portfolio of broadband products in combination with multi-media applications such as aonTV or products such as aonAlarmServices has been developed in recent years. Broadband already accounts for more than one third of all fixed access lines. These measures to defend the core business are rounded off by customer retention schemes, attractive price structures and improved quality of service. Customer demand for comprehensive communications solutions from a single source is met by successful product packages comprising fixed line telephony, mobile communication, broadband internet, mobile broadband and TV. The success of these product packages is demonstrated by the stabilization of average revenues per line (ARPL) in the second half of 2008.

In the area of business solutions, the Fixed Net segment positions itself with a high level of solution competence for customer-specific requirements. Standardized, modular communications solutions for workplaces help customers enhance the efficiency of their processes. The main objective in 2009 is to extend the success of the product packages for residential customers to the business customer segment.

New voice and data products for the wholesale market are developed on the basis of detailed market analyses, with the mobile operator segment becoming steadily more important.

Competitiveness Requires Cost-Cutting Measures

In order to safeguard competitiveness, it is imperative to adjust the legacy cost structures of the Fixed Net segment to the current business volume and changed technologies. A cost-cutting program started in 2007 defined a large number of sub-projects which should significantly stem the development of operating costs. Key approaches include improving efficiency by means of process optimization, streamlining the product portfolio and reducing overhead costs in administration and sales.

Cost-cutting program initiated in 2007 to stem operating costs

However, personnel downsizing is of pivotal importance for the company's cost-cutting program. Two-thirds of the Fixed Net segment workforce has civil servant status and their contracts cannot be terminated. A number of socially compatible personnel downsizing schemes have already been successfully implemented in previous years and in November 2008 a new restructuring program was presented. It is expected that a number of these employees will accept the social plan that was put forward. The remaining members of staff, who can no longer be employed within the company, will be permanently released from their duties. These two sets of measures entail expenses for a total volume of approximately EUR 632.1 million, for which a non-cash provision of EUR 617.4 million was created in the 2008 financial year pursuant to IFRS.

Total expenses for restructuring program of EUR 632.1 million

"Safeguarding Competitiveness"

Hannes Ametsreiter, Member of the Management Board, CEO Fixed Net (Chairman of the Management Board as of April 1, 2009)

Bundling marketing activities in Austria enabled us to radically strengthen both the Fixed Net and Mobile Communication segments in 2008. Thanks to attractive product bundles, we were able to cut the decline in fixed access lines by more than half in a year-on-year comparison and to increase our market share. We will continue this successful strategy and in 2009 will extend it to the business customer segment.

However, to safeguard our competitiveness and profitability it is imperative that we continue to adjust our resources to the declining business volume in the Fixed Net segment. In 2008 we took an important step in this direction with a comprehensive restructuring program.

To further optimize framework conditions with respect to the personnel structure, internal job market and the operational focus of the Fixed Net segment, a working group has been set up with the involvement of staff representatives. The results of this process will significantly shape the scope of future restructuring steps in 2011.

Investments in infrastructure require appropriate economic conditions

Migration of the Network Infrastructure

A further strategic measure to safeguard competitiveness focuses on migrating the network infrastructures for voice, video/TV, internet and future services to an integrated All-IP-based next generation network, the ALLmediaNet. This convergence of network architecture reduces process complexity as well as operating and maintenance costs, while simultaneously allowing the introduction of new innovative services. This migration has been gradually carried out since 2003. During 2009, pilot projects to test the use of fiber optic networks will be carried out in selected urban areas in Austria. At the same time, customer acceptance of the product portfolio enabled by this new network technology will be investigated. However, further investments to implement fiber optic networks in addition to the pilot projects will depend above all on the legal and regulatory conditions, which must guarantee the overall economic viability of investments.

Mobile Communication Segment

Strategic Goals – Mobile Communication Segment

- Defend market leadership in Austria and fully exploit the potential of international business activities
- Increase usage through innovative data services
- Realize synergies within the segment and the Telekom Austria Group
- Explore further value-enhancing acquisitions

Strengthen and Expand Market Position

Product innovations and a target-group oriented market approach are aimed at safeguarding market shares in the individual countries in which the Mobile Communication segment operates. A multi-brand strategy should target new customer segments, especially in markets with a high penetration rate such as Austria or Croatia. At the same time, an optimal combination of excellent network quality and selected product innovations such as HSUPA, NFC, mobile television, Voice-over-IP or Vodafone live! safeguards high levels of customer satisfaction. In the Republic of Serbia and the Republic of Macedonia, two of the segment's youngest markets, this approach is especially important as it allows the new companies to position themselves against their competitors in both the retail and business customer segments. In addition to expanding the subscriber base it is imperative to steadily increase the share of contract customers in order to raise average monthly revenues as well as to put in place targeted customer retention measures.

Value-Oriented Expansion Policy

Following the acquisition of a 70% stake in the Belarusian mobile operator Velcom in 2007, the company's integration into the Mobile Communication segment was continued as planned in 2008. Velcom has been outstandingly successful in asserting its position in a challenging market environment, increasing customer numbers with attractive products and prices. In the Republic of Serbia and the Republic of Macedonia, where business operations were only started in Q3 2007, the focus is on further expanding network infrastructure. The start-up companies in both markets reported strong increases in customer numbers and also entered the partnership with Vodafone. The main goal in both markets is still to generate positive contributions to results before depreciation and amortization by 2010. Until then, further investments in network roll-out will be made, with efforts being devoted to increasing both the number of subscribers and average monthly revenues per customer. Alongside these most recent expansion steps, South-eastern and Eastern Europe remains the prime target region for further growth projects.

Realization of Internal Synergies

The segment's flat and efficient structures allow effective decision-making processes, the transfer of knowledge through the segment-wide deployment of experts, the utilization of synergies and economies of scale for procurement as well as the market launch of new services. These synergies are guaranteed by a cross-border service company, which also coordinates the partnership with Vodafone and pushes ahead with the harmonization of technological platforms and processes with the aim of lowering costs. In Austria, collaboration with the Fixed Net segment will be intensified with a view to clearly positioning the segment against alternative mobile communications providers by means of product bundles and a coordinated market approach.

Growth Market Mobile Data

The share of revenues from data products as a percentage of total revenues strictly correlates to the maturity of the individual markets. While in Austria 32.2% of revenues were generated with data products in 2008, there is still enormous untapped potential for growth in markets like Bulgaria and Belarus. This potential now has to be realized through the gradual introduction of innovative applications such as mobile television or mobile broadband. However, the investments required for increasing transmission capacities demand a regulatory environment that enables the profitable allocation of capital.

Let's take the bull by the horns – #2

In the Mobile Communication segment the Telekom Austria Group is successfully positioned in eight countries. The potential of these markets is fully leveraged through a multi-brand strategy, innovative data products and a customer-oriented tariff policy. Cross-border synergies are created through the joint development of products and services.

Intact Risk Awareness

While the growth markets of the Mobile Communication segment form the basis for further increases in cash flow, they have also changed the segment's risk profile. A segment-wide monitoring system has therefore been put in place to identify risk factors such as currency fluctuations or long-term macro-economic trends. Local key indicators, such as the topping-up patterns of prepaid customers or payment practices of contract customers are analyzed at regular intervals just like currency effects. These monitoring instruments are embedded in the group-wide risk management system of the Telekom Austria Group.

Human Resources

EUR
12.0 million
spent on further education and professional training in 2008

A Competitive Market Requires Outstanding Performance

The expertise, performance and motivation of the workforce are central to safeguarding the competitiveness and market orientation of the Telekom Austria Group. Creating conditions, which enable employees to successfully meet these challenges, is therefore one of the most important tasks of human resources development. In the reporting year EUR 12.0 million was spent on further education and professional training, the equivalent of EUR 682 per employee.

A range of courses to develop personal and professional skills are available to managers and high potential leaders from throughout the Group. A program run jointly with the Vienna University of Economic and Business Administration focuses on improving the managerial qualities of second tier executives and on specialist courses geared to the specific needs of the company. Tailor-made training courses are also regularly held for Customer Service employees.

292 apprentices safeguard demand for skilled workers

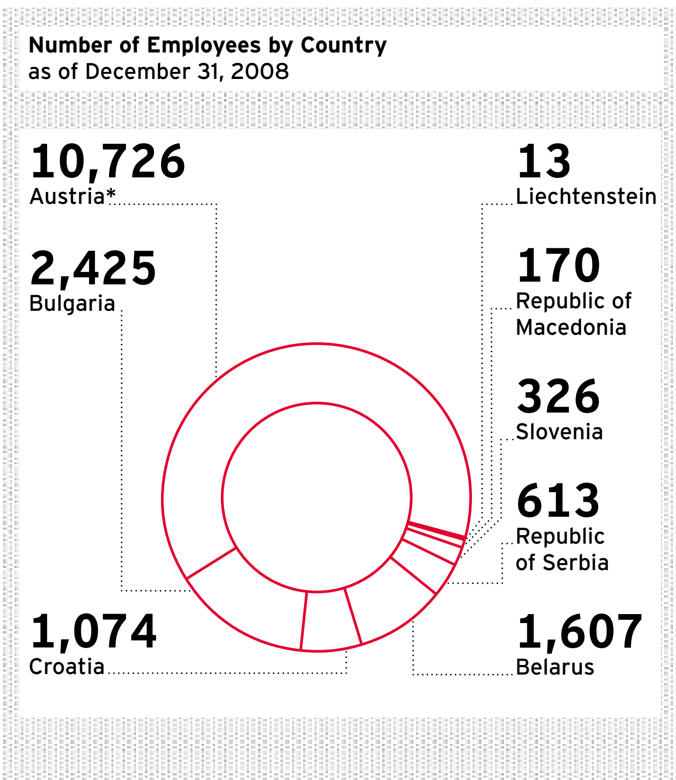
In the Mobile Communication segment increasing use is being made of innovative instruments such as on-the-job coaching, special assignments or the successful job rotation scheme "x.change", which was introduced several years ago. A Group-wide job platform provides information on cross-department and cross-border development opportunities. To meet future demand for skilled workers the Fixed Net segment took on 73 apprentices in 2008, bringing the total number of apprentices to 292 at the end of the year. In the year under review they were for the first time offered the opportunity to obtain ICT Academy certification, a qualification recognized throughout the industry as proof of expertise. As in previous years, all apprentices who completed their training in 2008 received fixed employment contracts.

Let's take the bull by the horns – #3
As a service provider, the Telekom Austria Group is well aware of the importance of highly-qualified and motivated employees and the related challenges. The Group has therefore developed a wide range of demand-oriented courses for further education and professional training, investing a total of EUR 12 million in 2008. Additional incentives have also been created in the form of performance-related bonuses, stock options and the Employee Participation Program.

Success-Oriented Approach and Motivation

A variety of instruments have been applied in an effort to gradually introduce performance-oriented remuneration systems throughout the Group. Currently about one third of all employees have individual performance agreements which provide the basis for determining the variable salary component. In December 2006 an Employee Participation Program was introduced for all employees of the Group in Austria. A number of Telekom Austria shares to be determined by the Supervisory Board is granted each year until 2010.

Performance appraisals are held several times a year and represent a key feedback instrument, which provides staff with information regarding their performance and goal achievement. In the Mobile Communication segment employees were once again offered the possibility of an anonymous online feedback to be directly addressed to their superiors. This online feedback has already been used by some 70% of employees. In order to learn more about staff motivation and satisfaction, mobilkom austria participated in the well-known "Great Place to Work Survey" for the first time in the year under review. mobilkom austria was ranked among the top 25 Austrian employers as the only domestic telecommunications company. A similar survey last year confirmed Si.mobil's status as the second-best employer in Slovenia.



* Including Austrian subsidiaries of mobilkom austria

The UEFA Euro 2008™ was accompanied by several HR initiatives such as prize draws and team competitions for employees, which successfully ensured the flow of information about this major event as well as the identification of staff with the operational challenges faced by the Telekom Austria Group. At the same time, participants could win much sought-after match tickets or invitations to the exclusive viewing venue in the Burgtheater.

A Responsible Employer

A variety of methods have been adopted to promote the health of the Telekom Austria Group's employees. Medical care at the workplace is provided by company doctors. In addition to vaccination and blood donor schemes, employee-related medical activities include regular presentations by experts and e-mail information on health issues. In 2008 the Mobile Communication segment implemented a stress prevention campaign. In cooperation with the nutritional therapist and expert Sasha Walleczek an information campaign was organized to raise awareness about the importance of a healthy diet to better tackle daily professional and private challenges. Those employees, who according to the stress evaluation test had the potential of improving their situation and preventing the burn-out syndrome, were offered the opportunity of an individual and anonymous nutrition coaching. The Fixed Net segment offered workers the opportunity to check their health and fitness at the workplace during the Health Days. As part of efforts to improve safety at work first-aid courses, including defibrillator training, were also organized. All members of the Austrian workforce with permanent employment contracts are covered by a company pension plan to which the company contributes 5% of the employees' monthly salaries. Childcare facilities during school holidays, attractive staff tariffs for voice and data services and other products as well as various sports initiatives round off the range of social benefits provided by the company. The international subsidiaries of the Telekom Austria Group also demonstrate a high level of responsibility towards their workforce by offering additional insurance policies, health checks, company doctors and vaccination services.

Equal Opportunities

Women account for 35% of total workforce group-wide

The Telekom Austria Groups offers female employees the same salary structures and career opportunities as their male colleagues. Wage levels are based on clear job descriptions. Women account for 35% of employees at the Telekom Austria Group, 21% in the Fixed Net segment and 49% in the Mobile Communication segment. Flexible working hours help foster a positive work-life balance. Support programs are in place to ease the reintegration into the working world of employees who have been on parental leave.

Special employees have been assigned to take care of the needs of their colleagues with disabilities and to ensure that workplaces are properly equipped for disabled workers. The integration of employees with disabilities in everyday working life also makes an important contribution to a humane and sensitive corporate culture.

Key Personnel Figures

Full-time employees at year-end	2008	2007	Change in %
Fixed Net segment	8,571	9,598	-10.7
Mobile Communication segment	8,383	8,030	4.4
Telekom Austria Group	16,954	17,628	-3.8
of which abroad	6,228	6,205	0.4

Productivity Figures*			
Revenues per employee in EUR	293,734	305,718	-3.9
EBITDA per employee in EUR	73,605	115,283	-36.2
Fixed lines per Fixed Net employee	273	254	7.5
Mobile Communication customers per Mobile Communication employee	2,124	1,924	10.3

* The 2008 financial year includes restructuring expenses totaling EUR 632.1 million.

Workforce Structure and Productivity

Decline in headcount of 3.8% to 16,954 employees

At year-end 2008 the Telekom Austria Group had 16,954 employees, a decline of 3.8% or 674 persons compared to the previous year. A 10.7% decline in the Fixed Net segment to 8,571 employees contrasts with a growth-driven increase of 4.4% to 8,383 employees in the Mobile Communication segment. As of December 31, 2008, 36.6% of the workforce had civil service status (2007: 37.9%), mostly in the Fixed Net segment. Revenues per employee declined by 3.9% to EUR 293,734 in the year under review. In the Mobile Communication segment the number of customers per employee increased by 10.3%. In the Fixed Net segment the number of access lines per employee also improved by 7.5% to 273 access lines.

Restructuring Program in the Fixed Net Segment

Total restructuring expenses of EUR 632.1 million

In order to safeguard the earnings power of the Fixed Net segment and adjust its legacy personnel structure to current business requirements, it is imperative to reduce the size of the workforce. In previous years a number of socially compatible personnel downsizing schemes have been successfully implemented. A special severance payment model for both employees and civil servants was continued in 2008. In November 2008 a new restructuring program was presented, which is directed toward 1,250 employees. Under this scheme it is expected that a number of these employees will accept the social plan, while the remaining members of staff, who can no longer be employed within the company, will be permanently released from their duties, as there are no other alternatives under current legislation. These two sets of measures entail expenses for a total volume of approximately EUR 632.1 million, for which a non-cash provision of EUR 617.4 million was created in the 2008 financial year pursuant to IFRS.

Innovation and Technology

Increasing Customer Convenience as the Main Objective

Investments in R&D of EUR 41.5 million in 2008

Innovation activities throughout the Telekom Austria Group focus on products and solutions with a strong market relevance. They safeguard the company's innovation leadership, thus ultimately increasing customer convenience. In the year under review, the Telekom Austria Group demonstrated its ability to develop cross-segment solutions to meet this objective, both with successful product packages and the pilot project "Femto Router". This creates an individual indoor 3G network which is connected to the conventional 3G network of the Mobile Communication segment via fixed line broadband. This solution guarantees high-quality UMTS voice telephony and mobile broadband internet also within buildings that do not have satisfactory indoor network coverage without having to reconfigure the mobile data card.

In 2008 the Telekom Austria Group invested roughly EUR 41.5 million in research and development (2007: EUR 47.3 million).

R&D Partnerships

External cooperation allows for interdisciplinary approaches

In order to maximize synergies and promote interdisciplinary approaches, the Telekom Austria Group cooperates with a number of research institutes and partners. The Austrian Institute of Technology, for example, has developed a recommender system for television content in cooperation with the Fixed Net segment. Viewers use the remote control and a graphic user interface to navigate through programs recommended to suit their personal preferences. The company supports an endowed chair at the University of Vienna which is dedicated to the future of the internet. In 2007, the "net culture labs" were set up in cooperation with partners in Vienna and Dornbirn for independent developers from the open source scene. In 2008 the ideas competition "zukunft zuhause" was initiated which seeks creative ideas and proposals for technological applications for the home environment of the future.

In addition to well-established partnerships such as the one with Vodafone and close cooperation with Microsoft and Cisco, the Telekom Austria Group is also represented in competence networks such as ITU, ETSI/3GPP, BSF, Eurescom, GSMA, OMA and ETNO. The Group also participates in the EU-funded R&D Information Society Technologies (IST) program and is a founding member of the Austrian competence centers program COMET (Competence Centers for Excellent Technologies).

Innovations – Fixed Net Segment

For the Fixed Net segment the biggest strategic challenge is to safeguard the attractiveness of fixed access lines. Business areas, therefore, have to be developed which deliver new impulses while meeting customer needs. The gradual migration of the network infrastructures for voice, data and internet to an integrated All-IP-based next-generation network, the ALLmediaNET, will therefore remain a key innovation and investment task in the years to come. This network infrastructure will enable convergent products and reduce both network complexity and operating costs. (For further information please see page 30.)

Let's take the bull by the horns – #4

In the dynamic environment in which the Telekom Austria Group operates, first-class services and product innovations that offer clear added value to the customer represent a crucial competitive advantage. The Group underpins this competitive edge with numerous research cooperations that safeguard its knowledge lead as well as through a partnership with Vodafone in the Mobile Communication segment. In 2008 the Telekom Austria Group invested EUR 41.5 million in research and development.

Another focus of innovation activities in the Fixed Net segment is the further expansion of the program range of the aonTV service launched in 2006. In August 2008, aonTV test customers had the opportunity to shape their own personal viewing experience of the Olympic Games in Beijing with the "ORF 1 interaktiv" format. Telekom Austria was thus the first and only cable television operator in Austria to offer live interactive viewing as part of the EU-funded research project "Live".

Innovation Highlights 2008

Fixed Net Segment

February: Presentation of the visionary "Connected Living" applications at the ITnT technology park in Vienna

The "Excellency in Customer Support" and "Excellency for Sales of BT Conferencing Services" confirm the high quality standards and customer focus of Telekom Austria Group's wholesale unit at international level

March: Telekom Austria equips the Carinthian school network with an innovative security solution that ensures that teaching and learning with digital media is appropriate for minors.

April: Red Cross Salzburg, Telekom Austria and mobilkom austria present a highly innovative system for the mobile coordination of ambulances

Internet Booster accelerates the internet access speed of Telekom Austria's aonKombi product to up to 16 Mbit/s

June: Provision of a wide range of telecommunications services for the UEFA EURO™ 2008. More than 2 pentabytes of data were transmitted throughout the world during the European Football Championships.

July: Together with Innomed and X-Tention, Telekom Austria realizes the first CDA-compliant hybrid diagnostic reports in cooperation with the Federal Health Commission

August: Telekom Austria was the first and only cable TV operator in Austria to offer live interactive viewing of the Olympic Games in Beijing in cooperation with the ORF on the basis of the "ORF 1 interaktiv" format as part of the EU-funded research project "Live"

October: Telekom Austria and the Red Cross Salzburg were awarded the Austrian "ebiz government award 2008" with Elektra+, a mobile coordination system for ambulances

Mobile Communication Segment

March: A1 NFC formed the basis for a unique and innovative customer loyalty scheme

A1 TV Player: innovative program navigator for user-friendly mobile phone TV

April: A1 presented the world's first USB modem for mobile television

A1 Pilot: mobile data delivered more accurate traffic information and contributed to lowering CO_2 emissions

Study confirmed: A1 has the safest network

May: A1 showed I-HSPA and LTE live for the first time

M-Tel: Electronic vouchers for prepaid customers reduced the impact on the environment

June: A1 positioned itself as a provider of mobile TV services

August: M-Tel: Comparative tests confirmed best mobile data quality

September: A1 Internet Security by mobilkom austria and IKARUS received the GTB Innovation Award 2008

First A1 InnovationDays were held

Institute of Broadband Communications of the Vienna University of Technology confirmed that A1 has the best mobile internet and the best voice quality throughout Austria

A1-over-IP for all Austrian mobile communication customers

mobilkom austria group organized the GSMA SG (security working group) workshops

October: Si.mobil: Independent study confirmed excellent network quality

November: A1 mobile phone transmitted blood pressure results to doctors

A1 launched the first pilot project with Femto Routers in Central Europe

December: mobilkom austria: Implementation of HSPA+ was started

Mamtam: a collaborative research project revolutionizes the search for the spoken word in mobile videos

In the medical sector the DaMe service, an intelligent encrypted system for the exchange of patient information and laboratory reports, was expanded in 2008 to include hybrid medical reports which involve the transmission of images. The Fixed Net segment and the Red Cross in Salzburg were awarded the "ebiz e-government award 2008" for "Elektra+", an innovative solution for the mobile communication and coordination of ambulances on the basis of GPS routing. In 2008 Telekom Austria and Kapsch BusinessCom realized the "digitale Plakat" with enables companies to present individualized media content on projection surfaces, plasma and LCD displays.

Innovations – Mobile Communication Segment

Valuable impulses through cooperation and successful initiatives

The Mobile Communication segment focuses on a number of areas as it seeks to safeguard its technological and innovation leadership. The cross-border harmonization of processes was intensified in 2008, as was the exchange of know-how and market expertise. Numerous innovation projects, some of which were carried out within the framework of the partnership with Vodafone as well as with external research institutes and partners, were continued. However, new ground was also broken in the search for new development ideas with the first "A1 InnovationDays". In line with the motto "Open Communication by Open Standards" participants in this ideas and development competition were provided with interfaces to individual service modules and instructions, which they could use to develop innovative services. The many creative ideas, such as the winning project "A1 Sport Reporter", that emerged from this brainstorming exercise, demonstrated the high value of this type of know-how exchange between internal experts and external users.

The continued harmonization of technical platforms safeguards the high quality of all available services throughout the segment's network. A study by the Institute of Broadband Communications of the Vienna University of Technology has confirmed mobilkom austria's network's high quality for the eighth time in a row: mobilkom austria offers its customers the best mobile internet service and the best voice quality throughout Austria. The segment also plays a leading role in the roll-out of the latest broadband technologies such as I-HSPA and LTE (Long-Term Evolution).

Best-quality mobile TV

Following the successful pilot project in 2007, mobile TV based on DVB-H (Digital Video Broadcasting – Handheld) technology was brought to market just in time for the UEFA EURO 2008. At the same time, the world's first USB modem with an integrated DVB-T tuner was presented in Austria. As well as offering mobile broadband, this technology also allows users to receive national television channels irrespective of their location. Mobile TV services were also made more attractive by the innovative A1 TV Player which simplifies navigation through a list of the latest programs. Picture and sound quality was significantly improved thanks to HD Mobile TV, which uses a cutting-edge encryption technology and permits higher bit rates.

Worldwide leading Near Field Communication

The Mobile Communication segment also expanded its range of pioneering commercial services in the area of contactless transmission technology (Near Field Communications, NFC). Following the successful m-commerce solutions introduced in 2007, the range of services was expanded to include first applications for the health sector. In a joint project, a system was developed that enables patients to transmit blood pressure results to their doctor's medical database using a mobile phone.

Sustainable Corporate Management

Telekom Austria Share – A Sustainable Investment

Since 2001 listed in the FTSE4Good index which recommends companies with a strong sense of corporate social responsibility

In 2005 included in VÖNIX, the first Austrian Sustainability Index

Since 2002 included in the list of sustainable investment products recommended by the Munich rating agency oekom research AG

Positive evaluation by imug investment research since 2001

As a further confirmation of its commitment to sustainability, the Telekom Austria Group was the first company to receive the Vienna Stock Exchange's Sustainability Prize in May 2008

Corporate Commitment and Goals

The Telekom Austria Group is committed to its strategic goal of achieving a sustainable increase in shareholder value. Responsible company management means taking forward-looking action to ensure the continued and sound development of the company. However, corporate growth does not translate into unconditional expansion in scale but rather into value-oriented growth that takes into account regional and social circumstances. The challenge is to integrate economic, ecological and social aspects guaranteeing an appropriate balance.

Organization and Reporting

The basic tasks of corporate responsibility are performed at group level. Standards and guidelines regarding, for instance, the Code of Conduct, risk management and the policy for electromagnetic fields are drawn up centrally, while individual activities are tailored to meet regional regulations and requirements. Since 2002 the Telekom Austria Group has published detailed Sustainability Reports at two-year intervals. Beginning with the 2007/08 report, which can be found at http://sr2007-08.telekomaustria.com, the reporting cycle has been reduced to one year.

Responsible Use of New Media

The Telekom Austria Group supports information campaigns in schools and initiatives such as Saferinternet.at, Handywissen.at and ROUNDABOUT KIDS in order to raise awareness about the responsible use of the internet and mobile communications. In 2007, Mobiltel in Bulgaria, Si.mobil in Slovenia and mobilkom austria signed the "European Framework on Safer Mobile Use by Younger Teenagers and Children" initiated by the European Union. Furthermore, since early 2008 mobilkom austria has been actively involved with the "Mobile Phone Child Code", a self-regulatory code of conduct of Austrian mobile operators.

Information Security and Data Protection

The Security Policy of the Telekom Austria Group regulates the use of information that has been entrusted to the company, with top priority being given to ensuring data integrity and compliance with legal, contractual and supervisory requirements. The Fixed Net segment is the only Austrian network operator whose information security management has been certified in accordance with ISO 27001. Experts from the Institute of Information Science and Economic Science at the University of Graz have confirmed that mobilkom austria has not only the best, but also the safest network in Austria.

Pollution Control

As an operator of mobile communications networks, the Telekom Austria Group is committed to implementing a Group-wide standard for electromagnetic fields, base stations, handsets and internal corporate processes. The Telekom Austria Group not only complies with the pollution limit values laid down by the ICNIRP (International Committee on Non-Ionizing Radiation Protection), it also achieves significantly lower values than those required. A large number of independent experts as well as the European Commission Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) have concluded on the basis of the latest research results that there is no health hazard at exposures below this level.

Sustainability Highlights 2008

February: Great Place to Work: mobilkom austria is named the best employer in the Austrian telecommunications industry

April: The "Greenfield Investor Award 2007" goes to Vip mobile in the Republic of Serbia

May: The Telekom Austria Group implements a group-wide Code of Conduct and is awarded the Vienna Stock Exchange's Sustainability Prize

Si.mobil ranks second in the "Golden Thread" awards as one of the best employers in Slovenia

June: Telekom Austria Fixed Net adopts the Energy Policy

Vipnet continues its award-winning commitment to the mine-clearing program Mobility.Communication.Life

August: Velcom supports the Belarusian Paralympics Committee as its general sponsor

September: Vip operator promotes road safety for children

Vipnet supports "Break the Chain", the UNICEF campaign against cyber bullying

October: M-Tel wins a "Socially Responsible Company of the Year" award in Bulgaria

How to Grow Freedom – the first mobilkom austria award honors efforts to promote freedom and democracy

November: Second Telekom Austria Fixed Net Climate Dialogue

Si.mobil launches the environmental program Re.think

Vip mobile initiates the second "Be a Vip student" for telecommunications students

December: M-Tel is named "the Biggest Donor 2008" among Bulgarian companies

Enhancement of Energy Efficiency

Group-wide measures prove effective

The expansion of network infrastructure, growing volumes of voice and data traffic and new technologies are all leading to increased energy consumption across the ICT industry. To curb this trend, the Telekom Austria Group has adopted a multi-pronged approach. In the reporting year the Fixed Net segment approved an energy policy aimed at enhancing energy efficiency and reducing consumption in all main processes. Implementation of the first measures has already resulted in energy savings of 10% at Group headquarters. Following a successful energy-saving project in the previous year, mobilkom austria proceeded to install new intelligent air-conditioning systems at radio sites. This measure has the potential to cut energy consumption by up to 70%. Steps have also been taken to optimize the use of energy at computing and switching centers. Furthermore, projects have been initiated to test the use of renewable energy at base stations. Information campaigns are designed to raise awareness among employees of all departments about energy saving measures.

The Telekom Austria Group can also make a contribution to reducing the volume of CO_2 with its product portfolio. The digitalization of bills and processes, video and telephone conferences as well as applications such as e-learning or e-procurement all optimize the use of resources.

Efficient Management of the Vehicle Fleet

Numerous optimization measures are in place to stem emissions

At the end of 2008 Telekom Austria Group's vehicle fleet comprised roughly 4,600 vehicles, which are used mainly for maintenance and customer service activities. Programs to optimize routing between destinations and the use of navigation systems allow for a more efficient

deployment of the vehicle fleet. Furthermore, in an effort to stem emissions despite increasing mileage the company is gradually replacing old vehicles and moving toward the use of alternative fuels such as natural gas.

Prudent Waste Management

The Telekom Austria Group has implemented a number of waste management concepts, whose compliance in Austria is monitored by a 14-member waste disposal task force. All waste is disposed of by certified waste disposal companies. Waste paper, which accounts for most of the office waste, is sent for recycling, as is suitable telecommunications waste. Those Group companies which are subject to EU law are also obliged to take back and properly dispose of electronic appliances returned by customers.

Social Commitment

Target promotion of selected projects

The Telekom Austria Group has several long-term partnerships with non-profit institutions and organizations. mobilkom austria, for instance, has supported "Doctors without Borders" for the last nine years; Telekom Austria Fixed Net has supported Light into Darkness for 36 years and in 2004 entered into a cooperation with the Austrian Blind Union. The choice of activities and allocation of funding is decided by the local companies taking into account regional needs.

Sponsorship (a selection)

Social Sponsorship

Austria: Light into Darkness / Austrian Federation of the Blind and Partially Sighted / Doctors without Borders / mirno more peace flotilla

Bulgaria: Grant M-Tel Social Program / "1788" project in support of four social causes

Belarus: Children's Hospital Belarus

Croatia: Mobility.Communication.Life mine clearance / Support of regional healthcare centers

Slovenia: Cooperation with the Road Safety Council / Party with a cause – Humanitarian Event

Serbia: Serbian child welfare centers

Macedonia: Center for abandoned babies Bitola

Arts and Educational Sponsorship

Austria: Grafenegg Music Festival / VIENNALE / Children's University Vienna / Saferinternet.at

Bulgaria: M-Tel Awards for Contemporary Bulgarian Art / Picasso Exhibition "I do not seek. I find"

Belarus: Dance Society

Croatia: Vip Jazz Festival / Zagreb Film Festival

Slovenia: Medana Poetry Festival / Days of Curiosity

Serbia: Be a Vip Student / Belgrade Dance Festival

Macedonia: Kirillica – Protection of the natural cultural heritage / Skopje Film Festival

Sports Sponsorship

Austria: UEFA EURO 2008™ / Austrian Paralympics Committee / Austrian Ski Federation / A1 Beach Volleyball Team

Bulgaria: M-Tel Beach Masters – Beach Volleyball Tournament / M-Tel Masters – Chess Tournament

Belarus: Belarus Paralympics Committee

Croatia: Croatian Alpine Ski Association / Three best-ranked tennis players

Slovenia: Marathons (Ljubljana, Celje, Radenci)

Serbia: Volleyball Federation of Serbia

Macedonia: Macedonian Olympic Committee / Macedonian Handball Federation

Group Management Report 2008

Financial Crisis Weakens the Economy

Massively growing impact on real economy

In 2008 the lending crisis that had unfolded in the U.S. mortgage sector in summer 2007 developed into a global financial crisis which also had a negative impact on the real economy. The Austrian economy was unable to escape the global trend, and according to Eurostat real GDP growth declined from 3.1% in the previous year to 1.9% in 2008. In the same period, inflation rate rose from 2.2% to 3.2% spurred by high energy prices, which only fell in Q4 2008. The global economic downturn also affected with varying degrees of intensity those countries beside Austria in which the Telekom Austria Group operates. While Eurostat forecast a decline in real GDP growth in Slovenia from 6.8% to 4.4% and in Croatia from 5.6% to 3.5%, Bulgaria and the Republic of Macedonia were able to reach the previous year's growth levels with increases of 6.2% and 5.5% respectively. For Belarus the International Monetary Fund predicted a decline from 7.8% to 6.4%, and for the Republic of Serbia from 7.1% to 5.0%. Average GDP in the 15 EU member countries decreased from 2.7% to 1.1%.

Almost no effects on telecommunications industry so far

In comparison with other business sectors the telecommunications industry is considered to be relatively resilient to cyclical trends. Communications services such as those offered by the Telekom Austria Group are now regarded as a basic need, which account for only a small percentage of total spending power. The further increase in voice and data traffic in the year under review confirms this assumption and 2008 did not show any change in customer behavior which could have negatively affected business development. The shortage of liquidity on the financial markets led to a general increase in the costs of capital in 2008. However, the Telekom Austria Group can rely on a broad financing basis, which is not only extremely solid but was also further diversified in the year under review.

Growth in the Mobile Communication Segment, Restructuring in the Fixed Net Segment

Sustained competition in both segments

In Austria both the Fixed Net and Mobile Communication segments continued to operate in an environment characterized by sustained fierce competition. Low prices for voice telephony and mobile broadband products contributed to the ongoing fixed-to-mobile substitution. In order to protect the core business of the Fixed Net segment, the broadband portfolio was expanded to include attractive product bundles with higher bandwidths. However, against the backdrop of a shrinking domestic fixed line market, substantial downsizing and cost-cutting measures will also be necessary in the years to come. In the fourth quarter of 2007 the Telekom Austria Group therefore initiated a comprehensive cost-cutting program which led to the implementation of a number of measures in 2008. However, the scope of action was limited because two thirds of the Fixed Net segment workforce have civil servant status and their contracts cannot be terminated. In November 2008 a further step in the restructuring program was taken: the new set of measures encompasses the implementation of additional social plans as well as a redundancy scheme for up to 1,250 Fixed Net employees to be executed throughout 2009. Total related expenditures amount to EUR 632.1 million, a part of which was already deployed in 2008 for social plans currently underway. A provision for further social plans and for the net present value of the estimated future personnel expenses of the redundant employees up to their retirement age was created as per the balance sheet date. A total of EUR 617.4 million was earmarked for the provision, leading to a net loss for the 2008 financial year of EUR -48.8 million. However, this will not have any impact on the operating performance and the cash flow of the Telekom Austria Group. In the years to come lower personnel expenses as a result of this measure will improve future earnings. The provision will not be included in the net debt calculation, but it will be interest bearing starting from 2009.

Further growth in all mobile communication markets

The Mobile Communication segment was able to continue its successful growth strategy both in Austria and in the Telekom Austria Group's international markets. The first full-year consolidation of Velcom (formerly MDC) in Belarus and higher contributions from the subsidiaries in the Republic of Serbia and the Republic of Macedonia, which only started business operations during 2007, strengthened the growth profile of the Telekom Austria Group in 2008. However, the regulation of international roaming tariffs introduced by the European Union in the second half of 2007 had a negative impact on revenues, with this tariff reduction applying to all twelve months of 2008.

Important Regulatory Decisions

Fixed Net

National regulatory decisions

The regulatory reviews of the Austrian telecommunications markets were published at the end of 2008. These market analyses form the basis for assessing the intensity of competition and the possible need to impose regulatory requirements on companies with dominant market power. In the Fixed Net segment, the most recent review is expected to result in the lifting of the regulatory obligations governing the market for calls made by residential customers within Austria, as this retail market was deemed to be highly competitive. No significant reduction in the intensity of regulation is expected in other markets. Proceedings to achieve the partial, regional deregulation of the wholesale market for broadband access in accordance with a regulatory decision made in July 2008 are having to be repeated due to formal irregularities. Interconnection and unbundling charges remained unchanged in the year under review.

EU regulatory decisions

In 2008 the European Parliament, the member states and the European Commission continued to negotiate the Commission's proposals to revise the current legal framework for the telecommunications sector published in 2007. The most controversial issues are the legal framework for future investments and the establishment of a central regulatory authority to coordinate the different regulatory approaches in the EU member states. The Austrian Telecommunications Act is unlikely to be amended before the end of 2010 due to the length of the consultation process. In the year under review a decree was issued regulating remuneration for surveillance measures carried out on behalf of the Austrian state under which telecommunications providers were awarded a one-off payment for their investments in telephone surveillance systems. The Telecommunications Act 2003 requires operators to provide all the necessary technology for monitoring telecommunications in line with the code of criminal procedure.

Mobile Communication

EU roaming regulation for calls within the EU

At the end of June 2007 an EU regulation concerning roaming charges for voice traffic within the European Union came into force which massively reduced both wholesale and retail prices. This will remain in force until the end of June 2010. Discussions are currently underway regarding a proposal put forward by the European Commission to extend the price-capping regulation to cover SMS and data services. The regulation could come into force in June 2009. The current regulation is likely to be extended until 2013, with further reductions in voice telephony possibly combined with the regulation of billing increments, price caps for SMS at the wholesale and retail levels as well as measures to increase transparency and possibly a cap on data roaming prices. In 2009 the European Commission also plans to publish a recommendation concerning the calculation of mobile termination charges. This should ensure the harmonization of cost accounting methods by national regulators throughout the European Union and thus the level of termination charges. A further objective is to achieve a substantial reduction of mobile termination charges.

In the year under review mobilkom austria concluded a supplementary agreement to its existing national roaming agreement with Hutchison 3G Austria for a fixed term until the end of 2010. This agreement may be terminated unilaterally by Hutchison between 2011 and 2013, but part payments would then have to be made.

Regulatory trends in the international markets of the Telekom Austria Group

The following paragraph provides an overview of the most important regulatory decisions on the international markets of the Mobile Communication segment. On February 1, 2008 the regulatory authority in Bulgaria imposed a gradual reduction of termination charges for calls from fixed lines to mobile communication networks on Mobiltel and a second operator. This reduction will be implemented in four stages and as of July 1, 2009 the termination charges applicable during peak periods will have to be lowered by 34.4% to 12.7 cents and during off-peak hours by 48.1% to 0.97 cents. April 11, 2008 saw the introduction of number portability in Bulgaria. Following repeated postponements, the tender process for the award of 3G licenses in Belarus is scheduled for September 2009. Network providers still do not have the right to connect directly with other operators as the state-owned fixed net company BelTelecom has a monopoly on interconnection. In Croatia a new law governing electronic communications came into force which is based on the EU legal framework. On September 1, 2008 number portability was introduced in the Republic of Macedonia.

Development of Results

In the financial year 2008 the Telekom Austria Group was able to increase operating revenues by 5.1% to EUR 5,170.3 million. The sustained decline in the number of fixed access lines led to a 4.4% fall in Fixed Net revenues to EUR 2,038.8 million. The first-time full-year consolidation of the Belarusian Velcom as well as rising revenue contributions from the subsidiaries in the Republic of Serbia and the Republic of Macedonia resulted in revenue growth for the Mobile Communication segment of 11.7% to EUR 3,390.9 million. In 2008 Telekom Austria Group's international operations increased their contribution to total revenues by 8.7 percentage points to 44.6%.

Financial Figures

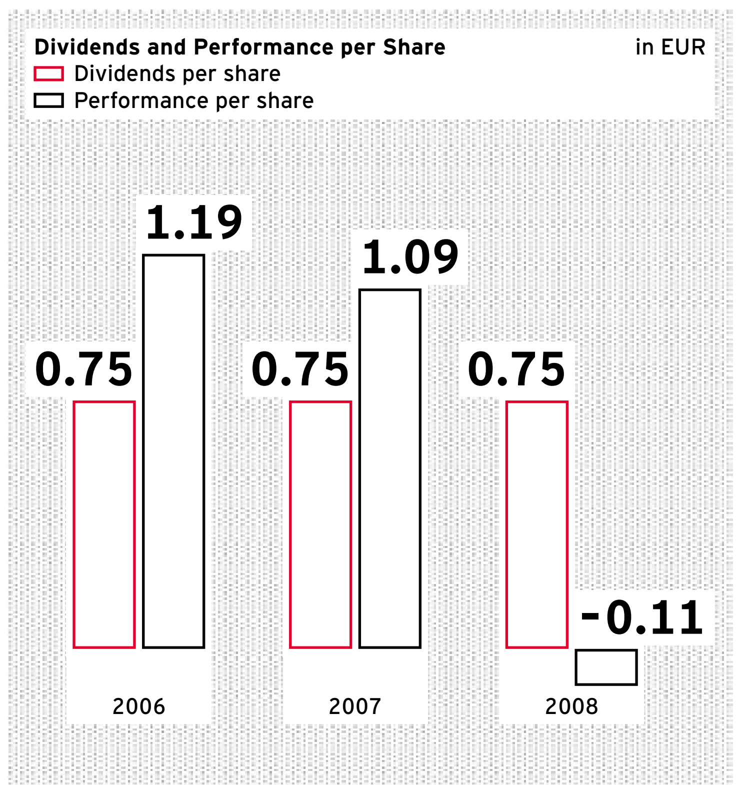
in EUR million	2008	2007	Change in %
Revenues	5,170.3	4,919.0	5.1
EBITDA	1,295.6	1,854.9	-30.2
Operating income	135.5	761.4	-82.2
Net income/loss	-48.8	492.5	-
Performance per share in EUR	-0.11	1.09	-
Capital expenditures	807.6	851.3	-5.1
Net Debt	3,993.3	4,407.2	-9.4

Development of operating expenses impacted by consolidation and restructuring effects

The increase in total expenditures was affected by the aforementioned consolidation effects and restructuring expenses in the Fixed Net segment. The 5.6% increase in material expenses to EUR 428.3 million was caused by the increased number of handsets sold in the Mobile Communication segment and technologically more sophisticated equipment in the Fixed Net segment due to the introduction of product bundles. Due to the restructuring program in the Fixed Net segment, which required expenses totaling EUR 632.1 million, personnel expenses at the Telekom Austria Group rose by 82.3% to EUR 1,454.6 million. Personnel expenses in the Mobile Communication segment increased by 12.8% as a result of the full-year consolidation of Velcom and the growth of the start-up companies established in the Republic of Serbia and the Republic of Macedonia in 2007. Excluding the aforementioned restructuring expenses, personnel expenses in the Fixed Net segment decreased by 1% to EUR 554.0 million.

Operating Expenses

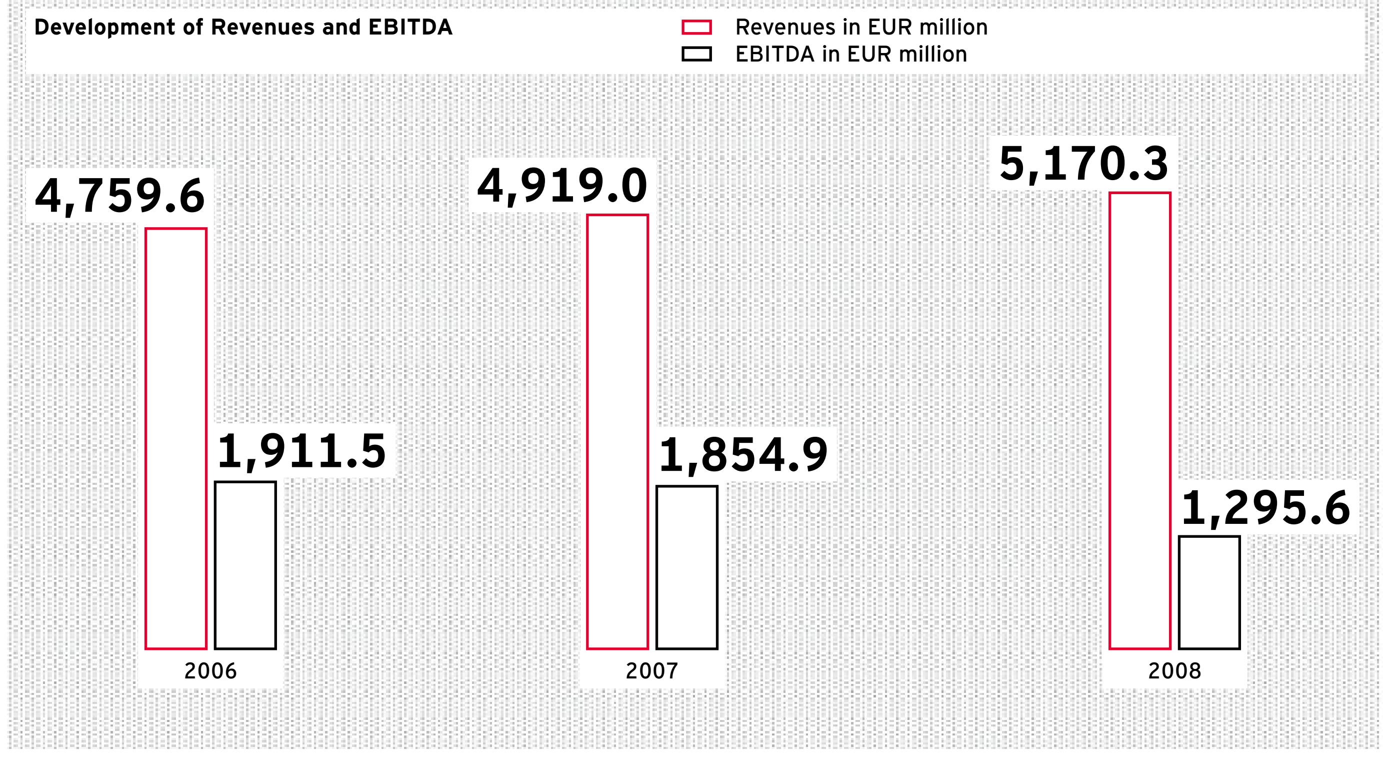
in EUR million	2008	2007	Change in %
Material expenses	428.3	405.7	5.6
Employee costs	1,454.6	797.8	82.3
Depreciation, amortization and impairment charges	1,160.1	1,093.5	6.1
Other operating expenses	2,080.7	1,945.7	6.9



Total other operating expenses increased by 6.9% to EUR 2,080.7 million compared to the previous year. In the Mobile Communication segment this increase was largely attributable to the full-year contributions of Velcom. The Fixed Net segment reported higher expenses for services received and other support services.

The restructuring program in the Fixed Net segment led to a 30.2% decline in EBITDA to EUR 1,295.6 million in the year under review. The EBITDA margin fell from 37.7% in the previous year to 25.1% in 2008 as a result of the restructuring program. Due to the positive development of business in Austria and the full-year consolidation of Velcom, EBITDA in the Mobile Communication Segment rose by 13.8% to EUR 1,340.6 million, while the Fixed Net segment reported negative EBITDA of EUR -21.3 million due to the restructuring program.

Depreciation, amortization and impairment charges amounted to EUR 1,160.1 million in 2008, 6.1% higher than in the previous year. A decline in the Fixed Net segment contrasted with an increase in depreciation and amortization charges in the Mobile Communication segment due to the full-year contributions of Velcom and the subsidiaries in the Republic of Serbia and the Republic of Macedonia. As a result of these developments and the restructuring program in the Fixed Net segment, the Telekom Austria Group generated operating income of EUR 135.5 million, down by 82.2% compared to the previous year.



Total interest expenses rose by 33.0% to EUR 231.7 million primarily as a result of higher expenses for financial liabilities; interest income remained almost unchanged at the previous year's level of EUR 26.3 million. The net loss for the year of EUR 48.8 million allowed a tax loss carried forward of EUR 27.6 million. As a result, earnings per share fell from EUR 1.09 in the previous year to EUR -0.11, with a weighted average number of shares outstanding of approximately 442.2 million (2007: 451.7 million).

Excluding restructuring costs, the Telekom Austria Group would report an EBITDA of EUR 1,927.7 million for the full-year 2008.

Telekom Austria Group's Return on Invested Capital (ROIC) declined from 8.6% in the previous year to 1.2% in 2008 due to restructuring expenses. This effect is also reflected in the Return On Equity (ROE) for 2008 of -2.1%.

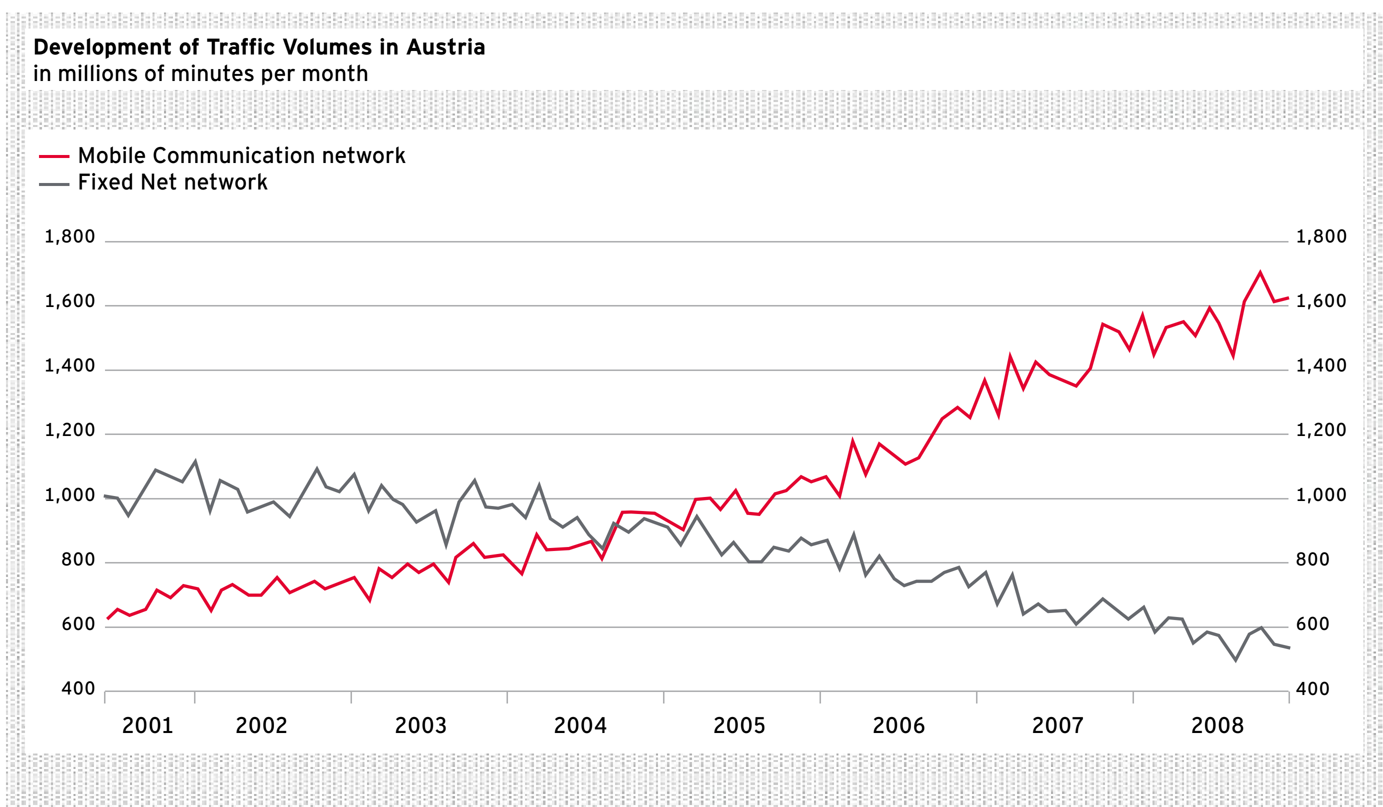
	2008	2007	2006
Performance per share in EUR	-0.11	1.09	1.19
Dividend per share in EUR	0.75	0.75	0.75
Cash flow per share in EUR	1.71	2.16	1.93
ROE in %	-2.1	18.3	19.6
ROIC in %	1.2	8.6	10.0

Segment Reporting

Fixed Net Segment

Owing to the success of the product bundles the decline in the number of fixed access lines was substantially curtailed in the year under review. While in 2007 a total of 224,500 lines were lost, this number was more than halved in 2008 to 97,600 access lines, which, as a result, showed a decline of only 4.0% to 2.3 million at year end 2008. The number of fixed net broadband lines rose by 18.0% to 885,700 in a year-on-year comparison, with a sharp rise in the number of retail customers more than offsetting declines in the wholesale area.

Decline in fixed access lines almost halved to 97,600



Revenues

in EUR million	2008	2007	Change in %
Fixed Net	2,038.8	2,133.0	-4.4
Mobile Communication	3,390.9	3,035.1	11.7
Holding, Others & Eliminations	-259.4	-249.1	4.1
Revenues	5,170.3	4,919.0	5.1

EBITDA

in EUR million	2008	2007	Change in %
Fixed Net	-21.3	705.0	–
Mobile Communication	1,340.6	1,177.6	13.8
Holding, Others & Eliminations	-23.7	-27.7	-14.4
EBITDA	1,295.6	1,854.9	-30.2

Operating income

in EUR million	2008	2007	Change in %
Fixed Net	-530.8	151.2	–
Mobile Communication	689.3	637.5	8.1
Holding, Others & Eliminations	-23.0	-27.3	-15.8
Operating Income	135.5	761.4	-82.2

In the year under review, total revenues in the Fixed Net segment decreased by 4.4% to EUR 2,038.8 million. A growth in revenues from data and IT solutions was only partly able to compensate for a decline in revenues from fixed net voice telephony and internet access. Due to restructuring expenses amounting to EUR 632.1 million, EBITDA decreased from EUR 705.0 million in the previous year to EUR -21.3 million. Lower depreciation and amortization expenses reduced the operating loss to EUR -530.8 million (2007: 151.2 million).

Mobile Communication Segment

Increase of 15.2% to 17.8 million customers

In 2008 the Mobile Communication segment was able to expand its subscriber base in all countries by a total of 15.2% to 17.8 million customers. Supported by this organic growth, the increased share of contract customers and the first full-year consolidation of Velcom, segment revenues rose by 11.7% to EUR 3.390,9 million. EBITDA of the Mobile Communication segment increased by 13.8% to 1,340.6 million, while the EBITDA margin improved from 38.8% to 39.5%. The full-year consolidation of Velcom as well as higher contributions to EBITDA from Austria and Slovenia were more than able to compensate for start-up costs in the Republic of Serbia and the Republic of Macedonia. Despite higher depreciation and amortization expenses, which were mainly the result of the business expansion in the Republic of Serbia and the Republic of Macedonia, and the full-year consolidation of Velcom, operating income increased by 8.1% to EUR 689.3 million.

More than 500,000 net additions in Austria

In 2008 mobilkom austria expanded its subscriber base by 13.6% to 4.5 million customers and increased the share of contract subscribers to 69.5%, raising its market share from 40.3% to 42.5%. At year-end 2008 Austria had a mobile penetration rate of 126.6%. Due to the larger customer base and increased use of data services, revenues rose slightly by 0.5% to EUR 1,668.0 million despite lower roaming revenues. EBITDA improved by 3.4% to EUR 600.7 million, while the EBITDA margin increased by 1.0 percentage point to 36.0% and operating income by 7.1% to EUR 352.3 million.

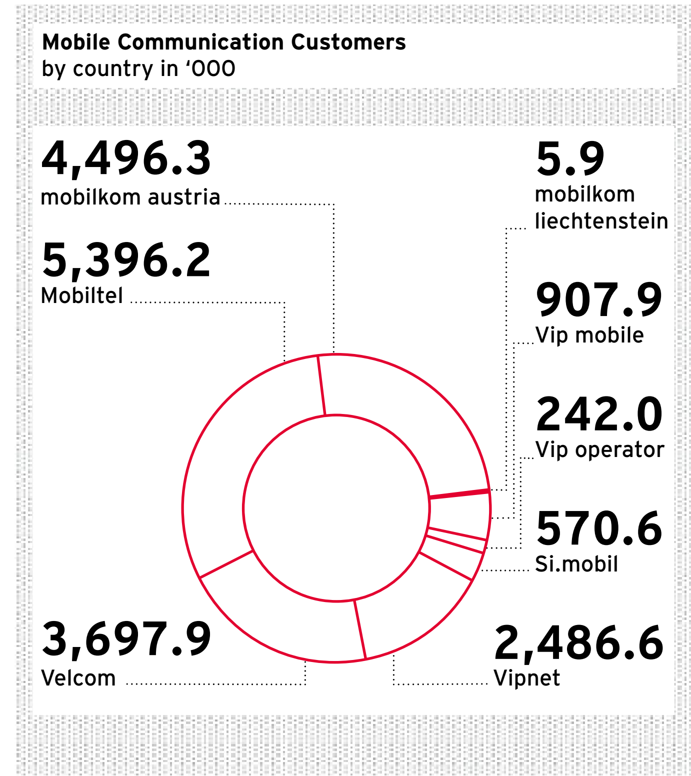
In Bulgaria Mobiltel increased its subscriber base by 5.8% to 5.4 million customers, maintaining its leading position with an almost unchanged market share of 50.0%. At the end of 2008, the mobile penetration rate in Bulgaria stood at 142.1%. In this competitive environment Mobiltel increased revenues by 3.8% to EUR 667.4 million. Due to reduced marketing expenses, EBITDA rose by 3.9% from EUR 357.1 million in the previous year to EUR 370.9 million in 2008. As a result of higher amortization and depreciation charges, operating income dropped by 4.3% to EUR 197.8 million.

Velcom, the second largest mobile operator in Belarus, increased its subscriber base by 20.9% to 3.7 million, expanding its market share from 43.4% to 44.8%. At the end of 2008 Belarus had a mobile penetration rate of 85.1%. In the 2008 financial year Velcom generated revenues of EUR 310.3 million, EBITDA of EUR 152.3 million and operating income of EUR 74.0 million.

Vipnet, the second-largest mobile communications provider in Croatia, increased its subscriber base by 14.1% to 2.5 million customers in 2008, and despite fierce competition was able to keep its market share virtually stable at 42.2%. In 2008 Croatia had a mobile penetration rate of 133.6% up from 114.9% in the previous year. Although Vipnet was able to increase revenues by 1.8% to EUR 523.6 million, it reported a 4.8% decline in EBITDA to EUR 200.1 million, whilst operating income fell by 7.4% to EUR 126.6 million.

Si.mobil, the second-largest mobile operator in Slovenia, reported a 14.7% rise in customer numbers to 570,600, increasing its market share from 26.9% to 27.7%. In 2008 the mobile penetration rate in Slovenia rose from 92.2% to 102.7%. Si.mobil grew revenues by 11.3% to EUR 189.5 million, EBITDA by 10.3% to EUR 58.7 million and operating income by 25.6% to EUR 37.3 million.

In its first full year of operations Vip mobile, the third-largest mobile communications operator in the Republic of Serbia, achieved subscriber growth of 78.4% to 907,900 customers, gaining a market share of 9.1%. At year-end 2008 the Republic of Serbia had a mobile penetration rate of 132.9%. In the year under review, Vip mobile boosted its revenues from EUR 13.7 million in the previous year to EUR 59.0 million. As a result of the start-up investments, EBITDA amounted to EUR -37.2 million compared to EUR -52.2 million in the previous year, while operating income stood at EUR -88.7 million.



At year-end 2008 Vip operator, the third-largest mobile communications provider in the Republic of Macedonia, had 242,000 customers, 71.4% more than at the end of the previous year. In the 2008 financial year mobile penetration in the Republic of Macedonia rose from 87.4% to 112.3%. In 2008 Vip operator generated revenues totaling EUR 11.9 million. Due to start-up investments, EBITDA amounted to EUR -19.5 million after EUR -14.7 in the previous year and operating income to EUR -24.2 million.

Stable Balance Sheet Structure

Balance Sheet Structure

in EUR million	December 31, 2008	As % of the Balance Sheet Total	December 31, 2007	As % of the Balance Sheet Total
Current assets	1,545.4	17.2	1,326.2	14.7
Property, plant and equipment	2,976.0	33.1	3,186.5	35.4
Goodwill	1,958.5	21.8	1,939.6	21.5
Other intangible assets	2,265.6	25.2	2,433.0	27.0
Other assets	251.9	2.8	118.4	1.3
ASSETS	**8,997.4**	**100.0**	**9,003.7**	**100.0**
Current liabilities	2,220.5	24.7	2,557.2	28.4
Long-term debt, net of current portion	2,917.4	32.4	2,793.8	31.0
Lease obligations, net of current portion	29.7	0.3	49.7	0.6
Employee benefits	117.4	1.3	113.0	1.3
Other long-term liabilities	1,556.8	17.3	924.7	10.3
Stockholders' equity	2,155.6	24.0	2,565.3	28.5
LIABILITIES AND STOCKHOLDERS' EQUITY	**8,997.4**	**100.0**	**9,003.7**	**100.0**

Net Debt

in EUR million	December 31, 2008	December 31, 2007
Long-term debt, net of current portion	3,598.5	3,438.0
Short-term borrowings	961.5	1,236.1
- Short-term portion of capital and cross-border leasing	0.0	0.0
+ Capital lease obligations (short-term and long-term)	1.0	1.0
Cash and cash equivalents, short-term and long-term investments	-513.1	-287.8
Financial instruments, included in other assets	-54.6	19.9
Net debt of Telekom Austria Group	**3,993.3**	**4,407.2**
Net debt/EBITDA (excluding expenses for restructuring program)	2.1x	2.4x

Balance sheet total almost stable

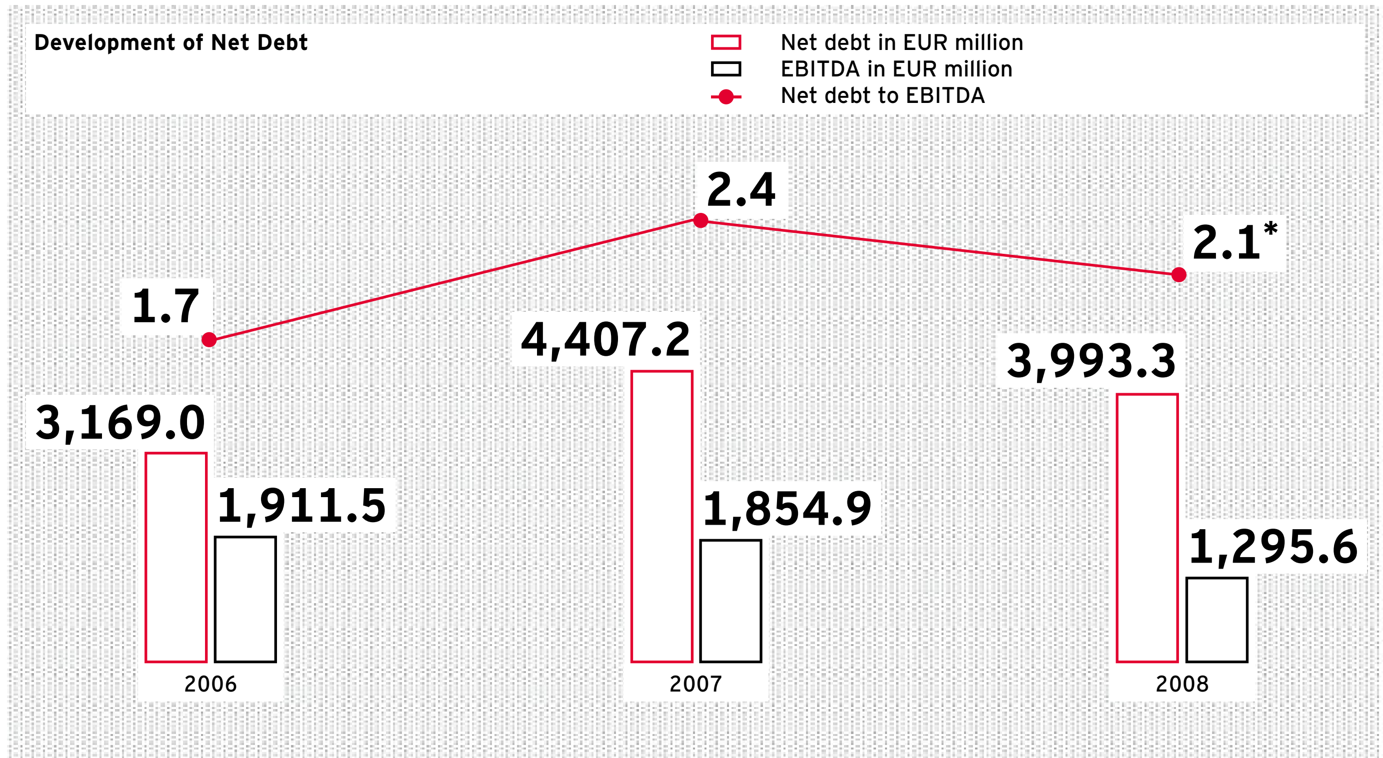
The Telekom Austria Group closed 2008 with a balance sheet total of EUR 8,997.4 million, almost unchanged from the previous year's level. Current assets rose by 16.5% to EUR 1,545.4 million, mainly due to an increase in cash and cash equivalents. Other intangible assets declined by 6.9% to EUR 2,265.6 million and property, plant and equipment declined by 6.6% to EUR 2,976.0 million.

Restructuring provision increases long-term debt

While current assets were reduced by 13.2% to EUR 2,220.5 million, long-term debt rose by 19.1% to EUR 4,621.3 million, mainly due to the provision for the restructuring program. Stockholders' equity decreased by 16.0% to EUR 2,155.6 million. This reduction was due to a dividend payment of EUR 331.7 million and a net loss for the year of EUR 48.8 million in 2008. The equity ratio was 24.0% compared to 28.5% at the end of the previous year.

In 2008 the Telekom Austria Group successfully reduced its net debt by 9.4% from EUR 4,407.2 million to EUR 3,993.3 million. Excluding costs for the restructuring program, net debt to EBITDA decreased from 2.4x to 2.1x at the end of 2008.

Since its first bond issue in 2003, Telekom Austria AG has been subjected to regular evaluations by Moody's Investor Service and Standard & Poor's, the two largest and most renowned rating agencies. In November 2008 Moody's Investor Service reiterated both the A3 rating and the



* Excluding restructuring expenses, including restructuring expenses net debt to EBITDA amounted to 3.1x

stable outlook. In November 2008, Standard & Poor's revised the outlook from stable to negative, but at the same time confirmed the long-term and the short-term ratings of BBB+ and A-2 respectively. The agency said the revision of the outlook reflected concern that the restructuring provision for the Fixed Net segment would be insufficient and that the Group companies in the CEE region could face increased foreign currency risks.

Development of Cash Flow

EUR 1,563.8 million of cash flow generated from operations

In a year-on-year comparison cash flow generated from operations fell by 10.2% to EUR 1,563.8 million, mainly due to a decline in accounts receivable, other liabilities and in prepaid expenses. Cash outflows for investing activities decreased from EUR 1,669.9 million in 2007 to EUR 854.9 million as a result of the acquisition of Velcom in 2007. Cash used in financing activities recorded an outflow of EUR 522.8 million in the reporting year compared to an inflow of EUR 9.9 million in the previous year, mainly due to repayments of long-term debt as well as lower of short-term borrowings.

Cash Flow

in EUR million	2008	2007	Change in %
Cash Flow generated from operations	1,563.8	1,742.0	-10.2
Cash used in investing activities	-854.9	-1,669.9	-48.8
Cash generated from (used in) financing activities	-522.8	9.9	-
Effect of exchange rate changes	-10.4	2.0	-
Increase in cash and cash equivalents	175.7	84.0	-

Capital Expenditures

Total capital expenditures for tangible and intangible assets were reduced by 5.1% to EUR 807.6 million compared to the previous year. While capital expenditures for tangible assets declined by 7.2% to EUR 591.9 million, capital expenditures for intangible assets grew by 0.9% to EUR 215.7 million.

Capital Expenditures*

in EUR million	2008	2007	Change in %
Tangible Fixed Net	201.8	272.6	-26.0
Tangible Mobile Communication	390.1	364.9	6.9
Total tangible	**591.9**	**637.5**	**-7.2**
Intangible Fixed Net	61.7	51.9	18.9
Intangible Mobile Communication	156.2	161.9	-3.5
Eliminations	-2.2	0	-
Total intangible	**215.7**	**213.8**	**0.9**
Capital Expenditures*	**807.6**	**851.3**	**-5.1**

* Excluding capital expenditures arising from asset retirement obligations

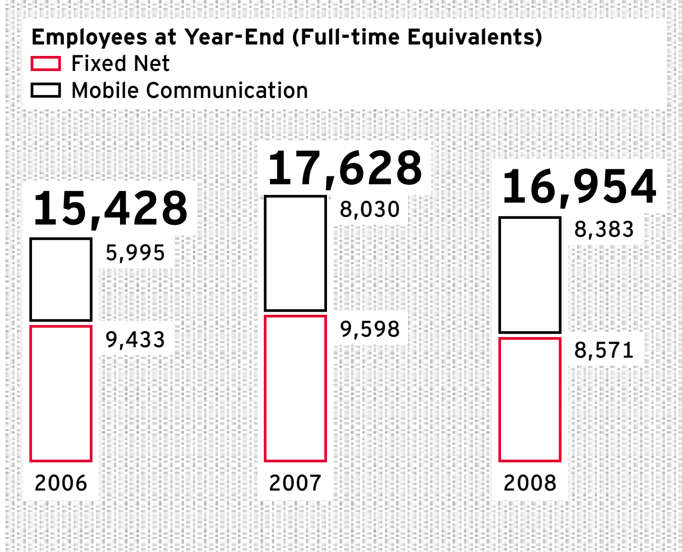
Although the Fixed Net segment continued to expand its network infrastructure in order to increase bandwidths, total investments were reduced by 18.8% to EUR 263.5 million. Total investments in the Mobile Communication segment rose by 3.7% to EUR 546.3 million, mainly as a result of the full-year contribution from Velcom.

Workforce

The number of Telekom Austria Group employees declined by 674 to 16,954 in 2008. The Fixed Net segment registered a decrease of 1,027 to 8,571 employees as a result of the restructuring program and the sale of TA Czech Republic, eTel Slovensko and eTel Polska. In the Mobile Communication segment the development of the start-up companies in the Republic of Serbia and the Republic of Macedonia as well as a rising personnel requirement at Velcom resulted in an increase in the workforce of 4.4% to 8,383 employees. At year-end 2008, 36.6% of the Telekom Austria Group workforce had civil service status (2007: 37.9%).

Employees (Full-Time Equivalents)

	End of Period		
	December 31, 2008	December 31, 2007	Change
Fixed Net	8,571	9,598	-1,027
Mobile Communication	8,383	8,030	353
Telekom Austria Group	**16,954**	**17,628**	**-674**



In 2008 a number of personnel changes were made to the governing bodies of Telekom Austria AG. Rudolf Fischer resigned as CEO of the Fixed Net segment in September 2008 and was succeeded in January 2009 by Hannes Ametsreiter. New members of the Supervisory Board were appointed at the Annual General Meeting 2008. Henrietta Egerth-Stadlhuber, an expert in the field of research and innovation, and Peter J. Oswald, who will contribute his international expertise, were elected to the Supervisory Board as new members. Wolfgang C. Berndt and Johann Haider retired from the Supervisory Board as they had both exceeded the statutory age limit. Markus Hinker resigned from the Supervisory Board as of January 27, 2009. On January 30, 2009 the Central Committee nominated Silvia Bauer for this vacant seat on the Supervisory Board. All other shareholder representatives were re-elected and will continue to serve on the board.

Innovation and Technology

EUR 41.5 million for research and development

Innovation activities in 2008 focused on product development and solutions that can be brought to market quickly. The Group's overriding goals comprise the consolidation of its innovation leadership as an integral element of corporate core brand values, the continuing enhancement of customer convenience as well as cost reduction through optimization of technologies and processes. In 2008 the Telekom Austria Group invested roughly EUR 41.5 million in research and development (2007: EUR 47.3 million).

The gradual migration of the network infrastructures for voice, data and internet to an integrated next-generation network, the ALLmediaNet, will remain a key challenge for the Fixed Net segment in the area of innovation. This network infrastructure enables convergent products and reduces network complexity by integrating previously separate network technologies on a single platform.

In the Mobile Communication segment the main focus is on a flexible, well-developed and reliable network infrastructure with adequate transmission capacities. The successful continuation of the cooperation with Vodafone in the areas of product and technology management allows the company to participate in global development projects. This ensures the early development and harmonized market launch of new products.

Sustainable Corporate Management

Sustainable increase in shareholder value as top priority

The Telekom Austria Group is committed to its prime strategic goal of a sustainable increase in shareholder value and to a responsible cash use policy. The focus is on integrating and striking a balance between economic, ecological and social aspects. The instruments used such as the Internal Control system, the Code of Conduct, compliance guidelines but also the commitment to compliance with the Austrian Corporate Governance Code underline this corporate orientation.

Balanced Use of Capital

Resumption of share buyback program under scrutiny

The Telekom Austria Group strives to achieve a balance between profitable growth projects and appropriate shareholder remuneration in order to ensure a steady increase in corporate value for the company's shareholders. Growth investments are only made if they can produce a greater increase in shareholder value than share buybacks. Due to the acquisition of a 70% stake in the Belarusian mobile operator Velcom in 2007, no shares were bought back in the year under review as the net debt to EBITDA ratio of 2.0 had already been exceeded. The decision whether to resume the share buyback program will be taken after the publication of the Q2 2009 results and will depend on the general sentiment of financial markets and the sustainability of the company's operational performance.

Shareholder Structure

27.4% ÖIAG, the remaining is treasury shares and free float

The Republic of Austria holds 27.4% of Telekom Austria AG shares through the ÖIAG, the remainder comprises free float and treasury shares. On July 17, 2008 Capital Research and Management Company, which at year-end 2007 had held a total of 5.02% of the shares, reported a reduction to 22,716,784 or 4.94% of the shares issued. On January 28, 2009 the company announced that it held 23,750,887 shares or 5.16% of the shares issued. As the managers of the individual funds controlled by this company make their investment decisions independently of one another, these shares are regarded as free float. Telekom Austria AG holds 3.8% of its own shares.

Change of Control clauses, which can ultimately lead to termination of contract, are contained in various finance agreements. Apart from these, the company has entered into no significant agreements which will become effective, change or be terminated upon a change of control in the company as a result of a takeover bid.

Risk Management

Systematic identification and steering measures

Risk management at the Telekom Austria Group systematically identifies possible events and trends and regulates procedures for dealing with potential risks as well as opportunities. The main focus of activities is upon market and competitive risks, interventions by regulators and uncertain legal situations which could influence the company's success. The quality and technical reliability of infrastructure facilities and the security of data networks are also key areas of risk management, as weather conditions, human error or force majeure can have a negative impact on their performance.

Risks and opportunities are regularly analyzed at both the segment and the group level and activities are implemented to reduce or identify them. The effects of deviations from plan are established using, inter alia, scenario and probability calculations. The Telekom Austria Group's overall risk is calculated on the basis of the sum of individual risks.

The Telekom Austria Group is active in various markets (fixed net and mobile communication) and is also increasingly expanding its operations in countries other than Austria. The Group uses this diversity to reduce the multiple risks with which it is confronted.

Risk report encompasses all areas of the Fixed Net segment

As the individual business areas of the Fixed Net segment are exposed to risks of a diverse nature, risk management implementation is not a centrally steered process. Responsibility rests with the individual departments with group-wide monitoring and coordination by a central risk manager. In structured interviews and workshops with top management, risks are identified, evaluated and then compiled in a risk report, on the basis of which measures are drawn up to mitigate and avoid risks.

Risk management of the Mobile Communication segment steered by a committee

Risk management in the Mobile Communication segment is steered by a committee comprised of members of the management boards of the individual mobile communication companies. The goal is to strengthen the companies' potential to cope with risk on the basis of a risk catalogue, which distinguishes between those risks which are specific to individual regions and those which affect the entire segment. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. A regular status report is sent to management as a steering instrument.

The most important risk categories and individual risks which could have a significant impact on the financial, assets and earnings positions of the Telekom Austria Group are explained below. This complies with the requirement of the Austrian Corporate Governance Code on the publication of risks and uncertainties.

Market and Competitive Risks

Price decline in both segments

Tougher competition, which is also increasingly affecting international markets, as well as the rapid pace of technological change, are leading to sharp falls in prices in voice communications and data traffic in both segments. There is therefore a risk that growth in volume will not be able to offset these price declines. Falling prices for mobile communication also accelerate migration from fixed lines to mobile networks. The Fixed Net segment is therefore trying to stem the decline in the number of fixed access lines with attractive and customer-oriented products.

Regulatory and Legal Risks

Current regulation of network access and price structures applies to telecommunications services offered by network operators with "significant market power". The Telekom Austria Group is categorized as such in Austria; the international subsidiaries are also subject to the regulatory frameworks of their own countries.

Regulation limits operational flexibility of the Fixed Net

The operational flexibility of the Fixed Net segment is curtailed by the regulation of customer tariffs and charges at the wholesale level as well as the obligation to open up access to infrastructure and services. In 2007 the European Parliament and the European Council introduced comprehensive regulation of roaming tariffs for calls within the European Union. In 2008 a new proposal was drawn up and discussed by EU bodies and is due for implementation in 2009. This affects the Telekom Austria Group mobile communication companies in the EU member states Austria, Slovenia and Bulgaria. Furthermore, regulatory decisions to reduce termination charges can also impact results of the Telekom Austria Group.

The Telekom Austria Group is involved in a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the company, enable the Telekom Austria Group to identify problems early on and develop measures to counteract them.

Financial Risks

The Telekom Austria Group is exposed to liquidity, loss, currency, transfer and interest-rate risks. Medium and short-term financing instruments in a variety of currencies and with different legal frameworks are used to limit these risks. A liquidity reserve is held in the form of lines of credit and cash in order to safeguard solvency and provide financial flexibility. Details of the financial risks are described in the Notes to the Consolidated Financial Statements under the heading Financial Instruments.

Safeguarding the Sound Value of Assets

Regular impairment tests

The Telekom Austria Group regularly tests assets for impairment, in particular to assess whether there is any impairment of intangible assets such as goodwill due to equity stakes in other companies. In the course of the impairment tests, which are carried out at least once a year, but also whenever internal or external events make it necessary, each company is subjected to detailed scrutiny on the basis of the business plan.

Personnel

Restructuring program in the Fixed Net

Against the background of a shrinking fixed line market due to changed market conditions, it has become necessary to adjust the size of the Telekom Austria Group's workforce to current business needs. The extensive restructuring program in the Fixed Net segment was therefore continued in November 2008. This program provides for the socially compatible downsizing of the workforce. However, the successful implementation of the restructuring program depends on a number of factors which are beyond the direct control of the company's management.

Technical and Geographical Risks

Rapid technological change

Force majeure, human error and faulty materials can cause damage to the technical infrastructure of the Telekom Austria Group. Technological progress also creates risks due to the increasing speed with which the infrastructure reaches its end-of-life. Effective measures to ensure maximum network reliability and fault tolerance encompass redundant critical network components, firewalls, self-defending networks and the implementation of the highest security standards.

Through its expansion into Eastern and Southeastern Europe, the group operates in markets that have been experiencing political and economic changes, which have affected and will continue to affect the activities of enterprises operating in this environment. Consequently operations in Eastern and Southeastern Europe involve uncertainties, including tax uncertainties, which do not exist in other markets.

Internal Control System for Financial Reporting

Reliability and correctness of external financial reporting

Even after delisting from the New York Stock Exchange, the Telekom Austria Group is retaining its internal control system for financial reporting (ICS) and thus complies with all the EU standards which will become mandatory as of 2009. The internal control system should ensure adequate certainty regarding the reliability and correctness of the external financial reporting in compliance with national and international standards. The most important contents and principles apply to all Telekom Austria Group companies. Behind any important financial transaction a risk and control matrix ensures that financial reporting is correct and complete. The effectiveness of this system is surveyed and analyzed at regular intervals. At the end of the year a management evaluation of the companies under scrutiny is carried out in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management confirmed the effectiveness of the internal control system as of December 31, 2008.

Major Subsequent Events

Devaluation of the Belarusian ruble at the beginning of 2009

The National Bank of the Republic of Belarus decided that as of January 2, 2009, the Belarusian ruble would be pegged to a basket of three currencies – the US dollar, the euro and the Russian ruble. Since the balance sheet date December 31, 2008 the Belarusian ruble has weakened against the euro by roughly 15%. Measures are currently being prepared to lessen the impact of the devaluation on the Group's results.

On January 2, 2009 the Telekom Austria Group purchased a 100% stake in CRI Beteiligungs GmbH for approximately EUR 10.6 million. CRI holds a 76% interest in Cable Runner Austria, a technology company which lays fiber optic cables in sewers.

On January 13, 2009 the company agreed to purchase 25.029% of the shares in Marx Media Vienna GmbH for about EUR 3.0 million. The transaction is subject to prior approval by the anti-trust authority as well as to compliance with certain closing conditions.

Continuation of the Stock Option Program

On the basis of the authorization of the Supervisory Board an additional ("sixth" or "ESOP 2009+") tranche of 4,923,090 stock options was granted to eligible employees on January 14, 2009 as a result of the extension of the stock option program 2004 (see Note 31). The exercise price of EUR 11.06 corresponds to the average closing price of the Telekom Austria share during the 20 trading days preceding the grant date. For every 30 or 25 options awarded, an eligible employee or a member of the Management Board must hold one ordinary share until exercise. The exercise of the options is contingent upon the development of earnings per share adjusted for special effects. The options have a vesting period of 13 months from the date of issue and an exercise period of a three further years. The options will be settled in cash.

On January 21, 2009 the company placed a bullet bond on the Eurobond market with a volume of EUR 750.0 million, a disagio and issue costs of EUR 8.0 million, a coupon of 6.375% and a seven-year maturity.

A decree issued by the Ministry of Justice has now regulated the reimbursement of investments made by network operators for the technology required to provide data information and monitor telecommunications content. In 2009 the company will therefore be granted a reimbursement in line with this directive.

Cross-border transactions require changed guaranties

In the context of cross-border transactions in 1999 the company entered into payment undertaking agreements with the US insurance group AIG Matched Funding Corp. As a consequence of the downgrade of AIG's rating, additional guarantees must be provided. Within the scope of cross-border transactions in 2006 the company also concluded guarantee agreements with the Royal Bank of Scotland plc (RBS). As a consequence of the downgrade of RBS, these guarantees must be replaced.

Besides the possibility of providing additional or substitute guarantees, the premature termination of the contracts by mutual agreement is being explored as a potential alternative. The termination of contracts by mutual agreement could have cost advantages compared to providing an alternative guarantee. Additional expenses for additional guarantees and for terminating contracts by mutual agreements cannot be excluded at the present point in time. However, such additional costs are not regarded as substantial.

Outlook 2009–2012

Stable revenue and earnings development in 2009

The Telekom Austria Group expects to generate free cash flow of approximately EUR 3.2 billion in the period 2009 to 2012. Revenues totaling EUR 5.1 billion are planned for 2009 with modest growth anticipated for subsequent years. EBITDA for the 2009 financial year is expected to remain unchanged at EUR 1.9 billion with a stable development predicted for the period up to 2012. Capital expenditures for 2009 and 2010 will amount to approximately EUR 800 million, decreasing to approximately 13% of revenues by 2012.

Vienna, February 13, 2009

The Management Board
Boris Nemsic, Hans Tschuden, Hannes Ametsreiter

Fixed Net Segment

Focus on Austria and Restructuring

Sale of foreign subsidiaries in 2008

The Fixed Net segment encompasses all the Telekom Austria Group's fixed line activities, which since the sale of eTel Polska in February 2008 as well as Telekom Austria Czech Republic and eTel Slovensko at the end of November 2008, have been concentrated on the core market of Austria.

The regulatory review of the Austrian telecommunications markets published at the end of 2008 is expected to result in the lifting of the regulatory provisions governing calls made by residential customers within Austria, as this retail market was deemed to be highly competitive. At the EU level, discussions on the revision of the regulatory framework continued in 2008. However, no substantial impact on the Austrian regulatory system is expected before the end of 2010.

In 2008 higher revenues in the data and IT solutions business were only partly able to compensate for the negative development of fixed net voice telephony and internet access; in a year-on-year comparison, the segment registered an overall decline in revenues of 4.4% to EUR 2,038.8 million in 2008. In November 2008 an extensive restructuring program was presented, which required additional personnel expenses of EUR 632.1 million, booked pursuant to IFRS. These measures and lower revenues led to a decline in EBITDA from EUR 705.0 million in the previous year to EUR -21.3 million in 2008. Despite lower depreciation and amortization expenses, the Fixed Net segment reported an operating loss of EUR -530.8 million, compared to EUR 151.2 million in 2007. The sale of the aforementioned foreign subsidiaries had no substantial impact on the segment's earnings.

Key Data Fixed Net

Financial figures in EUR million	2008	Change in %	2007	2006
Revenues	2,038.8	-4.4	2,133.0	2,119.5
EBITDA	-21.3	–	705.0	752.8
Operating income	-530.8	–	151.2	116.2
Capital expenditures	263.5	-18.8	324.5	283.9
Human resources*	8,571	-10.7	9,598	9,433

* Full-time employees as of Dec. 31

Revenues from switched voice traffic declined by 9.1% to EUR 318.0 million. Due to sustained migration from fixed lines to mobile communication networks the segment reported a 9.1% decrease in voice minutes. The first full-year contribution of eTel Austria, which had been acquired in April 2007, was only able to partially compensate for this downward trend.

Due to the successful sale of product bundles, the decline in the number of fixed access lines was substantially curtailed. The segment reported fixed access line net additions in November and December 2008 for the first time after twelve years as a result of a Christmas marketing offensive. For the full year 2008 the number of fixed access lines decreased by 4.0% to 2.3 million (decline in 2007: 8.4%). At the same time, switched voice monthly rentals and other voice telephony revenues declined by 3.0% to EUR 456.9 million. Revenues from payphones and value-added services fell by 11.8% to EUR 41.2 million.

Revenues Fixed Net

in EUR million	2008	2007	Change in %
Switched voice traffic revenues	318.0	349.9	-9.1
Switched voice monthly rental and other voice telephony revenues	456.9	471.0	-3.0
Payphones and value-added services	41.2	46.7	-11.8
Data and IT solutions including wholesale	465.1	446.4	4.2
Internet access and media	235.3	280.7	-16.2
Wholesale voice and internet	405.6	410.4	-1.2
Other	116.7	127.9	-8.8
Revenues Fixed Net	**2,038.8**	**2,133.0**	**-4.4**

23.1% rise in retail fixed net broadband access lines to approximately 818,900

Revenues generated from data and IT solutions, including wholesale, rose by 4.2% to EUR 465.1 million mainly due to growth in the area of digital advertising surfaces and large-scale projects. In the business area internet access and media, the number of retail broadband lines (excluding wholesale) rose by 23.1% to 818,900. Nevertheless, revenues still fell by 16.2% to EUR 235.3 million due to lower broadband prices.

In the wholesale internet business, a regulatory price reduction and a decline in the number of access lines led to a decrease in revenues which could not be completely offset by higher volumes of international voice traffic. Total wholesale voice telephony and internet revenues declined by 1.2% to EUR 405.6 million. Other revenues fell by 8.8% to EUR 116.7 million.

Operating Expenses

in EUR million	2008	2007	Change in %
Material expenses	86.4	79.0	9.4
Employee costs including benefits and taxes	1,186.1	559.4	112.0
Depreciation, amortization and impairment charges	509.5	553.8	-8.0
Interconnection	344.4	359.3	-4.1
Maintenance and repairs	107.9	111.1	-2.9
Services received	83.5	73.3	13.9
Other support services	110.1	93.5	17.8
Other operating expenses	201.1	215.9	-6.9
Operating Expenses Fixed Net	**2,629.0**	**2,045.3**	**28.5**

Increase in expenses due to restructuring program

Total operating expenses rose by 28.5% to EUR 2,629.0 million, mainly due to additional restructuring expenses for redundancy schemes and social plans amounting to EUR 632.1 million. Excluding these restructuring expenses, personnel costs would have fallen by 1.0% to EUR 554.0 million due to a 2.8% decline in the average number of Fixed Net employees. In a year-on-year comparison, material expenses rose by 9.4% to EUR 86.4 million, due to a sharp increase in the volume of merchandise sold as part of the product bundles. Owing to a reduction in termination charges in national traffic and the sale of the segment's international subsidiaries, interconnection expenses decreased by 4.1% to EUR 344.4 million.

Cost-cutting measures bear fruit

Expenses for maintenance and repairs of buildings and infrastructure facilities decreased by 2.9% to EUR 107.9 million, whereas expenses for services received increased by 13.9% to EUR 83.5 million, mainly due to the provision of international data lines. Other support service costs rose by 17.8% to EUR 110.1 million.

Following the continuation and intensification of the cost-cutting program other operating expenses fell by 6.9% to EUR 201.1 million. Substantial savings were made above all in the area of commission payments, transport services, travelling expenses and through fewer damage claims and bad debts.

Lower capital expenditures led to a reduction, in depreciation, amortization and impairment charges of 8.0% to EUR 509.5 million. The impairment charge of EUR 4.8 million pertains to the reduced value of the eTel brand name.

Restrictive Investment Policy

Although the Fixed Net segment reduced total capital expenditures by 18.8% to EUR 263.5 million, the further expansion of network infrastructure to enhance bandwidths was continued. Investments were focused on continuing the gradual migration of existing network technologies to a single next-generation network infrastructure, the ALLmediaNET (for further details see page 30). Moreover, additional investments were made in building up network resources for large-scale projects such as ACOnet (Austrian Academic Network), or in the provision of network capacities for mobile operators, the UEFA EURO 2008™ as well as the Austrian Ministry of Internal Affairs.

Due to the lower volume of investments the stated value of property, plant and equipment decreased by 14.9% to EUR 1,552.0 million. In contrast, intangible assets rose by 7.8% to EUR 178.7 million due to investments in software and licenses for network management.

Successful Product Bundles Stem the Decline in Fixed Access Lines

In 2008 the Fixed Net segment expanded its share of the Austrian fixed line voice telephony market from 59.9% to 61.3%. Fixed-to-mobile substitution continued in the year under review, leading to a 13.7% decline in fixed line minutes in the Austrian market. Although the Fixed Net segment was unable to buck this trend, it did on average show a more positive development than the industry as a whole, registering a 9.1% decline in voice minutes to 3.8 million. Average minute tariffs rose by 7.8% due to increased volumes of voice traffic to destinations and in networks with higher tariffs.

Let's take the bull by the horns – #5

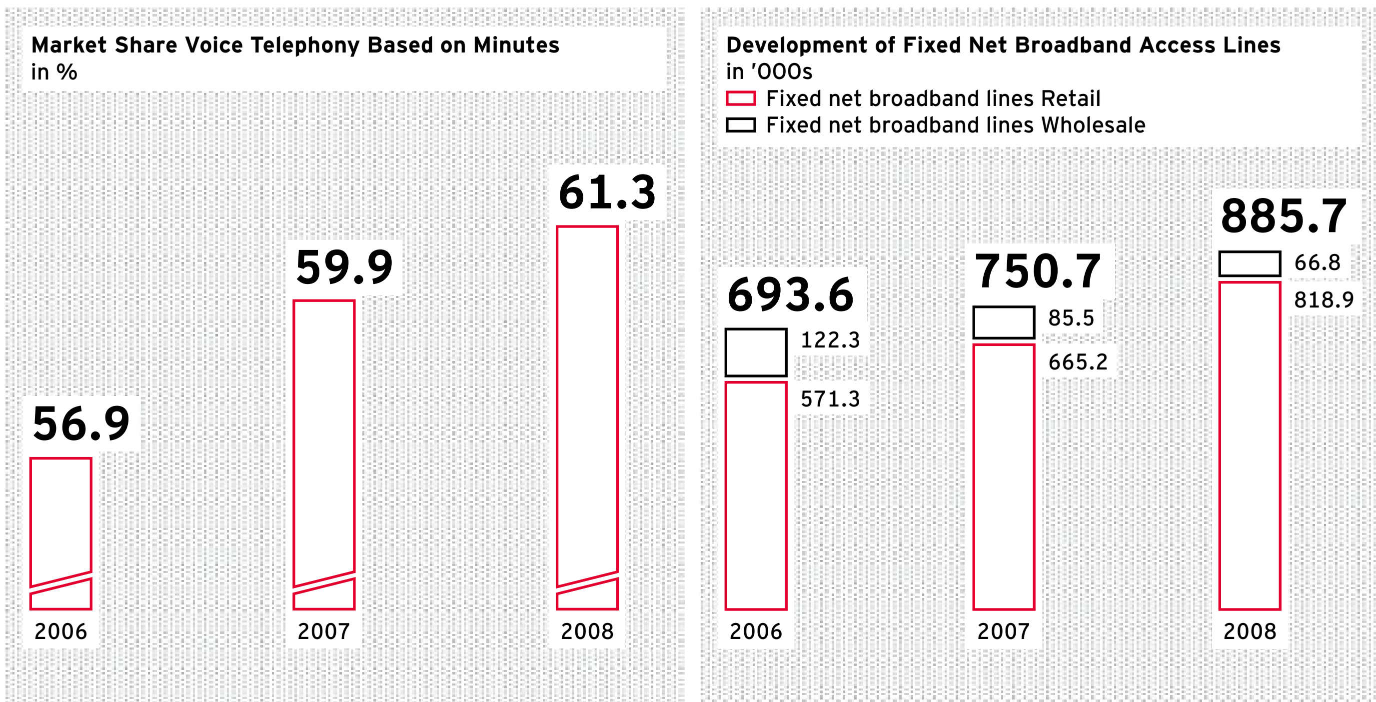
Driven by sustained fixed-to-mobile migration, the Austrian fixed net market registered a 9.1% decline in voice minutes in 2008. The Fixed Net segment of the Telekom Austria Group is tackling this development by safeguarding the attractiveness of fixed lines with product bundles comprising fixed net telephony, mobile communications, broadband internet, mobile broadband and television, as well as with an impressive broadband portfolio. The decline in subscriber lines was reduced from 8.4% to 4.0% in a year-on-year comparison and the number of aonTV customers, for example, more than tripled to 63,800.

Key Operating Data Fixed Net

	2008	2007	Change in %
National traffic (in million minutes)	2,698	3,047	-11.5
Fixed-to-mobile traffic (in million minutes)	737	758	-2.7
International fixed line traffic (in million minutes)	405	419	-3.3
Total voice telephony (in million minutes)	3,839	4,223	-9.1
Market share voice telephony in %	61.3	59.9	–
Average tariff voice telephony (in EUR/minute)	0.083	0.077	7.8
Average monthly revenues per fixed access line	33.3	33.3	0.0
Broadband penetration in Austria in % of households	77.5	63.0	–

Fixed Access Lines

in '000s	2008	2007	Change in %
Fixed access lines	2,336.8	2,434.4	-4.0
Fixed net broadband access lines Retail	818.9	665.2	23.1
Fixed net broadband access lines Wholesale	66.8	85.5	-21.9
Total fixed net broadband access lines	885.7	750.7	18.0
Unbundled lines	298.9	289.3	3.3



Product bundles slow down decline in fixed access lines

The successful establishment of product bundles – comprising fixed line telephony, mobile communications, broadband internet, mobile broadband and TV – along with attractive promotion campaigns and customer loyalty measures significantly slowed down the decline in the number of fixed access lines. While a reduction of 8.4% was registered in the previous year, the comparative figure for 2008 is 4.0%. At year-end 2008 the segment reported a total of 2.3 million fixed access lines. Alternative operators continued their unbundling activities in 2008 – albeit at a slower pace than in the previous year – with unbundled lines rising by 3.3% to 298,900.

Successful broadband product portfolio, 63,800 aonTV customers

The number of aonTV customers more than tripled in the year under review to 63,800. The program portfolio was expanded to more than 80 channels and features video-on-demand, HDTV and other IPTV functions, such as an integrated video library with more than 300 films, an electronic program guide and interactive information services such as horoscopes, traffic reports and alerts, weather forecasts and news. A special version of aonAlarmServices for apartments made a further contribution to increasing the attractiveness of fixed lines. Total average monthly revenues per fixed access line (including voice telephony, broadband and aonTV) remained stable at EUR 33.3.

The increasing competition from mobile broadband and product bundles on the domestic market triggered a 21.9% decline in the number of wholesale broadband lines to 66,800. However, in the retail segment the number of fixed net broadband lines rose by 23.1% to 818,900. In the retail customer business, the Fixed Net segment holds a 29.9% market share of the Austrian broadband market.

Further information on the business model and the strategic objectives of the Fixed Net segment can be found on pages 25 and 28.

Mobile Communication Segment

Subscriber Growth in all Markets

The Mobile Communication segment encompasses the mobile communication operations of the Telekom Austria Group: mobilkom austria in Austria, Mobiltel in Bulgaria, Velcom in Belarus, Vipnet in Croatia, Si.mobil in Slovenia, Vip mobile in the Republic of Serbia, Vip operator in the Republic of Macedonia and mobilkom liechtenstein in the Principality of Liechtenstein.

In the Mobile Communication segment, the 2008 financial year was influenced by positive business development in Austria and the first full-year contribution of Velcom in Belarus, Vip mobile in the Republic of Serbia and Vip operator in the Republic of Macedonia. The success of the Mobile Communication segment in all areas that offered business opportunities in 2008 cushioned losses stemming from regulatory measures.

Following a 50% increase in the number of customers to over 15.4 million in 2007, a further rise of 15.2% to 17.8 million customers was registered in the reporting year. Strong impulses came from the subsidiaries in the Republic of Serbia and the Republic of Macedonia. In absolute terms, the Belarusian operator Velcom made the biggest contribution to growth with 639,200 new subscribers, but customer numbers also rose in all other countries despite increased levels of competition.

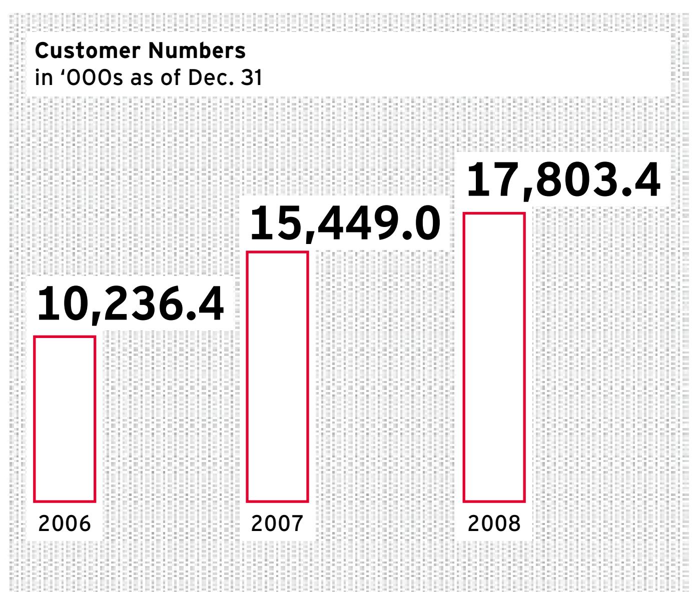
Key Data Mobile Communication

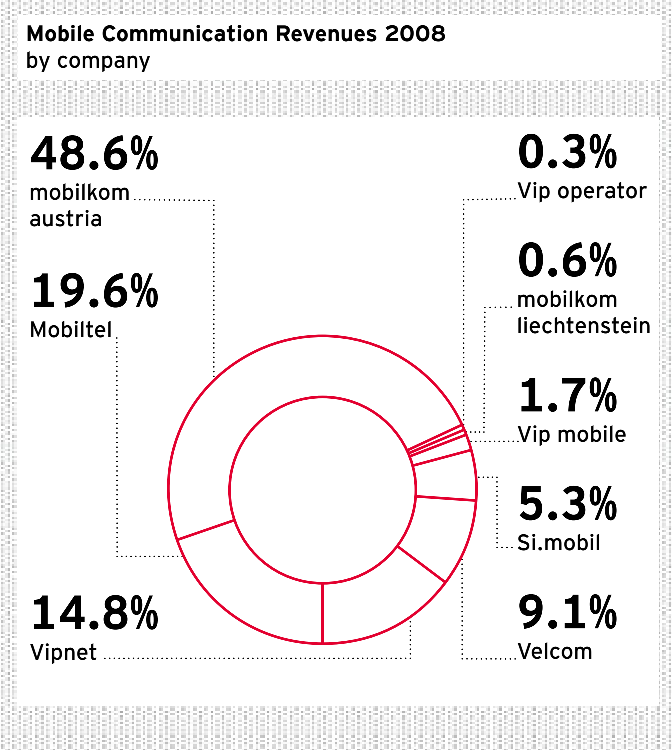
Financial figures in EUR million	2008	Change in %	2007	2006
Revenues	3,390.9	11.7	3,035.1	2,902.6
EBITDA	1,340.6	13.8	1,177.6	1,177.1
EBITDA margin in %	39.5	–	38.8	40.6
Operating income	689.3	8.1	637.5	678.8
Capital expenditures	546.3	3.7	526.8	712.8
Number of customers (in '000s)	17,803.4	15.2	15,449.0	10,236.4
Share of revenues from data services in %*	25.8	–	23.2	20.2
Human resources**	8,383	4.4	8,030	5,995

* Data revenues as a portion of traffic-related revenues
** Full-time employees as of Dec. 31

Expansion Boosts Revenues and Earnings Power

Supported by this organic growth, the increased share of contract customers and the first full-year consolidation of Velcom, the Mobile Communication segment reported revenue growth of 11.7% to EUR 3,390.9 million in 2008.





Subscriber growth of
15.2%
to 17.8 million customers

Traffic revenues increased by 12.0% to EUR 1,650.3 million and monthly rentals by 24.3% to EUR 763.1 million. As a consequence of regulatory decisions, roaming revenues at the segment level declined by 24.4% to EUR 182.1 million. However, interconnection revenues rose by 20.8% to EUR 510.8 million due to the start of operations in the Republic of Serbia and the Republic of Macedonia as well as the full-year contribution of Velcom. Data products also played a more important role in the reporting year, with data revenues as a portion of traffic-related revenues rising by 2.6 percentage points to 25.8%. This development was largely attributable to the success of mobile broadband.

In Austria revenues remained stable despite fierce competition and the regulation of roaming tariffs. The percentage of revenues contributed by the international subsidiaries rose from 46.0% in the previous year to 51.4% in 2008, so that for the first time more than half the segment's revenues were generated outside Austria.

Revenues Mobile Communication

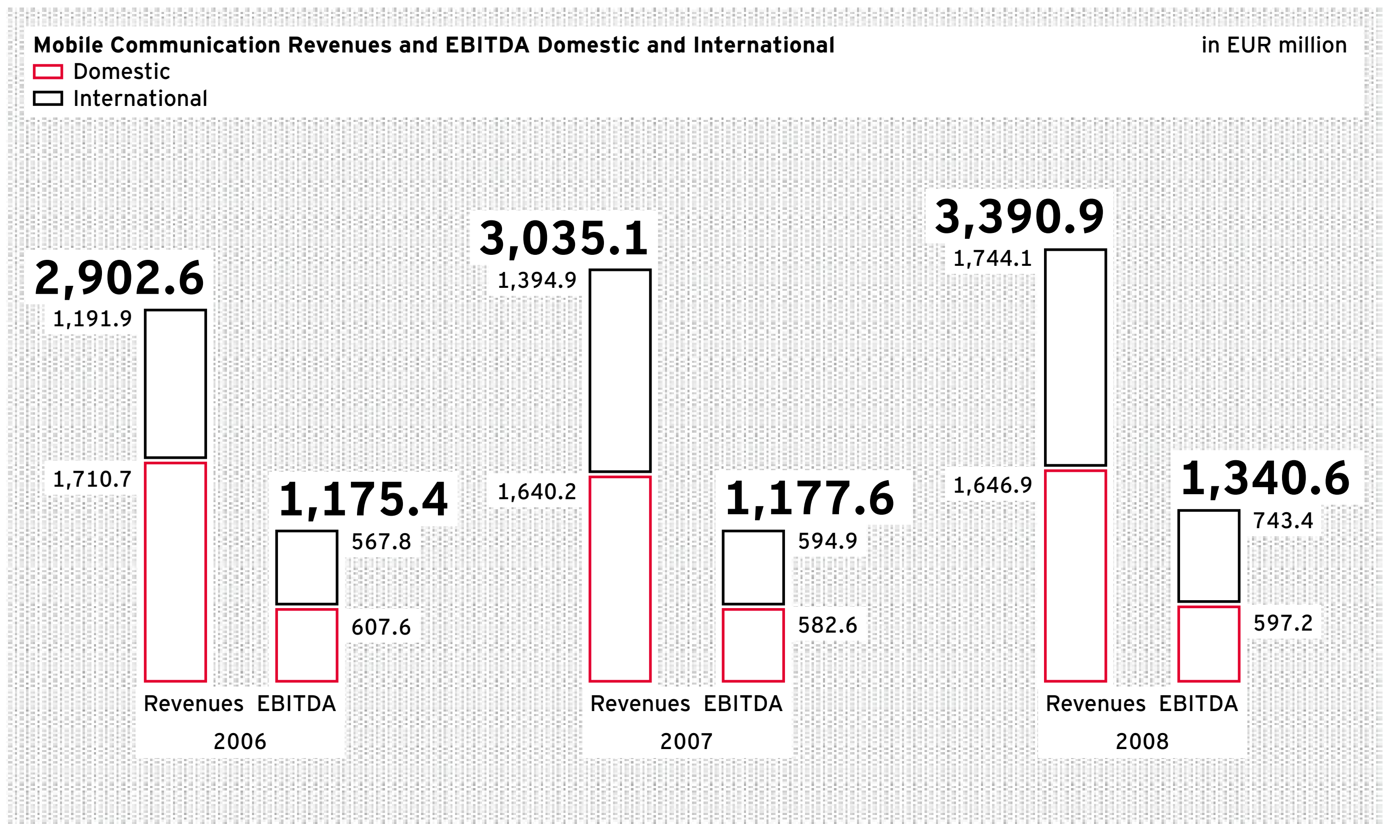
in EUR million	2008	2007	Change in %
Traffic revenues	1,650.3	1,473.0	12.0
Monthly rentals	763.1	613.8	24.3
Equipment	269.8	278.7	-3.2
Roaming	182.1	240.8	-24.4
Interconnection	510.8	422.9	20.8
Other	61.4	52.8	16.3
Discounts	-46.6	-46.9	-0.6
Revenues Mobile Communication	**3,390.9**	**3,035.1**	**11.7**

Total operating expenses in the Mobile Communication segment rose by 10.7% to EUR 2,103.8 million. While in Austria cost-cutting measures led to a reduction in expenses, the first full-year consolidation of the Belarusian operator Velcom resulted in increases across virtually all expense categories. Due to a 4.4% increase in the size of the workforce to 8,383 employees, personnel costs increased by 12.8% to EUR 266.8 million compared to the previous year. The consolidation of Velcom and start-up investments in the Republic of Serbia and the Republic of Macedonia led to an increase in depreciation and amortization charges of 20.6% to EUR 651.3 million. Subscriber growth and greater call volumes in third-party networks led to an increase in interconnection expenses of EUR 20.5% to EUR 416.4 million. Expenses for services received remained virtually stable in a year-on-year comparison at EUR 313.7 million; those for other support services rose by 16.3% to EUR 34.9 million. Other operating expenses grew by 11.5% to EUR 631.3 million.

Operating Expenses Mobile Communication

in EUR million	2008	2007	Change in %
Material expenses	360.3	345.9	4.2
Employee costs incl. benefits and taxes	266.8	236.5	12.8
Depreciation, amortization and impairment charges	651.3	540.1	20.6
Interconnection	416.4	345.6	20.5
Maintenance and repairs	80.4	73.0	10.1
Services received	313.7	303.9	3.2
Other support services	34.9	30.0	16.3
Other operating expenses	631.3	566.2	11.5
Operating expenses Mobile Communication	**2,755.1**	**2,441.2**	**12.9**

EBITDA improved by 13.8% to EUR 1,340.6 million compared to the previous year. The consolidation of Velcom, as well as higher contributions from Austria, Slovenia and Bulgaria, were more than able to compensate for start-up costs in the Republic of Serbia and the Republic of



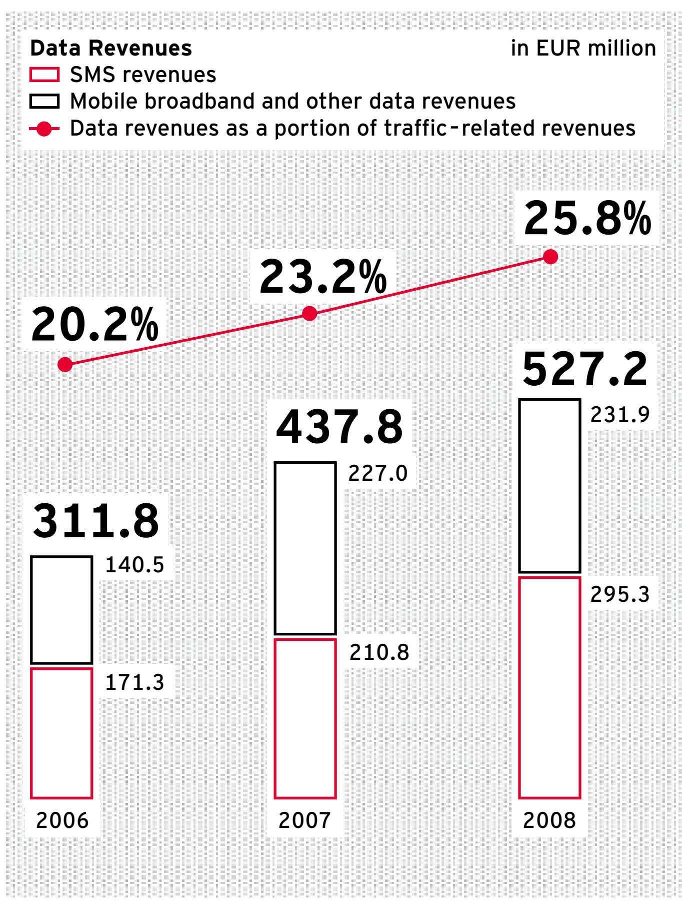
Macedonia. Revenue growth of 11.7% led an increase in the EBITDA margin from 38.8% to 39.5%. Despite a 20.6% rise in depreciation and amortization expenses, operating income increased by 8.1% to EUR 689.3 million.

The first time full-year consolidation of Velcom and the two companies in the Republic of Serbia and the Republic of Macedonia, which started operations in the second half of 2007, contributed a total of EUR 381.2 million to revenues, increasing EBITDA by EUR 95.6 million.

Growth-Driven Increase in Investments

In the year under review, the Mobile Communication segment made investments totaling EUR 546.3 million, an increase of 3.7% compared to the previous year. Following the purchase of licenses for the Republic of Serbia and the Republic of Macedonia in previous years, the focus of activities in 2008 was upon the roll-out of network infrastructure in these markets, which required investments totaling EUR 109.9 million.

Further information on the business model and the strategic objectives of the Mobile Communication segment can be found on pages 26 and 30.



Subscriber growth of
13.6%
to 4.5 million customers

mobilkom austria – Austria

The Austrian mobile communications market is one of the most competitive in Europe and for several years has registered falling tariffs. In this environment, mobilkom austria expanded its market share from 40.3% to 42.5%, and at year-end 2008 had approximately 4.5 million customers, 500,000 more than in the previous year. The share of contract customers rose from 66.3% to 69.5%. Following approval by the anti-trust authority, the acquisition of the Austrian mobile communications subsidiary of Tele2 was completed in March 2008.

mobilkom austria

Financial figures in EUR million	2008	2007	Change in %
Revenues	1,668.0	1,660.2	0.5
EBITDA	600.7	580.7	3.4
EBITDA margin in %	36.0	35.0	–
Operating income	352.3	329.0	7.1
Mobile penetration in Austria in %	126.6	118.3	–
Market share in %	42.5	40.3	–
Number of competitors	6	7	–
Number of customers (in '000s)	4,496.3	3,959.3	13.6
Share of contract customers in %	69.5	66.3	–
Revenues per customer (ARPU, in EUR)	28.3	30.9	-8.4
Share of revenues from data services in %*	32.2	27.9	–
Employees (full-time as per Dec. 31)	2,144.0	2,151.0	-0.3

* Data revenues as a portion of traffic-related revenues

In 2008 the mobile penetration rate in Austria increased by 8.3 percentage points to 126.6%. The main factor behind this increase was the success of mobile broadband, a business area in which mobilkom austria has once again proven its technological leadership with innovative products such as A1 Internet Security. At 14.2% down from 14.7% mobilkom austria's churn rate is lower than that of other major Austrian mobile operators. Regular customer surveys confirm high levels of satisfaction with regard to quality and services.

Stable revenue development despite EU roaming regulation

The EU roaming regulation as well as tariff reductions as a result of domestic competitive pressure had a negative impact on revenues in the 2008 financial year. However, due to higher than average growth in customer numbers and the increased use of data services, revenues remained stable at EUR 1,668.0 million compared with EUR 1,660.2 million in the previous year. Following the implementation of systematic savings measures, EBITDA rose by 3.4% to EUR 600.7 million and the EBITDA margin by 1.0 percentage points to 36.0%.

Total capital expenditures for tangible and intangible assets reached EUR 185,3 million, the same level as in the previous year.

Demand-oriented tariff and product structuring

In 2008 mobilkom austria tailored its tariff models more closely to individual customer needs. The company's business customer portfolio was also very successful: 92 of Austria's top one hundred companies are mobilkom austria customers. In the low-price segment, the no-frills brand "bob" established itself extremely successfully, reaching 300,000 customers by the end of 2008. mobilkom austria was the first mobile communications operator in the world to combine Voice-over-IP technology with conventional mobile communications services. Since 2008 this technology has enabled contract customers to make low-price telephone calls throughout the world over the internet using their own cell phone number and to use innovative services such as telephone and video-conferencing, instant messaging and SMS over the computer.

At the end of June 2007 an EU regulation came into force that imposed a roaming price cap for calls made within the EU member states on all mobile operators. However, the resulting decline in prices for voice roaming failed to lead to greater usage as the European Commission had originally forecast. Since September 2008, discussions have been underway about a European Commission proposal to additionally extend and expand the current EU roaming regulation and further reduce roaming prices by 2012.

In October 2007 the Austrian regulator issued a number of decrees with regard to dominant market power for all domestic mobile communications operators for the period up to July 1, 2009 including a gliding path for the gradual lowering of mobile termination charges. This gliding path provides for a symmetrical termination charge for all mobile operators of 5.72 cents as of January 1, 2009. mobilkom austria reached this target value at the beginning of 2008. However, in July 2008 these decrees regarding market dominant power were overturned by the Administrative Court. The retroactive termination charges for the years 2007 and 2008 will now be laid down by the Telekom Control Commission – in compliance with the ruling of the Administrative Court - in bilateral interconnection proceedings. Corresponding decisions are expected for the first half-year of 2009. In September 2008 the Telekom Control Commission initiated a new market analysis procedure for "individual mobile termination markets". A final resolution and the resulting decrees regarding market dominant power positions as well as the determination of a new gliding path are expected in Q2 2009.

Let's take the bull by the horns – #6
mobilkom austria continued to successfully face up to the challenges of the highly competitive Austrian market in 2008. Market share increased from 40.3% to 42.5%, the subscriber base was expanded by roughly 500,000 net additions and the share of contract customers rose to 69.5%. The company's technology and innovation leadership is still undisputed and is reflected in products and services that offer its 4.5 million customers clear additional benefits.

Mobiltel – Bulgaria

Due to the increased use of double SIM cards among the country's 8 million residents, the mobile communications market in Bulgaria had a penetration rate of 142.1% in 2008, compared to 132.8% in the previous year. Mobiltel successfully maintained its market share of 50% and increased its subscriber base by 5.8% to 5.4 million. The share of contract customers amounted to 51.4% compared to 42.1% in the previous year. Numerous innovative services and products such as M-Tel Home or Office-Box, which enable fixed-to-mobile substitution, were successfully introduced.

A marked increase in voice minutes compensated for the decline in tariffs due to competition and lower international roaming revenues following the EU regulation. Average monthly revenues per customer thus remained virtually stable. Mobiltel reported revenue growth of 3.8% to EUR 667.4 million. Lower marketing expenses compensated for higher personnel costs, so that the EBITDA increase of 3.9% to EUR 370.9 million was in line with the development of revenues. The EBITDA margin was also maintained at the higher-than-average level of 55.6% in 2008. Higher depreciation and amortization expenses led to a 4.3% decline in operating income to EUR 197.8 million.

In 2008 the Bulgarian regulatory authority imposed a gliding path for the gradual reduction of termination charges for fixed net operators on Mobiltel and the country's second largest mobile provider. Under this gliding path model termination charges will be reduced in four steps until July 2009 by approximately 34.4% for peak periods and approximately 48.1% during off-peak periods. In the following periods, further reductions of termination charges also between mobile communications providers are expected. In April 2008 number portability was implemented with positive effects for Mobiltel.

Mobiltel

Financial figures in EUR million	2008	2007	Change in %
Revenues	667.4	642.7	3.8
EBITDA	370.9	357.1	3.9
EBITDA margin in %	55.6	55.6	–
Operating income	197.8	206.6	-4.3
Mobile penetration in Bulgaria in %	142.1	132.8	–
Market share in %	50.0	50.3	–
Number of competitors	2	2	–
Number of customers (in '000s)	5,396.2	5,098.6	5.8
Share of contract customers in %	51.4	42.1	–
Revenues per customer (ARPU, in EUR)	9.8	10.2	-3.9
Share of revenues from data services in %*	11.7	12.1	–
Employees (full-time as per Dec. 31)	2,422	2,442	-0.8

* Data revenues as a portion of traffic-related revenues

Mobiltel's goal in 2009 is to maintain its leading position in the Bulgarian market. The current economic downturn is viewed as a challenge to be tackled with a clear focus on customer convenience, high-quality service and innovative products.

Subscriber growth of
20.9%
to 3.7 million customers

Velcom – Belarus

The Belarusian mobile communications provider Velcom (formerly MDC) has been fully consolidated in the consolidated financial statements of the Telekom Austria Group since a 70% stake was acquired in October 2007. In 2008 Belarus had a mobile penetration rate of 85.1%, up from 71.5% in the previous year. With a market share of 44.8% Velcom is the second-largest of the three domestic operators. Due to a 20.9% increase in the subscriber base to 3.7 million customers, it was Velcom, which in absolute terms, made the largest contribution to net additions in the Mobile Communication segment. The share of contract customers declined by 6.2 percentage points to 77.8%. In order to minimize the risk of non-payment, all private contract customers must always have a positive call credit. Local legislation requiring that customers, who purchase prepaid products, identify themselves, has the effect of limiting the number of SIM cards.

In the 2008 financial year Velcom generated revenues of EUR 310.3 million and EBITDA of EUR 152.3 million. A comparison with the previous year cannot be made as consolidation only commenced in Q4 2007. Business success was eroded by an inflation rate of roughly 16% and the resulting cost pressure. Nevertheless, an EBITDA margin of 49.1% was realized. Average revenues per customer amounted to roughly EUR 7.3. The low share of revenues generated by data products of only 16.7% also demonstrates the enormous growth potential of this market, which Velcom intends to leverage by intensifying sales activities and introducing new tariffs.

Velcom

Financial figures in EUR million	2008	2007 consolidated amount*	Change in %
Revenues	310.3	64.0	384.8
EBITDA	152.3	30.9	392.9
EBITDA margin in %	49.1	48.3	–
Operating income	74.0	12.6	487.3
Mobile penetration in Belarus in %	85.1	71.5	–
Market share in %	44.8	43.4	–
Number of competitors	2	3	–
Number of customers (in '000s)	3,697.9	3,058.7	20.9
Share of contract customers in %	77.8	84.0	–
Revenues per customer (ARPU, in EUR)	7.3	7.7	-5.2
Share of revenues from data services in %**	16.7	13.5	–
Employees (full-time as per Dec. 31)	1,607	1,446	11.1

* The consolidated amount is the contribution made by Velcom for Q4 2007 which is included in the consolidated financial figures of the Telekom Austria Group.
** Data revenues as a portion of traffic-related revenues

Network providers in Belarus do not have the right to connect directly with other operators, as interconnections – like international connections – are only to be carried out via the state-owned fixed net company BelTelecom. However, deregulation in this area is expected in the medium term. Preparations for the auction of UMTS frequencies were made in 2008 and the auction is scheduled to take place during the course of 2009.

At the beginning of 2009 the Belarusian ruble was devalued by some 20% against the U.S. dollar and the euro. At the same time, in a measure designed to secure its stability, the Belarusian ruble was pegged to a currency basket comprising equal shares of the euro, U.S. dollar and Russian ruble. In order to offset any negative effects arising from currency fluctuations more effectively, Velcom will align revenues more closely to the stable currencies and expenses to the Belarusian ruble. As part of this strategy and against the backdrop of a 16.2% inflation rate in 2008, Velcom increased its tariffs by 18% in February 2009.

Vipnet – Croatia

The Croatian mobile communications market once again registered dynamic growth in 2008, with the penetration rate rising by 16.3 percentage points to 133.6% at year-end. In this environment, Vipnet expanded its subscriber base by 14.1% to 2.5 million and was thus able to keep its market share virtually stable.

Subscriber growth of
14.1%
to 2.5 million customers

Vipnet's core business in Croatia continued to develop well, but declines in wholesale roaming prices and the expiry of the national roaming agreement with a competitor had a negative effect on revenues. Total revenues rose by 1.8% to EUR 523.6 million. EBITDA fell by 4.8% to EUR 200.1 million, the EBITDA margin by 2.7 percentage points to 38.2%. Total investments amounted to EUR 73.6 million, 13.8% more than in the previous year. Investment and innovation activities focused largely on mobile broadband in an effort to safeguard Vipnet's position in this fast-growing business area. The successful launch of services such as "IP Centrex" and tariffs such as "Best Fit" also demonstrated Vipnet's innovative strength and absolute customer focus.

In 2008 the Croatian parliament passed a new law governing electronic communications, bringing Croatian legislation into line with the regulatory framework of the European Union.

In 2008 Vipnet will continue to invest in the expansion of its network infrastructure and capacities, to leverage growth opportunities, especially in mobile broadband, and safeguard the company's quality and service leadership. Innovative and customized products and services will ensure continued success and prepare for the potential regulatory consequences of future Croatian EU entry.

Vipnet

Financial figures in EUR million	2008	2007	Change in %
Revenues	523.6	514.2	1.8
EBITDA	200.1	210.2	-4.8
EBITDA margin in %	38.2	40.9	–
Operating income	126.6	136.7	-7.4
Mobile penetration in Croatia in %	133.6	114.9	–
Market share in %	42.2	43.0	–
Number of competitors	2	2	–
Number of customers (in '000s)	2,486.6	2,179.6	14.1
Share of contract customers in %	22.8	20.5	–
Revenues per customer (ARPU, in EUR)	14.7	15.4	-4.5
Share of revenues from data services in %*	28.9	26.3	–
Employees (full-time as per Dec. 31.)	1,074	1,056	1.7

* Data revenues as a portion of traffic-related revenues

Si.mobil – Slovenia

At year-end 2008 Slovenia, which has a population of approximately 2 million inhabitants, had a penetration rate of 102.7% compared to 92.2% in the previous year. Si.mobil is the second-largest operator in the country and in the year under review improved its market share by 0.8 percentage points to 27.7%, increasing its subscriber base by 14.7% to 570,600 customers.

Subscriber growth of
14.7%
to 570,600 customers

Despite sustained competition, average revenues per customer were increased by 3.4%. Total revenues rose by 11.3% to EUR 189.5 million. With an increase of 10.3% to EUR 58.7 million, EBITDA development was in line with revenue growth, so that the EBITDA margin remained virtually unchanged at 31.0%. Investments totaling EUR 23.4 million were 1.3% lower than in the previous year and focused largely on the further roll-out of network infrastructure. Even though the UMTS network had been taken into service only in 2007, it had already achieved a coverage rate of 53.3% by year-end 2008. Furthermore, additional bandwidths have been made available to customers for mobile data transfer on the basis of EDGE technology.

In 2008 Si.mobil introduced new tariffs which are tailored more closely to individual customer requirements and target groups. In 2009 the mobile broadband segment will see the launch of new tariff packages and marketing campaigns designed to specifically target business customers and young people.

Si.mobil

Financial figures in EUR million	2008	2007	Change in %
Revenues	189.5	170.3	11.3
EBITDA	58.7	53.2	10.3
EBITDA margin in %	31.0	31.2	–
Operating income	37.3	29.7	25.6
Mobile penetration in Slovenia in %	102.7	92.2	–
Market share in %	27.7	26.9	–
Number of competitors	5	4	–
Number of customers (in '000s)	570.6	497.3	14.7
Share of contract customers in %	65.8	62.6	–
Revenues per customer (ARPU, in EUR)	24.0	23.2	3.4
Share of revenues from data services in %*	20.2	23.0	–
Employees (full-time as per Dec. 31)	326	311	4.8

* Data revenues as a portion of traffic-related revenues

Subscriber growth of
78.4%
to 907,900 customers

Vip mobile – Republic of Serbia

The Serbian mobile communications market became considerably more dynamic after Vip mobile launched commercial operations in July 2007. At the end of 2008 the Republic of Serbia had a mobile penetration rate of 132.9%, compared to 117.2% in the previous year. However, when considering these figures it has to be taken into account that the market leader includes customers in the statistics, who do not meet the criteria for establishing activity. In only 18 months Vip mobile was able to successfully position itself on the market, winning 907,900 customers and gaining a market share of 9.1%. This success is based on innovative products and solutions as well as the strategic advantages offered by cross-border cooperation with other companies from the Mobile Communication segment and the partnership with Vodafone.

Vip mobile

Financial figures in EUR million	2008	2007*	Change in %
Revenues	59.0	13.7	330.7
EBITDA	-37.2	-52.2	-28.7
Operating income	-88.7	-72.6	22.2
Mobile penetration in the Republic of Serbia in %	132.9	117.2	–
Market share in %	9.1	5.8	–
Number of competitors	2	2	–
Number of customers (in '000s)	907.9	508.9	78.4
Employees (full-time as per Dec. 31)	613	445	37.8

* Rump year, operations launched in July 2007

In 2008 Vip mobile generated revenues totaling EUR 59.0 million. Due to the start-up investments and expenses for customer acquisitions EBITDA amounted to EUR -37.2 million. The total volume of investments in 2008 amounted to EUR 92.8 million. All 2008 requirements in relation to the license award were met.

Successful positioning of Vip mobile in the Republic of Serbia

Despite steps toward improvement in 2008, the Serbian telecommunications market is not yet fully deregulated and a concerted effort will have to be made to align framework conditions to EU regulatory standards and to create a fair competitive environment and a reliable basis for planning.

Strategic activities in 2009 will focus on the further roll-out of network infrastructure and on the reduction of national roaming expenses. In order to differentiate itself from its competitors Vip mobile will expand its product portfolio and increasingly address attractive target groups. Other strategic challenges include the weakening of the economy and the risk of a further devaluation of the Serbian dinar. Nevertheless, the company is still holding fast to its goal of achieving positive EBITDA in 2010.

Positive EBITDA expected for 2010

Vip operator – Republic of Macedonia

The Republic of Macedonia has a population of approximately 2.5 million and there are two other mobile operators besides Vip operator. The penetration rate of 112.3% reported for the Macedonian mobile communications market at year-end 2008 is partially explained by the competition's practice of including non-active customers in their statistics. Since launching commercial operations in September 2007, Vip operator has won some 242,000 customers and in the year under review increased its market share from 7.9% to 10.7%. The rapid development of an attractive portfolio has enabled Vip operator to successfully target both the contract customer and prepaid customer segments.

Subscriber growth of
71.4%
to 242,000 customers

In its first year of operations Vip operator generated revenues of EUR 11.9 million. However, due to the necessary start-up investments EBITDA amounted to EUR -19.5 million in 2008. EUR 17.1 million was invested in the roll-out of network infrastructure. By year-end 2008 network coverage of more than 90% of the population had been achieved, thus fulfilling all the requirements laid down in the license agreement.

Vip operator

Financial figures in EUR million	2008	2007*	Change in %
Revenues	11.9	2.4	395.8
EBITDA	-19.5	-14.7	32.7
Operating income	-24.2	-15.6	55.3
Mobile penetration in the Republic of Macedonia in %	112.3	87.4	–
Market share in %	10.7	7.9	–
Number of competitors	2	2	–
Number of customers (in '000s)	242.0	141.2	71.4
Employees (full-time as per Dec. 31)	170	150	13.3

* Rump year, operations launched in September 2007

Better framework conditions through regulation

In 2007 the Macedonian Agency for Telecommunications determined that the other two domestic market players had significant market power and obliged them to file a reference offer for interconnection charges based on actual costs. In July 2008 an asymmetric interconnection charge was introduced. As a result, Vip operator, as the most recent company to enter the market, has benefited from lower interconnection tariffs and thus more favorable framework conditions than its competitors.

In 2009 Vip operator will strengthen its competitive position as the price and quality leader and fully exploit both the strategic advantages of cross-border cooperation within the segment and the partnership with Vodafone that was entered in spring 2008.

mobilkom liechtenstein

ARPU of EUR 70.1 higher than average

In 2008 the penetration rate in the Principality of Liechtenstein rose by 3.3 percentage points to 87.4% and mobilkom liechtenstein expanded its subscriber base by 10.8% to 5,933 customers, increasing its market share to 19.6%. The appreciation of the Swiss franc against the euro also supported a rise in revenues to EUR 20.3 million. EBITDA improved by 10.0% to EUR 3.3 million compared to the previous year, which had been marked by one-off negative effects. Despite a slight decline in average revenues per customer, the company achieved the highest ARPU in the segment, with EUR 70.1.

mobilkom liechtenstein

Financial figures in EUR million	2008	2007	Change in %
Revenues	20.3	19.9	2.0
EBITDA	3.3	3.0	10.0
EBITDA margin in %	16.3	15.1	–
Operating income	2.5	2.1	19.0
Mobile penetration in the Principality of Liechtenstein in %	87.4	84.1	–
Market share in %	19.6	18.4	–
Number of customers (in '000s)	5.9	5.4	9.3
Average revenues per customer (ARPU)	70.1	72.1	-2.8
Share of revenues from data services in %*	9.1	9.4	–
Employees (full-time as per Dec. 31)	13	13	0.0

* Data revenues as a portion of traffic-related revenues

Operations in 2009 will focus on the development and expansion of international partnerships with alternative mobile communications providers, implementation of the EU roaming regulation as well as the introduction of data roaming products.

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TELEKOM AUSTRIA AG - Consolidated Statements of Operations

Notes		2008	2007
(4)	Operating revenues	5,170,319	4,918,964
(5)	Other operating income	88,871	85,134
	Operating expenses		
	Materials	(428,316)	(405,689)
	Employee expenses, including benefits and taxes	(1,454,636)	(797,836)
(18,19)	Depreciation and amortization	(1,155,317)	(1,092,980)
(18,19)	Impairment charges	(4,800)	(498)
(6)	Other operating expenses	(2,080,665)	(1,945,676)
	OPERATING INCOME	**135,455**	**761,419**
	Financial result		
(7)	Interest income	26,311	22,020
(7)	Interest expense	(231,714)	(174,237)
(7)	Foreign exchange differences	(1,311)	(1,885)
(7)	Result from financial assets	(3,249)	328
(15)	Equity in earnings of affiliates	(1,873)	185
	INCOME (LOSS) BEFORE INCOME TAXES	**(76,382)**	**607,830**
(30)	Income taxes	27,622	(115,339)
	NET INCOME (LOSS)	**(48,760)**	**492,491**
	Attributable to:		
	Owners of the parent	(48,767)	492,484
	Non-controlling interests	6	7
(29)	Basic and fully diluted earnings per share	(0.11)	1.09

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

in EUR '000s

TELEKOM AUSTRIA AG - Consolidated Statements of Comprehensive Income

	2008	2007
Net income (loss) for the year	**(48,760)**	**492,491**
Unrealized result on securities	(2,112)	(303)
Tax (expense) benefit	532	80
Realized result on securities	(113)	(70)
Tax (expense) benefit	19	17
Unrealized result on hedging activities	(14,455)	-
Tax (expense) benefit	2,629	-
Foreign currency translation adjustment	(17,298)	(39,131)
Tax (expense) benefit	(407)	-
Other comprehensive income for the year	**(31,205)**	**(39,407)**
Total comprehensive income for the year	**(79,965)**	**453,084**
Attributable to:		
Owners of the parent	(79,972)	453,077
Non-controlling interests	6	7

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes		December 31, 2008	December 31, 2007
	ASSETS		
	Current assets		
	Cash and cash equivalents	384,762	209,126
(8)	Short-term investments	85,993	19,459
(9)	Accounts receivable - trade, net of allowances	724,291	751,159
(10)	Receivables due from related parties	3,234	3,294
(11)	Inventories	128,488	128,297
(12)	Prepaid expenses	112,576	124,755
(30)	Income taxes receivable	32,860	30,856
(13)	Non-current assets held for sale	6,343	254
(14)	Other current assets	66,877	59,031
	TOTAL CURRENT ASSETS	**1,545,425**	**1,326,231**
	Non-current assets		
(15)	Investments in associates	4,193	5,694
(16)	Financial assets long-term	42,995	60,024
(17)	Goodwill	1,958,540	1,939,614
(18)	Other intangible assets, net	2,265,614	2,432,963
(19)	Property, plant and equipment, net	2,975,954	3,186,462
(20)	Other non-current assets	61,296	8,518
(30)	Deferred tax assets	143,432	44,138
(10)	Receivables due from related parties, long-term finance	-	100
	TOTAL NON-CURRENT ASSETS	**7,452,024**	**7,677,513**
	TOTAL ASSETS	**8,997,450**	**9,003,744**
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	(961,494)	(1,236,070)
	Accounts payable - trade	(589,159)	(637,083)
(22)	Provisions and accrued liabilities	(249,297)	(229,276)
(10)	Payables due to related parties	(13,734)	(17,299)
(30)	Income taxes payable	(20,163)	(21,766)
(23)	Other current liabilities	(232,441)	(237,962)
(24)	Deferred income	(154,174)	(177,766)
	TOTAL CURRENT LIABILITIES	**(2,220,461)**	**(2,557,222)**
	Non-current liabilities		
(25)	Long-term debt	(2,917,403)	(2,793,833)
(26)	Lease obligations and Cross Border Lease	(29,739)	(49,739)
(27)	Employee benefit obligations	(117,406)	(112,998)
(22)	Provisions long-term	(691,413)	(89,630)
(30)	Deferred tax liabilities	(188,087)	(195,408)
(28)	Other non-current liabilities and deferred income	(677,349)	(639,618)
	TOTAL NON-CURRENT LIABILITIES	**(4,621,397)**	**(3,881,226)**
	Stockholders' equity		
(29)	Common stock	(1,003,260)	(1,003,260)
	Treasury shares	330,845	334,350
	Additional paid-in capital	(547,318)	(548,902)
	Retained earnings	(1,005,231)	(1,385,657)
	Revaluation reserve	13,401	(99)
	Translation adjustments	56,025	38,320
	Equity attributable to equity holders of the parent	**(2,155,538)**	**(2,565,248)**
	Non-controlling interests	(54)	(48)
	TOTAL STOCKHOLDERS' EQUITY	**(2,155,592)**	**(2,565,296)**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**(8,997,450)**	**(9,003,744)**

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

in EUR '000s

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

	2008	2007
Cash flow from operating activities		
Net income (loss)	(48,760)	492,491
Adjustments to reconcile net income to cash flow		
Depreciation, amortization and impairment charges	1,160,117	1,093,478
Write-offs from and appreciation to investments	(6)	-
Employee benefit obligation - non-cash	10,330	10,881
Allowance for doubtful accounts	45,518	33,463
Change in deferred taxes	(105,792)	36,246
Equity in earnings of affiliates - non-cash	2,606	394
Stock compensation	(8,987)	5,584
Employee participation program	1,921	1,652
Asset retirement obligation - accretion expense	5,770	4,062
Provision for restructuring - non-cash	617,424	-
Result on sale of investments	3,719	(229)
Result on disposal/retirement of equipment	(9,806)	2,294
Other	19,733	1,218
	1,693,787	**1,681,534**
Changes in assets/liabilities, net of business combinations		
Accounts receivable - trade	(27,458)	(47,243)
Receivables due from related parties	76	(58)
Inventories	(483)	(13,485)
Prepaid expenses and other assets	2,601	6,909
Accounts payable - trade	(49,910)	76,855
Employee benefit obligation	(7,133)	(25,282)
Provisions and accrued liabilities	(13,786)	30,092
Payables due to related parties	(4,019)	4,206
Other liabilities and deferred income	(29,829)	28,427
	(129,941)	**60,421**
Cash flow from operating activities	**1,563,846**	**1,741,955**
Cash flow from investing activities		
Capital expenditures, including interest capitalized	(807,643)	(851,319)
Acquisitions of subsidiaries, net of cash acquired	(14,535)	(838,072)
Sale of subsidiaries, net of cash	1,162	275
Proceeds from sale of equipment	28,735	15,486
Purchase of investments	(73,507)	(7,987)
Proceeds from sale of investments	10,879	11,746
Cash flow from investing activities	**(854,910)**	**(1,669,871)**
Cash flow from financing activities		
Proceeds from issuance of long-term debt	845,000	470,000
Principal payments on long-term debt	(423,277)	(99,129)
Change in short-term borrowings	(612,830)	351,996
Purchase of treasury stock	-	(369,873)
Dividends paid	(331,659)	(343,083)
Cash flow from financing activities	**(522,765)**	**9,911**
Effect of exchange rate changes	(10,535)	1,984
Change in cash and cash equivalents	**175,637**	**83,979**
Cash and cash equivalents at beginning of the year	209,126	125,147
Cash and cash equivalents at end of the year	384,762	209,126

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Changes in Stockholders' Equity

	Common stock Par value	Treasury shares at cost	Additional paid-in capital
Balance at January 1, 2007	**1,090,500**	**(654,597)**	**461,640**
Total comprehensive income for the period	-	-	-
Distribution of dividends	-	-	-
Purchase of treasury shares	-	(369,873)	-
Retirement of treasury shares	(87,240)	688,490	87,240
Employee Participation Program	-	1,630	22
Balance at December 31, 2007	**1,003,260**	**(334,350)**	**548,902**
Total comprehensive income for the period	-	-	-
Distribution of dividends	-	-	-
Employee Participation Program	-	3,505	(1,584)
Balance at December 31, 2008	**1,003,260**	**(330,845)**	**547,318**

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

in EUR '000s

Retained earnings	Revaluation reserve	Translation adjustment	Total	Non-controlling interests	Total stockholders' equity
1,924,746	**375**	**811**	**2,823,475**	**41**	**2,823,516**
492,484	(276)	(39,131)	453,077	7	453,084
(343,083)	-	-	(343,083)	-	(343,083)
-	-	-	(369,873)	-	(369,873)
(688,490)	-	-	-	-	-
-	-	-	1,652	-	1,652
1,385,657	**99**	**(38,320)**	**2,565,248**	**48**	**2,565,296**
(48,767)	(13,500)	(17,705)	(79,972)	6	(79,965)
(331,659)	-	-	(331,659)	-	(331,659)
-	-	-	1,921	-	1,921
1,005,231	**(13,401)**	**(56,025)**	**2,155,538**	**54**	**2,155,592**

Segment Reporting

2008	Fixed Net	Mobile Communication	Corporate & Other	Eliminations	Consolidated
External revenues	1,865,827	3,304,492	-	-	5,170,319
Intersegmental revenues	172,951	86,443	-	(259,394)	-
Total revenues	**2,038,778**	**3,390,935**	**-**	**(259,394)**	**5,170,319**
Other operating income	59,391	53,473	6,608	(30,600)	88,871
Segment expenses	(2,119,441)	(2,103,835)	(30,600)	290,258	(3,963,618)
EBITDA (excl. impairment charges)	**(21,273)**	**1,340,574**	**(23,992)**	**264**	**1,295,572**
Impairment charges	(4,800)	-	-	-	(4,800)
EBITDA (incl. impairment charges)	**(26,073)**	**1,340,574**	**(23,992)**	**264**	**1,290,772**
Depreciation and amortization	(504,679)	(651,274)	-	636	(1,155,317)
Operating income	**(530,751)**	**689,299**	**(23,992)**	**900**	**135,455**
Interest income					26,311
Interest expense					(231,714)
Equity in earnings of affiliates					(1,873)
Other income					(4,561)
Tax expense					27,622
Net income (loss)					**(48,760)**
Segment assets	2,520,235	7,530,443	6,660,928	(7,714,156)	8,997,450
Segment liabilities	(1,471,767)	(4,797,699)	(5,104,916)	4,532,524	(6,841,858)
Capital expenditures	263,457	546,335	-	(2,150)	807,643
Cost to acquire assets	270,958	557,990	-	(2,150)	826,798
Other non - cash expenses	631,386	57,935	4,995	-	694,316

2007	Fixed Net	Mobile Communication	Corporate & Other	Eliminations	Consolidated
External revenues	1,955,420	2,963,544	-	-	4,918,964
Intersegmental revenues	177,619	71,545	-	(249,164)	-
Total revenues	**2,133,039**	**3,035,089**	**-**	**(249,164)**	**4,918,964**
Other operating income	63,450	43,606	7,565	(29,487)	85,134
Segment expenses	(1,491,505)	(1,901,142)	(27,553)	270,999	(3,149,201)
EBITDA (excl. Impairment charges)	**704,984**	**1,177,553**	**(19,988)**	**(7,652)**	**1,854,897**
Impairment charges	(498)	-	-	-	(498)
EBITDA (incl. Impairment charges)	**704,486**	**1,177,553**	**(19,988)**	**(7,652)**	**1,854,399**
Depreciation and amortization	(553,326)	(540,075)	-	421	(1,092,980)
Operating income	**151,160**	**637,478**	**(19,988)**	**(7,231)**	**761,419**
Interest income					22,020
Interest expense					(174,237)
Equity in earnings of affiliates					185
Other income					(1,557)
Tax expense					(115,339)
Net income (loss)					**492,491**
					-
Segment assets	2,828,823	7,542,947	5,986,683	(7,354,709)	9,003,744
Segment liabilities	(1,223,662)	(4,590,202)	(4,708,673)	4,084,089	(6,438,448)
Capital expenditures	324,563	526,756	-	-	851,319
Cost to acquire assets	325,166	532,089	-	-	857,255
Other non - cash expenses	18,060	38,839	2,421	-	59,320

See accompanying notes to consolidated financial statements, Note (3).
The use of automated calculation systems may give rise to rounding differences.

in EUR '000s

Table of Intangible Assets

	Licenses	Brand names	Software	Customer base	Advances / construction in progress	Other	Total
Cost							
Balance at January 1, 2007	699,159	438,034	562,068	731,635	356,792	111,801	2,899,489
Additions	17,953	-	107,955	-	60,036	27,820	213,764
Disposals	-	-	(53,644)	-	-	(9,447)	(63,091)
Transfers	321,043	-	162,100	-	(361,314)	1,137	122,966
Translation adjustments	(2,084)	(3,001)	(774)	(10,857)	(2,560)	(80)	(19,356)
Changes in reporting entities	74,126	110,038	44,200	379,710	-	26,578	634,652
Balance at December 31, 2007	**1,110,197**	**545,071**	**821,905**	**1,100,488**	**52,954**	**157,809**	**3,788,424**
Additions	2,836	-	92,316	51	84,890	35,670	215,764
Disposals	(35)	-	(80,288)	-	-	(5,370)	(85,693)
Transfers	3,414	-	88,431	-	(68,907)	8,075	31,014
Translation adjustments	(33,206)	2,274	(224)	8,317	(268)	(1,930)	(25,036)
Changes in reporting entities	(1,082)	-	(3,809)	5,220	-	3	332
Balance at December 31, 2008	**1,082,124**	**547,344**	**918,336**	**1,114,076**	**68,669**	**194,259**	**3,924,809**
Accumulated amortization							
Balance at January 1, 2007	(318,540)	-	(365,077)	(294,269)	-	(66,510)	(1,044,396)
Additions	(59,340)	-	(107,802)	(107,177)	-	(18,078)	(292,397)
Impairments	-	-	-	-	-	-	0
Disposals	-	-	53,231	-	-	8,878	62,109
Transfers	-	-	(53,970)	-	-	4,176	(49,794)
Translation adjustments	(40)	-	177	58	-	(31)	164
Changes in reporting entities	(3,206)	-	(11,626)	-	-	(16,315)	(31,147)
Balance at December 31, 2007	**(381,126)**	**-**	**(485,067)**	**(401,388)**	**-**	**(87,880)**	**(1,355,461)**
Additions	(71,322)	-	(150,580)	(128,180)	-	(34,801)	(384,882)
Impairments	-	(4,800)	-	-	-	-	(4,800)
Disposals	35	-	79,821	-	-	5,368	85,224
Transfers	(3,421)	-	(7,312)	-	-	3,392	(7,341)
Translation adjustments	2,036	-	11	(939)	-	2,613	3,721
Changes in reporting entities	1,024	-	3,324	-	-	-	4,348
Balance at December 31, 2008	**(452,772)**	**(4,800)**	**(559,803)**	**(530,507)**	**-**	**(111,313)**	**(1,659,195)**
Carrying amount at							
December 31, 2008	629,352	542,544	358,533	583,570	68,669	82,946	2,265,614
December 31, 2007	729,071	545,071	336,838	699,100	52,954	69,929	2,432,963

See accompanying notes to consolidated financial statements, Note (18).
The use of automated calculation systems may give rise to rounding differences.

Table of Tangible Assets

	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2007	803,903	10,091,497	2,164	155,715	11,053,279
Additions	18,619	405,254	824	218,797	643,494
Disposals	(8,069)	(327,274)	(1)	(1,239)	(336,583)
Transfers	7,854	19,429	698	(150,947)	(122,966)
Translation adjustments	125	(6,234)	77	(1,275)	(7,307)
Changes in reporting entities	6,536	410,404	144	47,468	464,552
Balance at December 31, 2007	**828,968**	**10,593,076**	**3,906**	**268,519**	**11,694,469**
Additions	11,780	406,162	-	193,092	611,034
Disposals	(29,055)	(361,694)	(70)	(1,342)	(392,161)
Transfers	10,100	194,236	-	(235,350)	(31,014)
Translation adjustments	(337)	5,598	135	(2,069)	3,328
Changes in reporting entities	(1,696)	(35,652)	(2,542)	(439)	(40,329)
Balance at December 31, 2008	**819,760**	**10,801,722**	**1,432**	**222,410**	**11,845,324**
Accumulated depreciation					
Balance at January 1, 2007	(388,667)	(7,446,606)	(2,049)	-	(7,837,322)
Additions	(44,982)	(755,180)	(421)	-	(800,583)
Impairments	(498)	-	-	-	(498)
Disposals	6,225	316,714	-	-	322,939
Transfers	-	49,918	(125)	-	49,793
Translation adjustments	(30)	6,030	(76)	-	5,924
Changes in reporting entities	(2,313)	(245,844)	(103)	-	(248,260)
Balance at December 31, 2007	**(430,265)**	**(8,074,968)**	**(2,774)**	**-**	**(8,508,007)**
Additions	(45,254)	(724,788)	(392)	-	(770,434)
Impairments	-	-	-	-	-
Disposals	19,237	354,258	-	-	373,495
Transfers	(3)	7,343	-	-	7,341
Translation adjustments	124	(3,511)	(129)	-	(3,516)
Changes in reporting entities	624	28,599	2,526	-	31,748
Balance at December 31, 2008	**(455,534)**	**(8,413,072)**	**(764)**	**-**	**(8,869,371)**
Carrying amount at					
December 31, 2008	364,226	2,388,650	668	222,410	2,975,954
December 31, 2007	398,703	2,518,108	1,132	268,519	3,186,462

See accompanying notes to consolidated financial statements, Note (19).
The use of automated calculation systems may give rise to rounding differences.

in EUR '000s

(1) The Company and Significant Accounting Policies

Description of business, organization and relationship with the Federal Republic of Austria

Telekom Austria AG is incorporated as a joint stock corporation (“Aktiengesellschaft”) under the laws of the Republic of Austria and is located in Vienna. Telekom Austria AG and its subsidiaries (the "Company" or "Telekom Austria") are engaged as full service telecommunications providers of long distance, local and wireless services, corporate data communications services as well as internet services and television broadcasting (aon-TV). The Company also supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Croatia, Slovenia, Bulgaria, Serbia, Macedonia and Belarus.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), is a significant shareholder of the Company. At December 31, 2008, ÖIAG’s stake in the Company remained unchanged at 27.4% compared to December 31, 2007.

In addition to the related party transactions described in Note (10), 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.

The use of automated calculation systems may give rise to rounding differences.

Basis of presentation

The Company prepares the accompanying consolidated financial statements in compliance with the provisions of the International Financial Reporting Standards (“IFRS/IAS”), issued by the International Accounting Standards Board (“IASB”), the interpretations of the International Financial Reporting Interpretation Committee (“IFRIC”) and the interpretation of the Standards Interpretation Committee (“SIC”), effective as of December 31, 2008 and as endorsed by the European Union.

IFRIC 11 ”IFRS 2 - Group and Treasury Share Transactions” and IFRIC 14 “IAS 19 - The Limit on a Defined Benefit Asset” were effective for annual periods beginning on or after January 1, 2008. The Company adopted these standards as of January 1, 2008. The impact on its consolidated financial statements and disclosures was insignificant.

The Company early adopted the following standards:

New standards / interpretations		Effective*
IFRS 8	Operating Segments	January 1, 2009
IAS 23	Borrowing Costs	January 1, 2009
IAS 1	Presentation of Financial Statements	January 1, 2009

* This standard/interpretation is effective for annual periods beginning on or after the presented date.

The following standards and interpretations were issued, but were not effective for the financial year 2008. The Company has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

New standards/interpretations		Effective*
IFRIC 12**	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IAS 27	Consolidated and Separate Financial Statements	July 1, 2009
IAS 32 and IAS 1	Puttable Financial instruments and Obligations arising on Liquidation	January 1, 2009
IFRS 1 and IAS 27	Cost of an Investment in a subsidiary, jointly-controlled entity or associate	July 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items	July 1, 2009
IFRS 3	Business Combinations	July 1, 2009
IFRIC 15***	Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16	Hedges of a Net investment in a Foreign Operation	October 1, 2008

* This standard/interpretation is effective for annual periods beginning on or after the presented date.
** Concluded by the IASB, yet not endorsed by the European Union.
*** Retrospective application

In June 2007, IFRIC issued IFRIC 13 "Customer Loyalty Programmes", which is effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses the accounting of customer loyalty programs that are operated either by the manufacturer or service provider or by a third party. The award credit granted is accounted for as a separate component of the sales transaction and recognized as deferred revenue until it is either redeemed by the customer or forfeited. The Company is currently evaluating the impact on its consolidated financial statements and disclosures.

The Company recognizes customer loyalty rewards as deferred revenue at the time of the granting until these are redeemed or forfeited.

Principles of consolidation

The consolidated financial statements of the Company include 21 (2007: 24) subsidiaries in Austria and 26 (2007: 29) subsidiaries abroad in which the Company, either directly or indirectly, holds the majority of the voting rights or has the power to govern the subsidiaries' financial and operating policies. Special purpose entities, irrespective of their legal structure, are consolidated when the Company has the power to govern the financial and operating policies of an entity.

Investments in companies in which the Company has significant influence, but less than a controlling financial interest, are accounted for using the equity method. The consolidated financial statements include 5 (2007: 4) investments 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 statements of financial position. 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.

All significant intercompany balances and transactions have been eliminated in consolidation.

The subsidiaries included in the consolidated financial statements are listed in Note (38).

Foreign currency translation

The consolidated financial statements of the Company are expressed in Euro ("EUR" or "€").

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. Equity is translated at historical exchange rates. The foreign currency translation adjustment, classified in equity, is not recognized in profit or loss until the disposal of the respective operation.

The Slovak subsidiary, JetStream Slovakia, will change its functional currency from the Slovak Koruna to the Euro as of January 1, 2009, as a result of the adoption of the Euro as the national currency in Slovakia as of January 1, 2009.

The Slovenian subsidiaries, Si.mobil and TA Mreža, changed their functional currencies from the Slovenian Tolar to the Euro as of January 1, 2007, as a result of the adoption of the Euro as the national currency in Slovenia. Exchange rate differences resulting from the inclusion of these subsidiaries in the consolidated financial statements of the Company prior to this date, which are recorded in equity, remain unchanged until the disposal (sale) of the subsidiary.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other operating income or other operating expenses.

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

	Exchange rates at December 31,		Average exchange rates for the period ended December 31,	
	2008	2007	2008	2007
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.3555	7.3308	7.2236	7.3381
Czech Koruna (CZK)	26.8750	26.6280	24.9389	27.7000
Hungarian Forint (HUF)	266.7000	253.7300	251.4502	251.2915
Serbian Dinar (CSD)	88.6010	79.2362	81.3144	79.9844
Slovak Koruna (SKK)	30.1260	33.5830	31.2744	33.7753
Rumanian LEU (RON)	4.0225	3.6077	3.6809	3.3232
Macedonian Denar (MKD)	61.4123	61.2016	61.2621	61.1826
Belarusian Ruble (BYR)*	3,077.1400	3,149.3200	3,143.1634	3,114.0378
US Dollar (USD)	1.3917	1.4721	1.4713	1.3698

* In 2007: Average exchange rate from October 3, to December 31, 2007

Revenue recognition

Fixed Net

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

The Company recognizes long distance and local service revenue based upon minutes of traffic processed or contracted fixed 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 has granted 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.

As of 2007, the Company offers contracts including multiple services. These multiple element contracts typically include fixed line and internet services and, optionally, mobile communication services. The Company accounts for these services as separate “units of accounting” based on the value each service has to the customer on a standalone basis. The amount of total arrangement consideration is allocated to the separate units of accounting based on their relative fair values.

Mobile Communication
The Company provides mobile communications services to individuals and commercial and non-commercial organizations. These services comprise digital mobile communications services including value-added services, text and multimedia messaging, m-commerce and information services. To a lesser extent, the Company generates revenue from the sale of mobile communications 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 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 pro-rata over the contract period as marketing expenses when a service contract exists.

In the case of customer loyalty programs, under which the customers can redeem mobile handsets or accessories against mobilpoints (award credits) granted to them as part of the sales transactions, revenue is deferred at the time of the granting of the award credits until the goods are redeemed or the awards expire.

Certain arrangements that the Company enters into provide for the delivery of multiple deliverables by the Company. These multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. In general, the Company determines that such arrangements are divided into separate "units of accounting" based on a determination of a separable value to the customer for each deliverable on a standalone basis. The total arrangement consideration is allocated to the units of accounting based on the relative fair value and after taking into consideration any contingent revenue.

Activation revenues and direct incremental expenses are generally recognized over the average expected contract term. When direct incremental expenses exceed revenues, the excess is expensed as incurred. Activation fees do not have a standalone value to customers and are therefore allocated as part of the arrangement consideration according to the relative fair value method to the units of accounting.

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

Research and development costs
In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. If development costs cannot be separated from research costs or the regulatory and other uncertainties inherent in the development of the Company's new key products are so high that the requirements set out in IAS 38 are not met, then the development costs are expensed as incurred.

Research and development costs are expensed as incurred and totaled EUR 41,476 and EUR 47,331 for the years ended December 31, 2008 and 2007, respectively, and are classified based on their origination as employee costs, depreciation or operating expenses in the consolidated statement of operations.

Interest, royalties and dividends
Interest is recognized using the effective interest method in accordance with IAS 39. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement; dividends are recognized when the shareholder's right to receive payment is established.

Earnings per share
Basic and diluted earnings per share are calculated by dividing the net income attributable to the shareholders of the parent by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all employee stock options granted in the course of the Stock Option Plan 2004 in cash. Thus no related dilutive effect has been considered in 2008 and 2007 for current stock option plans.

Cash and cash equivalents

The Company considers cash in banks and highly liquid investments with remaining maturities of three months or less to be cash and cash equivalents. Money market deposits with remaining maturities of more than three months are classified as short-term investments along with marketable securities. The financial resource fund in the consolidated statement of cash flows is equal to cash and cash equivalents reported in the consolidated statements of financial position.

Marketable securities and other long-term investments

In accordance with IAS 39, the Company has classified all marketable securities and certain long-term investments as either held-to-maturity or available-for-sale, and carries these securities at amortized cost or fair value. When no fair value is available, the security is recorded at cost. Unrealized gains and losses resulting from the change in the fair value of available-for-sale financial assets are recorded in other comprehensive income (OCI), net of applicable actual or deferred income tax.

The Company's policy for determining if an impairment of a security exists is based on a two-step approach taking into consideration the significance of the difference between the fair value and carrying amount of the security as well as the period of time for which such a difference exists. The Company determines, on an individual security basis, whether the change in fair value is temporary and insignificant. If the change is not temporary and insignificant, the Company records an impairment loss in other financial expenses when realized. Due to the financial crisis, the Company further evaluated whether there was any indication for a complete loss of a tranche due to credit risk.

If an impairment loss recognized in prior periods for a security no longer exists, the Company would consider the need to reverse all or a portion of the impairment charge.

Investments in unquoted equity instruments are not carried at fair value because their fair value cannot be reliably measured. They are carried at cost less impairment losses, if applicable. The amount of an impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flow discounted at the current market rate of return for a similar financial asset. The subsequent reversal of such impairment losses in the future is not allowed.

Receivables

Accounts receivable - trade and other receivables are classified as loans and receivables and are measured at amortized cost or the lower recoverable amount.

An impairment of loans, accounts receivable - trade and other receivables is recorded (provision for specific doubtful accounts) if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

Additionally, for groups of similar financial assets, the Company records a general allowance, which is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets is reduced through the use of allowance accounts, and the impairment charge is recognized in the consolidated statement of operations. When a receivable is considered to be irrecoverable, the amount is written off against the receivable.

Inventories

Inventories consist of merchandise sold in retail shops or by retailers and material and spare parts used for the construction and maintenance of networks, mainly for the Company's own use. Inventories are valued at the lower of cost or net realizable value; cost being determined on the basis of weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expense. The Company assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction and maintenance.

Assets held for sale

In accordance with IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell, are no longer depreciated and are classified separately on the face of the statements of financial position as assets held for sale. The net gain or loss on the sale of assets held for sale is recorded together with gains and losses from retirement of equipment either in other operating expenses or other operating income.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are tested for impairment in accordance with IFRS 3 "Business Combinations", IAS 38 "Intangible assets" and IAS 36 "Impairment of Assets" 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 if an event or circumstance indicates that the assets may be impaired.

Irrespective of whether there is any indication of impairment, goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment every year in the fourth quarter by comparing their carrying amounts with their recoverable amounts.

In each reporting period, the Company is required to re-evaluate its decision that an intangible asset has an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the intangible asset is written down to its fair value if lower than its carrying amount and amortized prospectively based on its remaining useful life.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than a segment based on either the entity's primary or the entity's secondary reporting format. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The Company performs these impairment tests by calculating the value in use. Value in use is determined by estimating the future cash flows of the cash generating unit based on the business plans, which are prepared for periods of four years and which are based on historical performance and Management's best estimates about future developments. The growth rates in the business plan reflect the weighted average growth rates based on market estimates. Estimated cash flow projections beyond the period covered by the business plan are based on steady growth rates for subsequent years and do not exceed the long-term average growth rate for the industries and the country in which the cash generating unit operates.

If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss. The impairment loss shall be allocated first to the carrying amount of any goodwill allocated to the cash generating unit (group of units), and then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). These reductions in the carrying amounts represent impairment losses on individual assets.

Intangible assets with a finite useful life are stated at cost and are amortized using the straight-line method over their estimated useful lives, as shown below:

	Years
Mobile communications and fixed net licenses	4-20
Patents and proprietary rights	4-20
Subscriber base	3-9
Software	2-10
Other	4-30

Intangible assets amortized over more than 20 years relate to indefeasible rights of use of cable fiber or wave length over a fixed period of time. The indefeasible rights are amortized over the term of the contract.

Brand names are classified as intangible assets with indefinite useful life based on an analysis of product life cycles, contractual and legal control of the asset and other pertinent factors.

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalized once the project has reached the application development stage. The costs are amortized using the straight-line method over a period not exceeding four years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs and research and development costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations. Government grants are deducted from the acquisition or manufacturing 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 finance leases are stated at the lower of present value of minimum lease payments or fair value.

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

The useful lives are:

	Years
Transmission equipment	1-10
Cables and wires	15-20
Communications equipment	3-20
Furniture, fixtures and other	2-15
Buildings and leasehold improvements	5-50

Maintenance and repairs are expensed as incurred, while replacements and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is recognized in other operating expenses or other operating income.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

Government grants

Investment grants are deducted from the cost of the asset. Performance-related grants are recorded as other operating income.

Impairment of intangible and tangible fixed assets

In the event that facts and circumstances indicate that the Company's tangible or intangible fixed assets, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction less the cost of the disposal. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded in the consolidated statement of operations as operating expenses.

If there is any indication that the impairment recognized in prior periods no longer exists, the Company would consider the need to reverse all or a portion of the impairment charge.

Financial liabilities

All financial liabilities are classified as other liabilities in accordance with IAS 39, and are recognized at the time of receipt in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognized over the term of the liability using the effective interest rate method in the financial result (amortized cost).

Other liabilities

Other liabilities are carried at amortized cost.

Accrued liabilities

An accrued liability is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. Long-term accrued liabilities relating to personnel and social costs are recorded at their net present value. Accrued liabilities for restructuring are recorded if there is a detailed formal plan for the restructuring and if a valid expectation has been raised in those affected that the restructuring will be carried out by starting to implement that plan or announcing its main features to those affected by it.

Leases

Lease agreements in which the Company assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases. Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

If substantially all risks and rewards are attributable to the Company as a lessor, the leased asset is recognized by the Company. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. The lease payments are recognized over the term of the lease contract in profit or loss as earned.

Employee benefit obligations

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

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

All other employee benefit obligations are unfunded defined benefit plans for which the Company records accruals. The accruals are calculated using the projected unit credit method in accordance with IAS 19 "Employee Benefits". The future benefit obligations are valued using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase, rate of employee turnover and rate of increase of pensions. Actuarial gains and losses are recorded using the corridor method and are therefore not recognized directly in other comprehensive income (OCI). For severance and pensions, the Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the reporting period exceed the corridor of 10% of the projected benefit obligation. The excess is amortized over the expected remaining service period. For service awards, actuarial gains and losses are recognized immediately.

According to IAS 19.118, companies may distinguish between current and non-current assets and liabilities arising from post-employment benefits. The Company applies this distinction in its financial statements.

Interest cost is recorded in the financial result, service cost is recorded in employee costs.

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 Property, Plant and Equipment" the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

Income taxes

Income taxes are determined for each of the tax jurisdictions in which the Company and its subsidiaries operate, involving specific calculations of the expected actual income tax rate applicable for each taxable entity. In accordance with IAS 12 "Income Taxes", deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, as well as for tax credits and operating loss carry-forwards. For the purpose of calculating deferred tax assets and liabilities, the Company uses the rates that have been enacted or substantively enacted at the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the tax rate is effectively enacted. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the credits and tax loss carry-forwards can be applied. The distribution of dividends by Telekom Austria AG has no effect on the tax rate of the Company.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted. Accrued income taxes cover obligations for current and for prior periods.

Share-based compensation

The Company accounts for share-based employee compensation in accordance with IFRS 2 "Share-based Payment". In accordance with the provisions of IFRS 2, share-based employee compensation is measured at fair market value at the grant date by reference to the fair value of the equity instruments granted, taking into account the terms and conditions upon which those equity instruments were granted. The cost of employee compensation so determined is expensed over the vesting period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, the Company records an increase in other comprehensive income (OCI) or a liability. Due to Management's decision to settle employee stock options granted in the Stock Option Plan 2004 in cash, the options granted are recorded as a liability. Until their settlement in cash, the liabilities are re-measured at their fair value at each reporting date as well as at the settlement date. Changes in the fair value are recorded in profit or loss.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company uses the settlement date in recording regular purchases and sales of financial assets. Derivative financial instruments are recognized at the trade date and derecognized when settled. Financial assets and financial liabilities are initially recognized at cost, which is the fair value of the consideration given or received. Transaction costs are included in the initial measurement, except for financial instruments, which are recognized at their fair value through profit or loss.

For financial liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial liability is derecognized.

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position only when the entity has a contractual right to set off the recognized amounts and intends to settle on a net basis.

Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, receivables due from related parties, held-to-maturity investments, available-for-sale financial assets and derivative financial assets.

Financial liabilities include, in particular, payables due to related parties, bonds and other financial liabilities, accounts payable - trade, lease obligations and derivative financial liabilities.

The Company classifies its financial assets and financial liabilities in accordance with IAS 39. Management determines the classification of its financial assets and financial liabilities at initial recognition.

Derivative financial instruments

In accordance with IAS 39, the Company recognizes all derivative financial instruments as assets or liabilities in the statements of financial position, and measures all at fair value, regardless of the Company's intent. Changes in the fair value of derivative instruments designed as cash flow hedges are recognized in income or in other comprehensive income (as revaluation reserve) depending on whether the derivative is designated as a fair value or a cash flow hedge. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in the consolidated statement of operations. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in other comprehensive income (revaluation reserve) until the hedged item is recognized in the consolidated statement of operations. The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and the fair value changes of derivatives which do not qualify for hedge accounting are recognized in the statement of operations immediately.

Fair value of financial instruments

The carrying amounts of cash, accounts receivable, accounts payable, receivables due from and payables due to related parties approximate their fair value due to their short-term nature. The fair value of securities held-to-maturity and securities available-for-sale is based on quoted market rates. The fair value of long-term debt and derivative financial instruments is either determined based on market prices or on the cash flows from such financial instruments discounted at the Company's estimated current interest rate to enter into similar financial instruments. The basis for determining fair values is summarized in Note (33).

Concentration of risks

A portion of the Company's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications and cellular companies as well as to providers of internet online services. As a result, the Company has a certain concentration of credit risk in its customer base. To limit such risk, the Company performs ongoing credit evaluations of its key accounts. As of the balance sheet date, the Company does not have any significant concentration of business transacted with a particular supplier or creditor, nor does the Company have any concentration of labor, other services, franchises or other rights that could, if suddenly eliminated, severely impact operations. The Company invests its cash with various institutions with appropriate credit standings.

Through its expansion into the Central Eastern European (CEE) region, the Company operates in markets that have been experiencing political and economic change. This has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties, which typically do not exist in other markets. The accompanying consolidated financial statements reflect Management´s assessment of the impact of the CEE business environment on the operations and the financial position of the Company. The future business environment may differ from Management's assessment.

Use of estimates

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities and of contingent liabilities reported at the end of any given period, and the reported amounts of revenues and expenses for that reported period. Actual results may differ from these estimates.

Management has made judgments in the process of applying the Company's accounting policies. Additionally, at the balance sheet date, Management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the balance sheet date which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Employee benefit plans: The valuation of the various pension and other post-employment benefit plans is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase. Changes in these parameters could result in higher or lower expenses (see Note (27)).

b) Impairments: The impairment analysis for goodwill, other intangible assets and tangible assets is generally based upon discounted estimated future net cash flows from the use and eventual disposal of the assets. Factors such as lower than anticipated sales and the resulting decreases in net cash flows and changes in the discount rates used could lead to impairments or, if allowed, in revaluations. For more information on the carrying amount of goodwill, other intangible assets and tangible assets see Notes (17), (18) and (19).

c) The estimated useful lives of tangible and intangible assets subject to depreciation and amortization represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortization resulting from changes in the useful lives, reference is made to Note (19).

d) Employee incentive plans: The stock option plans are measured based on the fair value of the options on the grant date and every subsequent reporting date. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, term of the option, expected exercise pattern and expected dividend yield. Compensation expense and liabilities could materially differ from the estimated amount as of the balance sheet date if the underlying parameters were to change (see Note (31)).

e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable 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. If the Company does not generate sufficient taxable income, deferred tax assets cannot be realized and therefore, will not be recognized (see Note (30)).

f) Restructuring: The accrual is based on various parameters, such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

(2) Business Combinations

On March 28, 2008, the Company acquired 100% of MobilNet, the Austrian mobile communications business of Tele2. The aggregate purchase price paid in cash amounted to EUR 2,151. MobilNet previously operated as a virtual network operator of mobile communication services on a competitor's network. The assets and liabilities of MobilNet, which was merged into mobilkom austria AG, are reported in the Mobile Communication segment.

Furthermore, the Company acquired 100% of a reseller to strengthen its market position in the fixed net market. The aggregate purchase price paid in cash amounted to EUR 5,350. The assets and liabilities of the company, which was merged into Telekom Austria TA AG, are reported in the Fixed Net segment.

The following table summarizes the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition based on the preliminary purchase price allocation as well as the carrying amounts according to IFRS prior to the acquisition. Fair values were determined based on the final purchase price allocation.

	Fair values on acquisition	Fair value adjustments	Carrying amounts before acquisition
Property, plant and equipment	936	-	936
Intangible assets	5,299	5,299	-
Deferred tax assets	5,330	(476)	5,806
Trade and other receivables	1,432	-	1,432
Cash and cash equivalents	155	-	155
Deferred tax liabilities	(1,434)	(849)	(585)
Payables	(10,040)	-	(10,040)
Net assets acquired	**1,678**	**3,974**	**(2,296)**
Goodwill on acquisition	1,925		
Debt paid on behalf of the acquirees	3,899		
Total consideration	**7,501**		
Cash and cash equivalents acquired	(155)		
Net cash outflow	7,346		

The aggregate purchase price includes EUR 0.5 incidental acquisition costs. The factor contributing to goodwill is essentially the acquisition of market shares.

Since the effect of the acquired entities on the consolidated financial statements of the Company is not considered significant, no pro-forma information as if the acquisitions had taken place as of January 1, 2008 and 2007 is presented.

In the year ended December 31, 2008 the Company sold its stakes in eTel Polska, eTel Slovensko and Telekom Austria Czech Republic for a total sales price of EUR 7,939, of which EUR 4,367 are still outstanding (see Note (7)).

The following table summarizes the carrying amounts of the assets and liabilities sold in 2008:

	2008
Property, plant and equipment	9,513
Intangible assets	622
Deferred tax assets	3,679
Trade and other receivables	8,511
Cash and cash equivalents	2,961
Loans and borrowings	(10,334)
Payables	(8,835)

On April 26, 2007, the Company acquired 100% of eTel in Austria, Hungary, the Czech Republic, Slovakia, Germany and Poland. The aggregate purchase price amounted to EUR 107,471. eTel is a European integrated provider of telecommunications services with companies in Austria and Central and Eastern Europe which was formerly owned by a consortium of international investors.

On October 1, 2007, the Company acquired 100% of Mass Response Service GmbH (MRS). MRS mainly provides production of interactive television. The aggregate purchase price amounted to EUR 20,170.

The following table summarizes the assets acquired and liabilities and contingent liabilities assumed at the dates of both acquisitions as well as the carrying amounts according to IFRS as determined prior to the acquisition. Fair values were determined based on the final purchase price allocation to assets and liabilities.

	Fair values on acquisition	Fair value adjustments	Carrying amounts before acquisition
Property, plant and equipment	27,625	(2,811)	30,436
Intangible assets	22,494	9,704	12,791
Deferred tax assets	34,424	33,998	426
Trade and other receivables	40,883	-	40,883
Cash and cash equivalents	4,874	-	4,874
Loans and borrowings	(69,472)	-	(69,472)
Deferred tax liabilities	(5,536)	(5,536)	-
Payables	(23,427)	-	(23,427)
Net assets acquired	**31,865**	**35,355**	**(3,490)**
Goodwill on acquisition	44,282		
Debt paid on behalf of the acquirees	51,494		
Total consideration	**127,641**		
Cash and cash equivalents acquired	(4,874)		
Net cash outflow	122,767		

The aggregate purchase price includes EUR 4,983 incidental acquisition costs. The factors contributing to goodwill are an assembled and trained work force and additional market share. The acquired assets and liabilities of eTel and MRS are reported in the Fixed Net segment.

In 2007, net income of MRS since the acquisition amounted to EUR 808, the eTel group reported a net loss of EUR 4,321 in 2007, which was adjusted for tax effects due to the change of eTel Austria into a partnership, thus representing a non-taxable entity.

Since the effect of the acquired entities on the consolidated financial statements of the Company is not considered significant, no pro-forma information as if the acquisitions had taken place as of January 1, 2007 is presented.

In December 2007, the Company sold its stake in eTel Hungaria for a sales price of EUR 950, of which EUR 550 were still outstanding as of December 31, 2007. The sales price outstanding was paid in 2008. eTel Austria was merged into its parent company in 2008, which did not have any effect on the consolidated financial statements.

On October 3, 2007, the Company acquired 70% of the Cypriot SB Telecom Limited (SBT) for a total purchase price of EUR 724,188. As a result of this transaction, the Company controls SBT. This company is a holding company and the sole shareholder of the Belarusian mobile communications provider Mobile Digital Communications (MDC), which in the meantime has been renamed Velcom. The purchase price was paid in cash.

The Company also concluded a call and put option agreement to purchase the remaining 30% at a price of EUR 313,916 (present value). These options will become exercisable in the fourth quarter of 2010. In accordance with IAS 32, the Company fully consolidates SB Telecom Limited without recording minority interests, and recognizes a financial liability corresponding to the fair value of the remaining 30% since the minority shareholder holds a put option.

Additionally, the Company agreed to an additional interest-bearing purchase price component of EUR 292,355, which will be due in the fourth quarter of 2010 and which is also recorded as a liability.

The following table summarizes the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition based on the preliminary purchase price allocation as well as the carrying amounts according to IFRS as determined prior to the acquisition:

	Fair values on acquisition	Fair value adjustments	Carrying amounts before acquisition
Property, plant and equipment	197,804	65,594	132,210
Intangible assets	572,674	543,744	28,930
Trade and other receivables	8,916	-	8,916
Cash and cash equivalents	10,572	-	10,572
Loans and borrowings	31,661	-	31,661
Deferred tax liabilities	(153,178)	(160,134)	6,956
Other liabilities	(22,759)	-	(22,759)
Accounts payable - trade	(42,701)	-	(42,701)
Net assets acquired	**602,989**	**449,204**	**153,785**
Goodwill on acquisition	727,471		
Total consideration	**1,330,459**		
Cash and cash equivalents acquired	(10,572)		
Purchase price not yet paid	(606,271)		
Net cash outflow	713,617		

The aggregate purchase price includes EUR 2,284 incidental acquisition costs. The factors contributing to goodwill are an assembled and trained work force and the expected future growth of Velcom. All assets acquired and liabilities and contingent liabilities assumed of Velcom and SBT are reported in the Mobile Communication segment.

Since the acquisition, Velcom reported a net income of EUR 8,520 in 2007.

The unaudited pro-forma operating revenues including other operating income, net income and earnings per share for the year ended December 31, 2007, as if SBT and Velcom had been acquired at the beginning of 2007, are estimated to be:

	Unaudited pro-forma December 31, 2007
Operating revenues and other operating income	5,206,509
Net income	467,882
Weighted average number of common shares outstanding	451,673,637
Basic and fully diluted earnings per share	1.04 Euro

(3) Segment Reporting

The segment information (see table "Segment Reporting") has been prepared in accordance with IFRS 8 "Operating Segments". The accounting policies of the segments are the same as those described in Note (1).

The first-time adoption of IFRS 8 did not have any substantial effects on the consolidated financial statements.

The Company operates in three business segments: Fixed Net, Mobile Communication as well as Corporate and Other. The reporting system, which is essentially based on the nature of services provided, reflects the internal financial reporting, the management structure of the organization and the predominant sources of risks and returns in the Company's businesses.

The segment Fixed Net includes fixed line, data communication, television broadcasting (aonTV) and internet services (including bundle products) and focuses on retail and wholesale customers. Wholesale customers, including telecommunications operators and service providers, are offered network-based services, while retail customers, including business and residential end-users, are offered voice telephony, data communications, internet and other services.

The segment Mobile Communication offers a full range of digital mobile communications services to business and residential customers and the sale of equipment.

The segment Corporate and Other includes the holding company which coordinates and supports the segments Fixed Net and Mobile Communication, and which establishes the connection to the capital markets. Other activities comprise mainly financing activities of the Company.

in EUR '000s

Segment revenues, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Those transfers are eliminated in consolidation.

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

The segments are reported on a consolidated basis. Segment assets and segment liabilities do not include deferred tax assets or liabilities, income tax assets or income tax liabilities. The elimination column contains the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and intangible assets.

Other non-cash expenses mainly consist of pension and severance expense, expense for stock-based compensation, impairment charges, accretion expense related to the asset retirement obligation and additions to bad debt allowances as well as, in 2008, restructuring expenses and the accrued interest and hedging expenses relating to the purchase price liability of SBT.

Elimination of segment expenses in 2007 includes expenses related to the implementation of the new holding structure amounting to EUR 9,577.

None of the segments recorded revenues from transactions with a single external customer amounting to 10% or more of an entity's revenues.

The impairment losses in the Fixed Net segment relate to the brand name eTel (see Note (18)).The Company provides geographical segment reporting as secondary segment information. External revenues are allocated by geographical location of the Company's customers. Non-current assets, which include other intangible assets and property, plant and equipment, are reported by geographical location of assets.

2008	Austria	Belarus	Bulgaria	Croatia	other countries	Eliminations	Consolidated
External revenues	2,863,277	302,936	608,493	448,200	947,412	-	5,170,319
Non-current assets	2,697,568	755,506	959,685	276,371	559,643	(7,205)	5,241,568
2007							
External revenues	3,151,575	65,482	582,801	424,155	694,953	-	4,918,964
Non-current assets	3,006,581	749,744	1,038,512	275,334	556,665	(7,411)	5,619,425

(4) Revenues

	2008	2007
Revenues from services	4,854,755	4,587,132
Revenues from sales of merchandise	315,564	331,832
Operating revenues	**5,170,319**	**4,918,964**

(5) Other Operating Income

	2008	2007
Rental revenue	16,498	12,475
Own work capitalized	25,877	31,873
Income from retirement of equipment	9,806	-
Foreign exchange gains	14,805	20,824
Other	21,885	19,962
Other operating income	**88,871**	**85,134**

Own work capitalized represents the value of work performed for own purposes consisting mainly of employee and materials costs, and direct overhead capitalized as part of property, plant and equipment as well as internally developed software.

Foreign exchange gains and losses are netted and reported as other operating income or other operating expenses:

	2008	2007
Foreign exchange gains	28,063	31,666
Foreign exchange losses	(13,258)	(10,842)
Net foreign exchange gain (losses)	**14,805**	**20,824**

(6) Other Operating Expenses

	2008	2007
Interconnection	640,183	588,149
Repairs and maintenance	183,303	180,233
Services received	296,595	288,674
Advertising and marketing	307,177	317,725
Other support services	137,303	120,250
Lease and rent expenses	129,906	103,356
Commissions	78,747	79,460
Bad debt expenses	45,518	33,463
Legal and other consulting	45,547	42,855
Travel expenses	26,279	27,450
Other taxes	28,033	21,839
Energy	38,700	31,157
Transportation	26,006	27,566
Training expenses	12,042	14,340
Net loss from retirement of fixed assets	-	2,294
Other	85,327	66,865
Other operating expenses	**2,080,665**	**1,945,676**

Gains and losses from the retirement of assets are offset. Gains are reported as other operating income, losses as other operating expense.

(7) Financial Result

Financial income recognized in profit and loss is as follows:

	2008	2007
Interest income on loans and receivables	4,363	4,089
Interest income on bank deposits	8,564	5,617
Interest income on held-to-maturity investments	4,146	4,758
Interest income on available-for-sale financial assets	715	552
Interest income from sale of tax benefit	8,524	7,004
Interest income	**26,311**	**22,020**

in EUR '000s

	2008	2007
Interest expense on financial liabilities	218,667	164,274
Interest expense on employee benefit obligations	5,849	5,800
Interest expense on asset retirement obligations	5,770	4,062
Net loss on hedging transactions	1,428	101
Interest expense	**231,714**	**174,237**

Changes in the fair value of the hedging instrument (interest rate swap) designated as a fair value hedge in accordance with IAS 39 and the hedged item are netted for each swap contract and are recognized as interest income or interest expense depending on the net amount:

	2008	2007
Gain on fair value hedge	30,582	810
Loss from fair value measurement of EMTN bonds	(32,010)	(838)
Interest expense	**(1,428)**	**(28)**
Loss on fair value hedge	-	(6,360)
Gain from fair value measurement of EMTN bonds	-	6,287
Interest expense	**-**	**(73)**
Total	**(1,428)**	**(101)**

	2008	2007
Financial foreign exchange gains	38,394	11,545
Financial foreign exchange losses	(39,706)	(13,430)
Net foreign exchange gains (losses)	**(1,311)**	**(1,885)**

Foreign exchange gains and losses relating to financial assets and liabilities are reported in the financial result. Foreign exchange gains and losses relating to accounts receivable - trade and accounts payable - trade, other receivables and payables as well as balances due to and due from related parties in respect of trade and other receivables and payables are reported in operating income or operating expense (see Note (30)).

	2008	2007
Dividends received	408	99
Gain on sale of held-to-maturity investments	-	90
Gain on sale of investments valued at cost	10	-
Impairment loss on investments valued at cost	(139)	-
Loss on disposal of available-for-sale securities transferred from other comprehensive income	(15)	(25)
Gain on disposal of available-for-sale securities transferred from other comprehensive income	124	80
Sale of financial instruments	200	-
Result from sale of subsidiaries	(3,837)	84
Result from financial assets	**(3,249)**	**328**

The amounts previously recognized in other comprehensive income (OCI) and subsequently transferred to earnings are shown in the consolidated statements of comprehensive income.

The Company recognizes gains and losses relating to financial assets in the financial result. Write-downs and subsequent reversals of allowances for trade and other accounts receivable, classified as loans and receivables, are reported either as operating expense or other operating income.

(8) Short-term Investments

Short-term investments consist of the following items:

At December 31,	2008	2007
Marketable securities short - term - available - for - sale	3,486	5,866
Marketable securities short - term - held to maturity	1,932	-
Deposits under cross border lease	19,247	12,445
Other short - term investments	61,328	1,148
Short - term investments	**85,993**	**19,459**

As of December 31, 2008, other short-term investments mainly relate to a USD deposit in the amount of EUR 60,378 serving as securitization of guarantees related to cross border lease transactions (see Note (26)).

Available-for-sale securities are classified as short-term, based on Management's intention to sell these marketable securities within the next twelve months.

(9) Accounts Receivable - Trade

At December 31,	2008	2007
Accounts receivable – trade, gross	867,047	882,177
Allowances	(142,756)	(131,018)
Accounts receivable - trade, net	**724,291**	**751,159**

As of December 31, 2008 and 2007, accounts receivable - trade contained receivables sold to a special purpose entity under the assets backed security program as described in Note (21)) amounting to EUR 396,176 and EUR 433,160, respectively. In accordance with SIC 12 ("Consolidation – Special Purpose Entities "), the special purpose entity was consolidated, which resulted in the recognition of the accounts receivable - trade in the Company's consolidated financial statements despite their prior sale.

The following is a roll-forward of the allowance for accounts receivable - trade:

	2008	2007
Allowance at the beginning of the year	131,018	134,705
Foreign currency adjustment	(1,045)	55
Change in reporting entities	(1,600)	6,047
Released	(7,419)	(6,207)
Charged to expenses	52,937	39,670
Amounts written - off	(31,134)	(43,252)
Allowance at the end of the year	**142,756**	**131,018**
Thereof		
Specific allowance	28,837	33,306
General allowance	113,919	97,712

Accounts receivable - trade are classified as short-term and non-interest bearing.

The aging of accounts receivable - trade as of December 31, 2008 and 2007 was as follows:

	Gross 2008	Allowance 2008	Gross 2007	Allowance 2007
Not yet due	631,258	9,193	647,771	9,206
Past due 0 - 90 days	88,312	12,130	93,715	9,318
Past due 91 - 180 days	24,971	16,792	19,793	9,678
Past due 181 - 360 days	37,577	27,149	27,000	19,028
More than one year	84,929	77,492	93,898	83,788
Total	**867,047**	**142,756**	**882,177**	**131,018**

The Company has grouped accounts receivable – trade according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, the Company considers a certain percentage of accounts receivable – trade of each category as doubtful.

in EUR '000s

Bad debt expense recognized mainly relates to end-users. Based on past experience, the Company estimates that an allowance for doubtful accounts is necessary in respect of accounts receivable - trade due from business and private customers. However, accounts receivable - trade due from national and international carriers are only considered doubtful when they are past due for more than 90 days.

The Company has neither collateral nor insurance for accounts receivable - trade because, due to the large number of customers, the credit risk is sufficiently diversified.

(10) Related Party Transactions

Related parties consist of the majority shareholder ÖIAG, associated companies, key management personnel (members of the board of directors and supervisory board as well as managers and directors of the most significant operating entities). All transactions with related parties are carried out at arm's length.

The disclosures below present balances and transactions relating to the Company's majority shareholder ÖIAG. None of the individual accounts associated with government agencies or government-owned entities are considered significant to the Company. The terms of services provided by the Company to government entities are generally based on standard pricing policies. However, the Company is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was EUR 37,947 and EUR 33,026 in 2008 and 2007, respectively.

On June 28, 2001, a partner in a law firm which provides legal services to the Company was elected to the Supervisory Board. In 2008 and 2007, respectively, the Company was charged EUR 604 and EUR 1,060 for legal services by that law firm.

The following table sets forth the details of revenues from and expenses charged to related parties:

	2008	2007
Revenues	15,041	14,332
Other operating income	364	391
Expenses	49,571	56,395
Interest income	57	6
Interest expenses	41	1

For the years ended December 31, 2008 and 2007, of the total revenues EUR 14,700 and EUR 14,200, respectively related to paybox and originated from prepaid cards sold to paybox.

For the years ended December 31, 2008 and 2007, of the other expenses EUR 42,200 and EUR 52,523, respectively related to advertising and marketing services provided by Omnimedia.

For the years ended December 31, 2008 and 2007, of the total accounts receivable due from related parties EUR 3,198 and EUR 3,275, respectively related to paybox and originated from prepaid cards sold to paybox for resale.

For the years ended December 31, 2008 and 2007, of the total accounts payable due to related parties EUR 12,968 and EUR 16,356 respectively related to Omnimedia and originated from advertising and marketing services provided to the Company.

The liability of EUR 6,925 reported in short-term borrowings as of December 31, 2008 relates to Infotech (see Notes (15) and (21)).

Concurrently to the sale of 16.667% of its stake in paybox austria GmbH in March 2006 (also see Note (15)), the Company also granted a loan of EUR 100 to paybox austria GmbH which was settled in 2008. The loan had been classified as a long-term receivable due from related parties.

The following table sets out compensation of executives:

	2008	2007
Short-term employee benefits	10,828	11,151
Pensions	498	359
Other long-term benefits	2	2
Termination benefits	699	676
Share-based payments	(494)	1,515
Compensation of executives	**11,532**	**13,703**

Expenses for pensions and severance for other employees amounted to EUR 20,219 and EUR 37,430 in 2008 and 2007, respectively. Expenses consist of service cost, voluntary severance payments, contributions to pension plans and other pension payments.

(11) Inventories

Inventories consist of:

At December 31,	2008	2007
Spare parts, cables and supplies	54,142	55,018
Merchandise	73,772	73,196
Prepayments	574	83
Inventories	**128,488**	**128,297**

As of December 31, 2008 and 2007, the carrying amount of inventories representing fair value less cost to sell amounted to EUR 77,385 and EUR 61,297, respectively. The Company recognized an expense of EUR 24,163 and EUR 21,451 resulting from a write-down of inventories in 2008 and 2007, respectively.

(12) Prepaid Expenses

Prepaid expenses include the following items:

At December 31,	2008	2007
Advances to employees	14,336	14,249
Rent	9,079	10,392
Prepaid marketing expenses	63,442	71,625
Other	25,719	28,489
Prepaid expenses	**112,576**	**124,755**

Prepaid marketing expenses mainly consist of subsidies for mobile handsets, which are expensed over the minimum contractual term.

(13) Non-current Assets Held for Sale

December 31,	2008	2007
Kolkhoz	260	254
Infotech (Note (15))	6,083	-
Non-current assets held for sale	**6,343**	**254**

The kolkhoz in the segment Mobile Communication refers to a stake in a kolkhoze in Belarus which was acquired in the course of the acquisition of SBT in 2007. Although the Company committed itself to its plan to sell this asset in 2008, there was a delay in sale caused by circumstances beyond the Company's control.

In 2008, the Company did not recognize any gains or losses in connection with the retirement of assets held for sale.

(14) Other Current Assets

Other current assets consist of the following it:

At December 31,	2008	2007
Financial assets	35,158	24,940
Other non-financial assets	33,497	36,155
Other current assets, gross	**68,656**	**61,095**
Less allowance for financial assets	(982)	(1,129)
Less allowance for non-financial assets	(796)	(935)
Other current assets	**66,877**	**59,031**

As of December 31, 2008 and 2007, current financial assets mainly consist of supplier credits.

Other current non-financial assets mainly consist of tax claims (VAT, wage taxes), except income taxes, and other receivables due from public authorities and claims against the Republic of Austria (see Note (10)), short-term advance payments made to employees and indemnification payments due from insurance companies.

The following table sets forth the aging of other current financial assets as of December 31, 2008 and 2007:

	Gross 2008	Allowance 2008	Gross 2007	Allowance 2007
Not yet due	33,038	-	22,323	-
Past due 0-90 days	786	-	2,021	967
Past due 91-180 days	21	17	18	3
Past due 181-360 days	34	1	131	7
More than one year	1,279	965	447	152
Total	**35,158**	**982**	**24,940**	**1,129**

The following is a roll-forward of the allowance for other current financial assets:

	2008	2007
Allowance at the beginning of the year	1,129	-
Foreign currency adjustment	114	-
Released	(222)	-
Charged to expenses	12	1,129
Amounts written-off	(51)	-
Allowance at the end of the year	**982**	**1,129**

(15) Investments in Associates

On April 24, 2008 the Company acquired 37.47% of Infotech Holding GmbH for a total purchase price of EUR 7,189. In the fourth quarter, the Company decided to sell the stake of 34.47% in Infotech Holding GmbH through a put option for an agreed strike price which covers the total investment. Thus, this investment is classified as a"long-term asset held for sale" (see Note (13)). For details on the liability related to this transaction, see Note (21).

In March 2007, the Company acquired 40% of Dr. Maté GmbH for a total purchase price of EUR 1,688. Dr. Maté GmbH mainly provides medical information on the website "NetDoktor.at". The investment, for which an impairment of EUR 1,533 was recorded in 2008, is reported in the Fixed Net segment.

As of December 31, 2008 and 2007, the investments in associates include a 26.00% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia") and a 25.10% interest in Output Service GmbH, both of which are reported in the Fixed Net segment, and an 83.33% interest in paybox Austria GmbH ("paybox") reported in the Mobile Communication segment. The investment in paybox is accounted for using the equity method as the Company does not have a controlling financial interest due to the transfer of significant participation rights, but has significant influence.

The reporting date of Omnimedia and Dr. Maté GmbH is June 30. The Company's share of income as of December 31, 2008 and 2007, was based on interim financial statements of both companies.

The following is a roll-forward of the investments in associates:

	2008	2007
At January 1,	5,694	4,399
Dividends received	(733)	(579)
Recognized income	(341)	185
Impairment	(1,533)	-
Additions	7,189	1,689
Reclassifications	(6,083)	-
At December 31,	**4,193**	**5,694**

The following table provides a summary of aggregated financial information, as reported by equity investees (based on 100% amounts and not on the proportionate share of the Company):

Statement of operations	2008	2007
Revenues	37,723	32,874
Operating income	3,993	3,348
Net income	2,576	1,764

For Dr. Maté GmbH, the aggregate financial information presented above includes revenues, operating expenses and net income for the period April 1 to December 31, 2007.

Statement of financial position

At December 31,	2008	2007
Total assets	32,075	36,878
Total liabilities	29,727	34,459
Total stockholders' equity	2,349	2,419

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

At December 31,	2008	2007
Other investments carried at cost	633	773
Other financial assets, long-term	9	24
Marketable securities - available-for-sale, long-term	11,197	14,243
Deposits cross border lease	31,155	44,984
Financial assets, long-term	**42,995**	**60,024**

Other investments carried at cost include investments in unquoted equity instruments and unconsolidated affiliated companies (see Note (38)). These investments are not carried at fair value because their fair value cannot be reliably measured due to the absence of an active market for such investments. As of December 31, 2008, the Company has no intentions to dispose of any of the investments it holds.

As of December 31, 2008 and 2007, other long-term financial assets consist of loans held by the Company.

Marketable securities available-for-sale serve as coverage for the accrued pension payments. Based on Management's intention not to sell these marketable securities within the next twelve months, they are classified as long-term financial assets.

in EUR '000s

Unrealized gains and losses of long-term and short-term securities are summarized in the following table:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
At December 31, 2008				
Available-for-sale				
debt securities	4,994	36	141	4,890
equity securities	-	-	-	-
mutual funds	11,792	6	2,004	9,793
Held-to-maturity	**1,932**	**86**	**-**	**2,018**
At December 31, 2007				
Available-for-sale				
debt securities	5,674	13	117	5,570
equity securities	119	-	9	110
mutual funds	14,191	349	111	14,428

Amortized cost and realized gains and losses were determined on an individual security basis.

The unrealized losses on the investments in mutual funds, debt securities and equity securities were caused by fluctuations in the capital markets. As there were no objective indications for the total loss of a tranche, the Company did not record any impairment.

(17) Goodwill

The following table illustrates the changes in the carrying amount of goodwill by segment for the periods ended December 31, 2008 and 2007:

	Fixed Net	Mobile Communication	Total
Goodwill at December 31, 2006	16,347	1,172,267	1,188,614
Translation adjustments	604	(21,357)	(20,753)
Changes in reporting entities	44,282	727,471	771,753
Goodwill at December 31, 2007	**61,233**	**1,878,381**	**1,939,614**
Translation adjustments	666	16,335	17,001
Changes in reporting entities	1,925	-	1,925
Goodwill at December 31, 2008	**63,824**	**1,894,716**	**1,958,540**

For details on changes in consolidated companies (acquisitions), see Note (2).

As of December 31, 2008 and 2007, the accumulated impairment charges totaled EUR 1,071 and EUR 176,919, respectively.

For the purpose of impairment testing, goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the business combination. Goodwill resulting from the acquisition of the domestic and international entities of eTel is allocated to the cash generating unit Telekom Austria TA AG as this reporting unit is expected to benefit from the synergies of the business combination.

At December 31,	2008	2007
Goodwill Mobile Communication		
mobilkom austria	364,000	364,000
Si.mobil telekomunikacijske storitve d.d.	136,259	136,259
Vipnet d.o.o.	66,519	66,744
Velcom	722,494	705,935
Mobiltel EAD	605,443	605,443
Total Mobile Communication	**1,894,715**	**1,878,381**
Goodwill Fixed Net		
Telekom Austria TA AG	50,863	48,270
World - Direct	1,239	1,240
Mass Response Service	11,723	11,723
Total Fixed Net	**63,825**	**61,233**
Total goodwill	**1,958,540**	**1,939,614**

The following parameters were applied for calculating the value in use in 2008: growth rates: Fixed Net 0.0%Mobile Communication 1.0% to 3.1%; interest rates: Fixed Net 8.5%; Mobile Communication 8.5% to 18.9%. In 2007, the applied growth rates ranged from -1.0% to 2.0% in the Fixed Net segment, and from 1.0% to 3.0% in the Mobile Communication segment; the interest rates used were 7.6% in the Fixed Net segment, and ranged from 7.4% to 10.0% in the Mobile Communication segment. The resulting value in use was compared with the carrying amount of the cash generating unit including goodwill. Impairment charges were recorded if the carrying amount of the cash generating unit was in excess of the value in use.

(18) Other Intangible Assets

The "Table of Intangible Assets" provides the components and a reconciliation of the changes in intangible assets.

As of December 31, 2008 and 2007, EUR 16,237 and EUR 15,009, respectively, of the total carrying amount of software and EUR 4,120 and EUR 4,689, respectively, of additions to software related to internally developed software.

For the year ended December 31, 2008, transfers include reclassifications of advances/construction in progress to tangible and intangible assets, whereas for the year ended December 31, 2007, transfers include reclassifications of technical management and controlling software for the transmission and communication equipment, which had previously been reported in property, plant and equipment. The carrying amount of the software reclassified was EUR 69,218, with initial costs of EUR 113,708.

Interest capitalized for the years ended December 31, 2008 and 2007, totaled EUR 647 and EUR 7,596, respectively. For details on the interest rate used to calculate interest capitalized, see Note (19).

Licenses are recorded at cost and amortized on a straight-line basis over the estimated useful life. The following table sets forth the terms and total cost incurred for each of the major license agreements:

	GSM licenses	UMTS licenses
License cost	800,701	259,980
Term	2009 - 2017	2020 - 2025

In the first quarter of 2007, the Company acquired a GSM license in Macedonia for a purchase price of EUR 10,000. The term of the license is ten years with an option for renewal for another ten years.

The Company holds licenses to operate as a telecommunications service provider from regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus, Macedonia and Liechtenstein.

In 2008, the useful lives of specific software programs were reduced, which led to an increase in depreciation of EUR 144.

in EUR '000s

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

2009	366,494
2010	318,171
2011	272,147
2012	186,526
2013	114,542
Thereafter	465,189

The slight increase in intangible assets with indefinite useful lives in the Mobile Communication segment in 2008 is due to exchange rate differences. In 2007, additions to intangible assets with indefinite useful lives mainly relate to the acquisition of SBT (see Note (2)). An impairment test in accordance with IFRS, as described in Note (1), was performed for brand names in the fourth quarter of each year presented. The parameters applied were the same as for the impairment testing of goodwill. As the brand name of eTel, which was acquired in 2007, is not marketed any longer and, therefore, is of no further use to the Company, an impairment of EUR 4,800 was recorded in the year ended December 31, 2008. No impairment was recorded in the year ended December 31, 2007.

As of December 31, 2008 and 2007, brand names were allocated to the following cash generating units:

At December 31,	2008	2007
Brand names Mobile Communication		
mobilkom austria	145,860	145,860
Si.mobil telekomunikacijske storitve d.d.	3,148	3,148
Vipnet d.o.o.	26,003	26,091
Mobiltel EAD	263,004	263,005
Velcom	103,028	100,666
Total Mobile Communication	**541,044**	**538,770**
Brand names Fixed Net		
eTel	-	4,800
Mass Response	1,501	1,501
Total Fixed Net	**1,501**	**6,301**
Total brand names	**542,544**	**545,071**

The change in the carrying amounts of the brand names Vipnet and Velcom is due to foreign currency translation.

As of December 31, 2008 and 2007, purchase commitments for intangible assets amounted to EUR 8,299 and EUR 11,739, respectively.

(19) Property, Plant and Equipment

The "Table of Tangible Assets" provides the components and a reconciliation of the changes in tangible assets.

As of December 31, 2008 and 2007, interest capitalized totaled EUR 1,052 and EUR 1,552, respectively. Calculation of capitalized interest was based on interest rates of 4.6% and 4.9% for the years ended December 31, 2008 and 2007, respectively.

In 2008 and 2007, the carrying amount of land amounted to EUR 54,934 and EUR 57,213, respectively.

In the year ended December 31, 2007, impairment charges of EUR 498 were recorded due to the results of an impairment test related to land and buildings in the Fixed Net segment.

In 2008 and 2007, the Company reduced the estimated useful lives of certain technical equipment due to the rapid development of the technological environment in the relevant markets. The changes in estimate resulted in an increase in depreciation of EUR 12,666 and EUR 1,515 in 2008 and 2007, respectively. Additionally, the useful lives of specific furniture and fixtures were extended in 2008, which reduced depreciation by EUR 537.

Government grants totaling EUR 1,743 and EUR 5,158 were deducted from acquisition cost in 2008 and 2007, respectively.

The transfers of advances and construction in progress relate to property, plant and equipment and intangible assets.

As of December 31, 2008 and 2007, communication network and other equipment with a carrying amount of EUR 55,529 and EUR 115,720, respectively, were pledged as collateral for the cross border lease transactions described in Note (26).

As of December 31, 2008 and 2007, purchase commitments for property, plant and equipment amounted to EUR 31,515 and EUR 77,815, respectively.

The estimated useful lives of property, plant and equipment subject to depreciation and of intangible assets subject to amortization represent the periods in which the assets are estimated to be in use by the Company. An extension of these useful lives by one year would lead to a decrease in depreciation and amortization expense of EUR 231,869. A reduction in the useful lives of one year would lead to an increase in depreciation and amortization expense of EUR 308,355.

(20) Other Non-current Assets

Other non-current assets include the following items:

At December 31,	2008	2007
Forward exchange contracts	36,467	2,865
Other financial assets	22,568	3,331
Other non-financial assets	2,381	2,406
Other non-current assets, gross	**61,416**	**8,602**
Less allowance for financial assets	(120)	(84)
Other non-current assets	**61,296**	**8,518**

As of December 31, 2008 and 2007, other non-current financial assets mainly consist of accounts receivable - trade and loans to employees and, as of December 31, 2008, derivative financial assets (fair value hedges).

The following table sets forth the aging of other non-current financial assets as of December 31, 2008 and 2007:

	Gross 2008	Allowance 2008	Gross 2007	Allowance 2007
Not yet due	59,035	120	6,196	84
Total	**59,035**	**120**	**6,196**	**84**

The following is a roll-forward of the allowance for other non-current financial assets:

	2008	2007
Allowance at the beginning of the year	84	-
Charged to expenses	36	84
Allowance at the end of the year	**120**	**84**

in EUR '000s

(21) Short-term Borrowings

The Company's short-term borrowings include:

At December 31,	2008	2007
Current portion of long-term debt	804,642	469,660
Short-term debt	9,932	458,056
Liabilities due to related parties	6,925	-
Assets backed security debt (ABS)	-	279,089
Bank overdrafts	-	10,515
Current portion of lease obligations and Cross Border Lease	22,001	9,103
Multi-currency notes program	117,994	9,647
Short-term borrowings	**961,494**	**1,236,070**

The decrease in short-term borrowings is mainly due to the transfer to long-term financial debt (see also Note (25)).

The liability due to related parties amounting to EUR 6,925 is due to Infotech and results from a payment to Infotech that shall be offset against future dividends to be received.

In September 2007, the Company concluded a EUR 300,000 multi-currency short-term and medium-term treasury notes program with an indefinite term. As of December 31, 2008 and 2007, multi-currency notes with a nominal value of EUR 119,050 and EUR 10,000, respectively, had been issued.

In January 2002, the Company entered into a revolving period securitization and sold trade receivables to a Special Purpose Entity (SPE). In accordance with SIC 12.10, the Company controls the SPE because the activities of the SPE are being conducted on behalf of the Company according to its specific business needs so that the Company obtains the benefits from the SPE's operations. In substance, the Company retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits of its activities. Consequently, the Company includes the SPE in the consolidated financial statements. This contract ended as of December 11, 2008, and was not extended.

As of December 31, 2008, no short-term debt related to ABS was recorded, however accounts receivable - trade were sold to the "SPE" (see Note (9)). At December 31, 2007, the Company recorded short-term debt totaling EUR 278,000, secured by accounts receivable - trade held in trust and recorded accumulated fees and interest of EUR 1,089.

Cash settlement of the short-term debt takes place on a monthly basis. The Company further continues to service the receivables placed in trust. The Company recorded in interest expense discounts and program fees related to the securitization of trade receivables of EUR 8,456 and EUR 4,927, and service and liquidity fees of EUR 2,854 and EUR 596 in other operating expense for the periods ended December 31, 2008 and 2007, respectively. Service fees amounting to EUR 209 and EUR 210 were included in other operating income for 2008 and 2007, respectively.

(22) Provisions and Accrued Liabilities

Provisions and accrued liabilities consist of the following:

	Restructuring	Employees	Customer allowances	Customer retention	Asset retirement obligation	Legal	Interconnection/ Roaming	Other	Total
Balance January 1, 2008	-	71,355	58,517	25,653	89,630	12,335	25,505	35,911	318,906
Additions	617,424	35,398	48,617	710	8,295	7,142	12,204	26,093	755,884
Changes in estimate	-	-	-	-	10,567	-	-	-	10,567
Used	-	(34,897)	(36,904)	(5,208)	(1,523)	(1,830)	(17,139)	(20,836)	(118,338)
Released	-	(5,792)	(10,213)	(249)	(896)	(4,771)	(2,911)	(7,887)	(32,718)
Accretion expense	-	-	-	-	5,770	-	-	-	5,770
Short-term portion of employee benefit obligation	-	4,765	-	-	-	318	-	(397)	4,686
Translation adjustments	-	31	1	29	52	74	97	9	293
Changes in reporting entities	-	(358)	-	-	(253)	(1)	(2,352)	(1,377)	(4,341)
Balance December 31, 2008	**617,424**	**70,503**	**60,018**	**20,936**	**111,644**	**13,266**	**15,402**	**31,517**	**940,710**
Thereof long-term									
December 31, 2008	579,769	-	-	-	111,644	-	-	-	691,413
December 31, 2007	-	-	-	-	89,630	-	-	-	89,630

In establishing accruals, Management assesses different scenarios of reasonably estimated outcomes to determine the amount that the Company is expected to pay upon the resolution of a contingency. The Company records a provision based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The Company expects that approximately 60% of the provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, will be utilized during 2009. Even if the Company does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term if the timing of the usage cannot be controlled by the Company.

Restructuring

On November 10, 2008 the Supervisory Board approved the comprehensive restructuring program of the Fixed Net operations presented by the Management Board. The provision for restructuring comprises 965 employees (full-time equivalents) and includes social plans for employees whose employment will be terminated in a socially responsible way, and provisions for the future compensation of civil servants, who will no longer provide services for the Company but who cannot be terminated due to their status as civil servants. The calculation of the provision is based on a discount rate of 6.00% and an estimated salary increase of 3.1% for employees and 5.0% for civil servants. The increase in provisions was recorded in employee costs.

Any changes to the major underlying parameters used in the calculation could have a material effect on the amount of the provision. A reduction in the interest rate of one percentage point would lead to an increase in the provision of EUR 81,404, an increase in the interest rate of one percentage point would lead to a reductionin the provision of EUR 55,195.

Employees

The accruals for employees contain unused vacation days, bonuses, overtime and the short-term portion of employee benefit obligations for severance payments, service awards, pensions and social plans (see also Note (27)).

Customer allowances

The accrual for customer allowances contains rebates earned by customers but not paid as of the balance sheet date.

Customer retention

The accrual for customer retention mainly consists of accrued bonus points earned by customers, which represent a financial liability.

Asset retirement obligation

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

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

The Company has also recorded an asset retirement obligation for masts impregnated with tar or salt. Although the Company stopped erectingtar-masts in 1992, some will be in operation for approximately another 30 years. The Company recorded an asset retirement obligation based on estimated settlement dates and expected cash flows.

Additionally, the Company recorded asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances.

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

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

In 2008, the interest rate was increased from 5.00% to 6.00% and inflation rate was increased from 2% to 3% to reflect current market conditions. This change in estimates resulted in an increase of the asset retirement obligation.

Legal

Provisions mainly relate to expenses incurred in respect of legal advice and litigation.

Roaming and interconnection

The decrease in the provision for roaming and interconnection is mainly due to the reduction of termination charges between mobile communication providers in Austria, which was enacted by regulatory authority, and the subsequent clearing.

Other provisions

Other provisions mainly relate to audit fees, public fees and consulting and value added services.

(23) Other Current Liabilities

Other current liabilities consist of the following items:

At December 31,	2008	2007
Fiscal authorities	66,527	74,977
Social security	10,505	11,142
Stock option plans	6,179	15,449
Employees	35,075	26,089
Prepayments from customers	7,008	7,944
Government	322	544
Other non - financial liabilities	3,495	3,839
Other current non - financial liabilities	**129,111**	**139,984**
Other current financial liabilities	103,330	97,978
Other current liabilities	**232,441**	**237,962**

Liabilities to fiscal authorities mainly include value added taxes and payroll taxes.

Liabilities to employees mainly relate to salaries payable (including overtime and travel allowance) and liabilities from one-time termination benefits.

Liabilities regarding social security relate to statutory contributions to the Austrian social security system.

Other current financial liabilities mainly include roaming credits, liabilities arising from customer deposits and cash in transit.

(24) Deferred Income

At December 31,	2008	2007
Unearned income	148,733	170,898
Unamortized balance on sale of tax benefits	14,496	23,125
	163,229	**194,023**
Less non - current portion	(9,055)	(16,257)
Deferred income, current portion	**154,174**	**177,766**

Deferred income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are amortized on a straight-line basis over the period the service is provided. Deferred income decreased primarily due to the partial change in the billing of monthly base fees from billing in advance to billing in arrears in the segment Fixed Net.

For details on the deferred net cash effect resulting from the cross border lease transactions, see Note (26).

in EUR '000s

(25) Long-term Debt

The terms and conditions of long-term and short-term debt were as follows:

		December 31, 2008				December 31, 2007			
Currency	Year of maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds under EMTN program									
EUR	2013	fixed	5.00%	750,000	758,052	fixed	5.00%	750,000	739,018
EUR	2010	fixed	3.375%	500,000	500,251	fixed	3.375%	500,000	485,012
EUR	2017	fixed	4.25%	500,000	494,825	fixed	4.25%	500,000	494,182
				1,750,000	**1,753,128**			**1,750,000**	**1,718,212**
Promissory Notes									
EUR	2012	fixed	6.08%	100,000	99,821	-	-	-	-
EUR	2012	variable	6.20%	200,000	199,642	-	-	-	-
				300,000	**299,463**				
Bank debt guaranteed by federal government									
EUR	2009-2011	variable	4.88%	13,081	13,081	variable	4.38%	17,441	17,441
EUR	2009-2011	variable	5.33%	1,090	1,090	variable	4.77%	1,453	1,453
				14,171	**14,171**			**18,895**	**18,895**
Bank debt without guarantee by federal government									
EUR	2008	-	-	-	-	variable	5.68%	46,511	46,511
EUR	2008	-	-	-	-	fixed	5.33%	186,042	186,042
EUR	2008	-	-	-	-	variable	5.35%	90,000	90,000
EUR	2008	-	-	-	-	variable	5.35%	96,000	96,000
EUR	2009	variable	3.24%	180,000	180,000	variable	4.81%	180,000	180,000
EUR	2009	fixed	4.94%	236,128	236,777	fixed	4.94%	236,128	236,777
EUR	2009	variable	5.68%	59,032	59,194	variable	5.94%	59,032	59,194
EUR	2009	fixed	4.58%	150,000	150,000	fixed	4.58%	150,000	150,000
EUR	2010	variable	5.86%	41,250	41,250	-	-	-	-
EUR	2010	variable	6.16%	33,750	33,750	-	-	-	-
EUR	2011	fixed	2.40%	210,000	210,000	fixed	2.40%	210,000	210,000
EUR	2012	fixed	3.59%	224,000	224,000	fixed	3.59%	224,000	224,000
EUR	2009	variable	4.25%	125,000	125,000	-	-	-	-
EUR	2012	fixed	5.27%	70,000	70,000	-	-	-	-
EUR	2012	fixed	4.84%	50,000	50,000	-	-	-	-
EUR	2013	fixed	3.72%	96,250	96,250	-	-	-	-
EUR	2013	fixed	4.01%	78,750	78,750	-	-	-	-
EUR	2016	fixed	5.41%	50,000	50,000	-	-	-	-
				1,604,160	**1,604,971**			**1,477,713**	**1,478,524**
Total interest-bearing debt				**3,668,332**	**3,671,733**			**3,246,608**	**3,215,631**
Accrued interest				50,312	50,312			47,862	47,862
Financial debt				**3,718,643**	**3,722,045**			**3,294,471**	**3,263,493**
Current portion of long-term debt				(803,831)	(804,642)			(469,660)	(469,660)
Long-term debt				**2,914,812**	**2,917,403**			**2,824,811**	**2,793,833**

Bonds under the EMTN Program

In 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (a fully consolidated financing subsidiary of Telekom Austria AG) initiated a Euro Medium Term Note ("EMTN") Program. The Company unconditionally and irrevocably guarantees the payments of all amounts due in respect of notes issued by Telekom Finanzmanagement GmbH under this framework agreement. The EMTN program ended on December 31, 2008, and was not extended.

Under this program, the Company launched (i) a Eurobond with face value of EUR 750,000, a coupon of 5.00% and 10-year maturity in July 2003 and (ii) two Eurobonds with face values of EUR 500,000 each, maturities of 5 and 12 years, and coupons of 3.375% and 4.250%, respectively, in January 2005. In January 2005, the bonds were issued at a discount including issue costs of EUR 3,358 and EUR 7,693, respectively, which are amortized over the related terms. For Eurobonds with a face value of EUR 800,000, the Company entered into fixed to floating interest rate swap agreements.

Promissory notes

On August 6, 2008 the Company issued promissory notes. For a total value of EUR 200,000, the Company entered into floating to fixed interest rate swap agreements.

Bank debt guaranteed by the Federal Republic of Austria

Bank debt guaranteed by the Federal Republic of Austria was entered into before the Company's privatization in 1996.

Bank debt not guaranteed by the Federal Republic of Austria

Bank debt incurred by the Company after its privatization is not guaranteed by the Federal Republic of Austria.

(26) Lease Obligations and Cross Border Lease

The Company leases equipment used in its operations. The leases are classified as either operating or finance leases. The lease contracts will expire on various dates through 2017.

Future minimum lease payments for non-cancelable operating leases, finance leases and cross border leases as of December 31, 2008 are:

	Cross border leases	Other finance leases	Operating leases
2009	21,630	472	26,715
2010	9,608	446	25,030
2011	9,591	387	21,038
2012	2,102	263	17,057
2013	12,754	-	12,902
after 2013	-	-	36,007
Total minimum lease payments	**55,685**	**1,569**	**138,748**
Less amount representing interest	(5,282)	(231)	
Present value of lease payments	**50,402**	**1,338**	
Less current portion	(21,630)	(372)	
Non-current lease obligations	**28,773**	**966**	

Total rent expense amounted to EUR 129,906 and EUR 103,356 in 2008 and 2007, respectively.

The Company will receive minimum lease payments for non-cancelable operating leases contracts that mainly relate to private automatic branch exchange equipment (PABX). These payments are recognized as revenue on a straight-line basis over the terms of the contracts. As of December 31, 2008 and 2007, the cost of this equipment amounted to EUR 26,319 and EUR 28,768, accumulated depreciation to EUR 20,732 and EUR 22,647, and the carrying amount to EUR 5,588 and EUR 6,120, respectively.

The following table sets forth the future minimum lease payments to be received as of December 31, 2008.

	Operating leases
2009	9,594
2010	9,904
2011	6,345
2012	2,811
2013	2,008
after 2013	3,434
Total minimum lease payments	**34,095**

Cross border lease transactions

Between August 1998 and November 1999, the Company entered into a series of cross border sale and leaseback arrangements (the "CBLs") of certain digital switching equipment (the "equipment"). Under these arrangements, the Company sold the equipment to various US entities, for the benefit of various US institutional investors, and contemporaneously leased the equipment back for terms between 13 and 16 years, a period considered to be the major part of the remaining useful economic life of the equipment. The CBLs also provided that, at fixed dates (typically after 10 to 13 years), the Company has an option to repurchase the equipment for a fixed purchase price.

In addition, in December 2001, the Company entered into a further CBL with another US investor in the form of lease-in lease-out transaction ("LILO").

in EUR '000s

With the proceeds from these sales of equipment, the Company funded deposits and other investments, the principal and accrued interest under which are sufficient to provide a cash flow stream to cover the periodic leaseback rentals as well as the fixed price purchase option.

At the inception of the lease-back agreements, the Company entered into Payment Undertaking Agreements ("PUA") with several counterparties, whereby the counterparties agreed to make lease payments on behalf of the Company in exchange for a deposit. The counterparties in the PUAs related to the 1999 and 1998 transactions 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 counterparties in the PUAs related to the 2001 transaction 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 the interest on the debt portion.

According to SIC 27, the transactions described, in substance, do not represent a lease in accordance with IAS 17. Therefore, the Company maintained the assets on its statements of financial position and did not recognize any gain or loss from the sales transaction. 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 amortizes these amounts over the term of the lease.

In accordance with SIC 27 and the Framework, no assets or liabilities were recorded for the separate investment account and the lease payment obligations for the transactions carried out in 1998 and 1999. The cash deposits, the securities purchased in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are not recorded in the statements of financial position. The lease payment obligations are disclosed as contingent liabilities only.

However, for the 2001 transactions, the major part of the investment accounts and the lease payment obligations has to be recorded as assets and liabilities because the Company is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the statements of financial position. Accordingly, interest income and expenses in the same amount totaling EUR 3,997 and EUR 4,758 were recognized in 2008 and 2007, respectively.

The amortization of the benefit in 2008 and 2007 of EUR 8,524 and EUR 7,004, respectively, is recorded in interest income.

Between 1999 and 2001, the Company entered into finance agreements with the US insurance group American International Group (AIG) in respect of the cross border lease transactions. As a consequence of the recent downgrade of AIG's rating, additional guarantees had to be supplied for which the Company incurred expenses amounting to EUR 1,115 in 2008. A USD deposit of TUSD 85,029 serving as securitization of these guarantees had to be opened, which was hedged by a forward exchange contract (see Notes (8) and (33)).

Furthermore, two transactions were early terminated at the end of October. As a result, the Company had to pay EUR 283, but released the net cash effect of the tax benefit allocated to these transactions amounting to EUR 1,761. Thus, the Company recognized interest income amounting to EUR 1,478. As a result of the early termination of these two transactions, contingent liabilities decreased.

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

At December 31,	2008	2007
Deposits long-term	31,155	44,984
Deposits short-term	19,247	12,446
Total assets in connection with cross border leases	**50,402**	**57,430**
Cross border lease obligations	50,402	57,430
Of which current	21,630	8,730

(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

At December 31,	2008	2007
Contractual termination benefits	41	346
Service awards	52,492	50,095
Severance	55,070	53,039
Pensions	7,070	7,756
Other	2,732	1,762
Long-term employee benefit obligations	**117,406**	**112,998**

Contractual termination benefits

In June 2000, June 1999 and in November 1997, the Company offered voluntary retirement incentive programs ("VRIPs") to civil servants. The present value of these obligations is determined based on current compensation levels and the respective legal regulations as well as estimated future salary increases of 2.0% in 2008 and 2007 and a discount rate of 6.0% in 2008 and of 5.0% in 2007. VRIPs are not funded. As of December 31, 2008 and 2007, the accrual for the VRIPs related to 32 and 55 employees, respectively. In connection with VRIPs, the Company made payments of EUR 970 and EUR 2,694 during 2008 and 2007, respectively. Expenses as well as the reversals of accruals are reflected as a component of employee costs and interest cost, respectively, in the accompanying consolidated statements of operations. In 2008 and 2007, an amount of EUR 198 and EUR 1,307, respectively, was recorded in short-term accrued liabilities (see Note (22)).

Actuarial assumptions

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

At December 31,	2008	2007
Actuarial assumptions:		
Discount rate	6.0%	5.0%
Rate of compensation increase – civil servants	5.4%	5.4%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%-7.3%	0.0%-7.0%

*depending on years of service

Interest cost related to employee benefits is recorded in interest expense; service cost is recorded in employee costs.

Service awards

Civil servants and certain employees (together "employees") in Austria 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 the components and a reconciliation of the changes in service awards for the years ended December 31, 2008 and 2007:

	2008	2007
Accrual at the beginning of the year	52,600	50,759
Service cost	2,041	2,048
Interest cost	2,685	2,333
Recognized actuarial gains	652	(33)
Benefits paid	(2,498)	(2,500)
Past service cost	-	(8)
Accrued liability at the end of the year	**55,480**	**52,599**
Less short-term portion	(2,987)	(2,504)
Accrued service award liability, long-term	**52,492**	**50,095**

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2008 and 2007, respectively. The experience adjustments and the defined benefit obligation as of December 31 amounted to:

	2008	2007	2006
Defined benefit obligation	55,480	52,599	50,759
Experience adjustments	(3,115)	(343)	(2,604)

Severance

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans as described below. Following a legal change, obligations for employees starting to work for the Company after January 1, 2003 are covered by a defined contribution plan. The Company paid EUR 1,009 and EUR 838 into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2008 and 2007, respectively.

Upon termination by the Company or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime and bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly installments over a period not exceeding ten months. In case of death, the heirs of an eligible employee receive 50% of the severance benefits.

The following table provides the components of the net periodic benefit cost for the years ended December 31, 2008 and 2007:

	2008	2007
Service cost	4,118	5,027
Interest cost	2,702	2,877
Amortization of actuarial losses (gains)	(422)	188
Net periodic benefit cost	**6,398**	**8,092**

The following table provides a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2008 and 2007:

	2008	2007
Defined benefit obligation at the beginning of the year	52,426	59,680
Change in reporting units	(98)	926
Service cost	4,118	5,027
Interest cost	2,702	2,877
Benefits paid	(4,952)	(5,415)
Past service cost	21	770
Actuarial losses (gains)	(8,457)	(11,440)
Defined benefit obligation at the end of the year	**45,759**	**52,425**
Unrecognized past service cost	(369)	(654)
Unrecognized actuarial gain (loss)	11,617	3,582
Accrued liability at the end of the year	**57,007**	**55,353**
Less short-term portion	(1,937)	(2,314)
Accrued severance liability, long-term	**55,070**	**53,039**

Of the defined benefit obligations for severance, approximately 2% related to foreign subsidiaries as of December 31, 2008 and 2007, respectively. The experience adjustments and defined benefit obligation at December 31 amounted to:

	2008	2007	2006
Defined benefit obligation	45,759	52,425	59,680
Experience adjustments	(3,904)	(20,714)	(5,883)

Pensions

Defined contribution pension plans

Pension benefits generally are provided by the social security system 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 is legally obligated to make annual contributions to the Austrian government for active civil servants. In 2008, the rate of contribution amounted to a maximum of 28.3% depending on the age of the civil servants. 15.75% are borne by the Company and the remaining portion was contributed through withholdings by the civil servants. Contributions to the government, net of the share contributed by civil servants, were EUR 43,894 and EUR 41,743 in 2008 and 2007, respectively.

Additionally, the Company sponsors a defined contribution plan for employees of some of the Company's 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 EUR 8,742 and EUR 11,248 in 2008 and 2007, respectively. Due to a collective agreement in respect of pension fund contributions for civil servants signed in 2008, no contributions need to be made for certain civil servants. In 2008, an amount of EUR 2,979 was reversed from pension provisions recorded in 2007 and 2006.

Defined benefit pension plans

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

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

The pension benefits for 2008 and 2007 are set out in the following table:

	2008	2007
Interest cost	372	367
Amortization of actuarial losses (gains)	(316)	(2)
Net periodic pension cost	**57**	**365**

in EUR '000s

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2008 and 2007:

	2008	2007
Defined benefit obligation at the beginning of the year	7,489	8,040
Interest cost	372	367
Benefits paid	(817)	(824)
Past service cost	56	151
Actuarial net gain	(328)	(245)
Defined benefit obligation at the end of the year	**6,773**	**7,489**
Unrecognized actuarial gain	1,077	1,065
Accrued liability at the end of the year	**7,850**	**8,554**
Less short-term portion	(780)	(798)
Accrued pension liability, long-term	**7,070**	**7,756**

Past service cost relates to an increase in pension payments for prior periods due to an unfavorable change in estimate, which could not be deferred to future periods. The experience adjustments and the defined benefit obligation at December 31 amounted to:

	2008	2007	2006
Defined benefit obligation	6,773	7,489	8,040
Experience adjustments	(419)	(303)	168

Any changes to the major underlying actuarial assumptions used in the calculation of employee benefit obligations could have a material effect on such obligations, and on the net employee costs as well as on interest expense. A change in the discount rate of one percentage point would lead to the following amounts of defined benefit obligations:

At December 31, 2008	5%	7%
Service awards	60,613	50,969
Severance	53,825	38,108
Pensions	7,301	6,316

(28) Other Non-current Liabilities and Deferred Income

The Company's other liabilities and deferred income include:

At December 31,	2008	2007
Long-term accounts payable - trade	971	1,048
Interest rate swaps - fair value hedges	793	19,935
Cash flow hedges	10,286	-
Other liabilities	653,517	599,244
Other non-current financial liabilities	**665,567**	**620,227**
Unamortized balance on sale of tax benefits	9,055	16,257
Other liabilities	1,626	1,761
Deferred income, other	1,102	1,373
Other non-current non-financial liabilities	**11,782**	**19,391**
Other non-current liabilities and deferred income	**677,349**	**639,618**

Long-term accounts payable - trade have a maturity beyond one year. The fair value hedges are interest rate swap agreements and relate to the bonds under the EMTN program. The cash flow hedges refer to a floating to fixed interest rate swap for promissory notes with a total value of EUR 200,000 (see Note (25)).

Other long-term financial liabilities mainly consist of the purchase price payable related to the acquisition of SBT. This liability is interest-bearing.

The unamortized balance on the sale of tax benefit is the long-term portion of the net present value of the benefit resulting from cross border lease transactions (see Note (26)).

(29) Stockholders' Equity

Share capital

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

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

Authorized capital 2006
At the Annual General Meeting on May 23, 2006, the Management Board was again authorized to increase the share capital by up to EUR 21,810 for the purpose of settling employee stock options for a period of five years, ending in 2011. Based on this authorization and following the relevant approvals by the Supervisory Board, the Management Board decided to increase conditionally the share capital by up to EUR 9,815 (4.5 million shares) in order to settle options granted under the Stock Option Plan (see Note (31)). As the Company elected to settle both programs in cash, the capital increase was not carried out and the approved authorized capital was cancelled upon approval by the Supervisory Board on July 15, 2008.

Retirement of stock
On March 19, 2007, the Company retired 40 million treasury shares at an average price of Euro 17.21, in total amounting to EUR 688,490. This resulted in a reduction of retained earnings. The retired shares accounted for 8% of total share capital. In accordance with section 192 of the Austrian Stock Corporation Act, the retirement resulted in a reduction of share capital in the amount of EUR 87,240 to EUR 1,003,260, and a corresponding increase in additional paid-in capital of EUR 87,240 to EUR 548,880.

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2008 and 2007 are presented below:

At December 31,	2008	2007
Shares authorized	520,000,000	520,000,000
Shares issued	460,000,000	460,000,000
Shares in treasury	(17,601,778)	(17,788,258)
Shares outstanding	442,398,222	442,211,742

All shares have a par value of zero.

The following table provides a reconciliation of the changes of number of shares outstanding in the years ended December 31, 2008 and 2007:

	2008	2007
Outstanding as of January 1	442,211,742	461,692,527
Capital reduction	-	(40,000,000)
Retirement of treasury shares	-	40,000,000
Purchase of treasury shares	-	(19,567,527)
Employee Participation Program	186,480	86,742
Outstanding as of December 31	**442,398,222**	**442,211,742**

Dividend payment
At the Annual General Meeting on May 20, 2008, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 28, 2008 amounted to EUR 331,659. At the Annual General Meeting on May 30, 2007, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on June 8, 2007 amounted to EUR 343,083.

The net income of Telekom Austria AG according to Austrian GAAP amounts to EUR 224,434 and EUR 677,402, in the years 2008 and 2007, respectively. According to Article 126 of the Stock Corporation Act, the Supervisory Board and the Management Board decided to release an amount of EUR 109,364 from additional retained earnings for the year ended December 31, 2008, and to transfer an amount of EUR 404,743 from net income amounting to EUR 677,402 to retained earnings for the year ended December 31, 2007, resulting in unappropriated retained earnings of EUR 331,830 and EUR 331,690 for the years 2008 and 2007, respectively.

The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute from unappropriated retained earnings a dividend of Euro 0.75 per share.

Treasury shares

At the Annual General Meeting held on May 20, 2008, the Management Board was authorized to acquire treasury shares up to the maximum extent legally permitted. During a period of 18 months, the Company may acquire treasury shares at a minimum price of Euro 9 and at a maximum price of Euro 30 per share, ending November 2009. The Management Board was empowered (i) to use this treasury stock to satisfy obligations under the stock option plans described in Note (31) (ii) to use it to satisfy obligations resulting from the issuance of convertible bonds, (iii) to use it as consideration for acquisitions (iv) to retire up to 46 million treasury shares to reduce common stock by a maximum of 10% (EUR 100,326) or (v) to sell it on the stock exchange or through a public offering.

In 2007, the Company bought back treasury shares (retirement of stock, see share capital):

Treasury shares bought back in	2008	2007
Number of treasury shares	-	19,567,527
Average price per share in Euro	-	18.90

Shares held in treasury as of December 31,	2008	2007
Number of treasury shares	17,601,778	17,788,258
Average price per share in Euro	18.80	18.80
Deduction in equity	330,845	334,350

In the years 2008 and 2007, the Company used 186,480 and 86,742 treasury shares with a total value of EUR 3,505 and EUR 1,630 respectively, to serve the employee participation program (see Note (31)).

Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2008 and 2007 are calculated as follows:

	2008	2007
Net income (loss) attributable to owners of the parent	(48,767)	492,484
Weighted average number of common shares outstanding	442,212,761	451,673,637
Basic and diluted earnings per share (in Euro)	**(0.11)**	**1.09**

Due to Management's decision to settle employee stock options granted in the course of the stock option plan in cash, no related dilutive effect has been considered in 2008 and 2007 for the Stock Option Plan 2004.

Revaluation reserves and currency translation adjustment

Revaluation reserves and currency translation adjustment are presented in the consolidated statements of comprehensive income. The foreign currency translation adjustment mainly results from the consolidation of Velcom.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2008 and 2007 consists of the following:

	2008	2007
Current income tax	82,666	74,411
Deferred income tax	(110,287)	40,928
Income tax	**(27,622)**	**115,339**

The table below provides information about the allocation of total income tax in the consolidated financial statements:

	2008	2007
Continuing operations	(27,622)	115,339
Other comprehensive income	(2,773)	(97)
Total income taxes	**(30,394)**	**115,242**

The following table shows the major reconciling items between the reported income tax expense and the amount of income tax expense that would have resulted from applying the Austrian statutory income tax rate of 25% to pre-tax income 2008 and 2007:

	2008	2007
Income tax expense at statutory rate	(19,096)	151,957
Foreign tax rate differential	(11,922)	(22,377)
Non-deductible expenses	7,661	3,165
Tax incentives and tax exempted income	(4,177)	(7,542)
Tax-free income from investments	(318)	(70)
Change in tax rate	261	-
Tax expense (benefit) previous years	3,258	(7,977)
Deferred tax assets not recognized (in prior periods)	2,923	1,888
Impairment of investments in subsidiaries	(6,486)	(4,213)
Other	274	508
Income tax	**(27,622)**	**115,339**
Effective income tax rate	36.16%	19.00%

Due to restructuring expenses, a tax benefit was recorded in 2008, thus the effective income tax rate cannot be compared to the previous year.

Non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses in 2008 and of interest expenses on shareholder loans and representation expenses in 2007. Tax incentives in 2008 and 2007 essentially consist of tax-exempted income related to investments in subsidiaries, research, education and investment incentives as well as other government grants.

On November 2, 2006, the Slovenian parliament passed an act reducing gradually the corporate income tax rate from 25% to 23% in 2007, to 22% in 2008, to 21% in 2009 and to 20% in 2010, and allowing indefinite carry forward of tax losses. The change in the corporate income tax rate resulted in an overall tax expense of EUR 261 in 2008.

The tax expense from previous years recorded in 2008 mainly relates to tax reliefs in Serbia which are partly compensated by the write-ups of taxable assets in Belarus; in 2007, it mainly resulted from the reversal of deferred tax liabilities following the completion of a tax audit in one of the foreign subsidiaries.

in EUR '000s

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are set out below:

At December 31,	2008	2007
Deferred tax assets		
Goodwill	24,266	37,207
Deferred deduction for impairments of investments in subsidiaries	11,258	7,668
Loss carry-forwards	142,936	22,604
Accounts receivable - trade	4,647	3,965
Deferred income and other liabilities	2,519	9,875
Other current assets and prepaid expenses	1,927	1,349
Accrued liabilities, long-term	41,208	19,774
Employee benefit obligations	10,483	10,434
Property, plant and equipment	3,073	3,260
Other	11,990	7,431
Deferred tax assets	**254,307**	**123,567**
Deferred tax liabilities		
Goodwill	(9,689)	(9,689)
Property, plant and equipment	(27,518)	(23,579)
Other intangible assets	(221,197)	(230,200)
Accrued liabilities	(861)	(575)
Long-term financial liabilities	-	(5,406)
Write down of treasury shares for tax purposes	(34,746)	-
Other	(4,951)	(5,388)
Deferred tax liabilities	**(298,961)**	**(274,837)**

At December 31,	2008	2007
Deferred taxes, net	**(44,655)**	**(151,270)**
Deferred tax assets	143,432	44,138
Deferred tax liabilities	(188,087)	(195,408)

The Company established a tax group in Austria, with Telekom Austria AG as the head of the group. Deferred tax receivables and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since income tax is levied by the same tax authority.

As of December 31, 2008 and 2007, the Company did not recognize deferred tax assets amounting to EUR 21,495 and EUR 25,857, respectively. The unrecognized amounts relate to net operating loss carry-forwards.

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies when making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, Management believes it is probable that the Company will realize the benefits of the deferred tax assets.

At December 31, 2008, the Company had approximately EUR 858,410 of operating loss carry-forwards. The following loss carry-forwards relating to Macedonia, Serbia and the Netherlands expire in the following years:

Year	Amount
2010	15,983
2011	25,588
2012	700
2013	202
2016	189,439
2017	6
Total	**231,916**

The remaining amount of net operating loss carry-forwards mainly relates to companies located in Austria and Slovenia and can be carried forward indefinitely. In Austria, the annual usage is limited to 75% of the taxable income for a year.

At December 31, 2008 and 2007, the Company did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 153 and EUR 220, respectively.

At December 31, 2008 and 2007, income taxes receivable relate to tax returns not yet assessed. At December 31, 2008 and 2007, income taxes payable relate to foreign subsidiaries.

(31) Stock-based Compensation

The Company's Stock Option Plan 2004, which was approved by the stockholders at the Annual General Meeting, provided stock options in three tranches. In the years 2004 to 2006, one tranche was granted in each year. In 2006, an extension to the Stock Option Plan 2004 ("Stock Option Plan 2004 extended") for another three tranches in the years 2007, 2008 and 2009 was approved.

Stock Option Plan 2004 (2004 plan)

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

On January 19, 2005, the second tranche (ESOP 2005+) was offered to the eligible employees. For every 20 (15) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. The fair value of the options as of the grant date amounted to EUR 8,455. The performance condition set for the second tranche was met as of December 31, 2005.

On January 12, 2006, the third tranche (ESOP 2006+) was offered to the eligible employees under the Stock Option Plan 2004. For every 28 (24) options awarded, an eligible employee (Member of Management Board) must hold one ordinary share until exercise. The fair value of the options as of the grant date amounted to EUR 15,868. The performance condition set for the third tranche was met as of December 31, 2006.

Stock Option Plan 2004 Extension

Based on an authorization of the Annual General Meeting, the Supervisory Board of the Company extended the Stock Option Plan 2004 ("Stock Option Plan 2004 extension") for another three tranches in the years 2007, 2008 and 2009. Each tranche has to be approved separately by the Supervisory Board.

Following the approval by the Supervisory Board on January 8, 2007, the fourth tranche (ESOP 2007+) was granted to the eligible employees. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The fair value of the options as of the grant date amounted to EUR 10,523. The performance condition set for the fourth tranche was met as of December 31, 2007.

Following the approval by the Supervisory Board on January 7, 2008, the fifth tranche (ESOP 2008+) was granted to the eligible employees. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The fair value of the options as of grant date amounted to EUR 9,198. The performance condition (earnings per share) set for the fifth tranche was not met as of December 31, 2008 due to restructuring expenses. The options granted in 2008 might be exercised in the event that the performance conditions for 2009 or 2010 are met, provided these are not lower than the performance condition for 2008 (retesting). The vesting period is therefore extended by another 12 months.

The following table sets forth details of the stock option plans as of December 31, 2008:

	Fifth tranche 2008	Fourth tranche 2007	Third tranche 2006	Second tranche 2005
Exercise price in Euro	19.39	20.34	18.91	13.98
Options granted	4,401,130	4,047,472	3,908,468	2,874,100
Thereof Management Board	360,000	240,000	360,000	396,400
Vesting period in months from the grant day	24	12	12	12
First exercise date	February 25, 2010	February 27, 2008	March 8, 2007	March 16, 2006
Expected expiry date	May 31, 2012	March 31, 2011	March 31, 2010	May 29, 2009
Options outstanding	4,072,684	3,581,272	2,643,120	326,500

As the Management Board determined that all employee stock options granted in the course of the Stock Option Plan 2004 be settled in cash, a liability was recorded in accordance with IFRS 2.41.

The following table sets forth the income and expenses related to stock based compensation recorded by the Company. Such income and expenses do not include payroll related taxes and social security contributions.

	2008	2007
First tranche 2004	(204)	(50)
Second tranche 2005	(2,075)	(444)
Third tranche 2006	(5,188)	(301)
Fourth tranche 2007	(4,167)	6,379
Fifth tranche 2008	2,647	-
Expense (Benefit)	**(8,987)**	**5,584**

Compensation expense is measured based on the fair value of the options at each reporting date and recognized over the service period on a straight-line basis. The fair value estimation is based on the binomial option pricing model applying the following parameters:

	2008	2007
Expected average dividend per share in Euro	0.75 - 0.94	0.75 – 1.00
Expected volatility	55%	27%
Risk - free interest rate range	2.750 % - 3.354 %	3.618 % - 4.585 %
Stock price at December 31 in Euro	10.30	19.03
Fair value per option first tranche in Euro	-	7.34
Fair value per option second tranche in Euro	0.47	5.61
Fair value per option third tranche in Euro	0.44	2.17
Fair value per option fourth tranche in Euro	0.62	1.98
Fair value per option fifth tranche in Euro	0.75	-

Changes to the major parameters used in the calculations could have a material effect on the fair value per option and on the obligation and expense (income) recognized. A change in the expected volatility of one percentage point would result in the following fair values per option:

Expected volatility	50%	60%
Fair value per option second tranche in Euro	0.37	0.58
Fair value per option third tranche in Euro	0.35	0.52
Fair value per option fourth tranche in Euro	0.53	0.70
Fair value per option fifth tranche in Euro	0.67	0.81

The expected volatility used in the option pricing model is based upon the development of historical volatility for several observation periods and other indicators such as OTC ("over-the-counter") or implied volatility. The Company's valuation model is not based upon an expected term of the option, but rather considers the exercise pattern of employees as a function of the intrinsic value of the options. The Company updates the estimates used in the valuation model annually by incorporating the most recent data about the actual distribution of exercises and forfeitures over the exercise period.

The following tables show the stock option activity and weighted average exercise prices under the 2004 plan:

Numbers of options	2008	2007
Outstanding as of January 1	7,231,626	4,424,693
Granted	4,401,130	4,047,472
Forfeited	(909,280)	(227,990)
Exercised	(99,900)	(1,012,549)
Outstanding as of December 31	**10,623,576**	**7,231,626**
Of which exercisable as of December 31	6,550,892	3,392,744

Weighted - average exercise price	2008	2007
Outstanding as of January 1	18.20	17.90
Granted	19.39	20.34
Forfeited	19.17	20.12
Exercised	13.74	16.88
Outstanding as of December 31	**19.42**	**19.34**
Of which exercisable as of December 31	19.45	18.20

Remaining contractual term and total intrinsic value for outstanding and exercisable options developed as follows:

At December 31,	2008	2007
Outstanding options		
Weighted average remaining contractual term (in years)	2.4	2.8
Exercisable options		
Total intrinsic value (in 1,000 EUR)	-	2,821

The weighted average share price at the exercise date was Euro 16.69 in 2008 and Euro 19.93 in 2007.

Employee Participation Program

The Employee Participation Program ("EPP") is a voluntary benefit and does not require the employee to complete a specific period of service or to achieve performance conditions in the future or to render service during a vesting period.

In December 2006, the Company introduced the EPP based on the authorization of the Annual General Meeting held on May 23, 2006. The EPP was granted to active employees in Austria who were not eligible to participate in the stock option plans.

The following tranches were granted to part-time and full-time employees:

	Third tranche	Second tranche	First tranche
Grant date	December 30, 2008	December 20, 2007	December 12, 2006
Number of shares	186,480	86,742	505,503
Price per share at grant date in Euro	10.30	19.05	20.11
Recorded expense	1,921	1,652	10,065
Number of employees	10,952	11,120	11,383
Euro per full-time employee - Fixed Net	150	150	900
Euro per full-time employee - Mobile Communication	300	150	900

The fair value of the shares granted was measured at the grant date - the date of authorization by the Supervisory Board - and was immediately expensed. The Company used treasury shares to serve this program leading to a corresponding increase in shares outstanding and an increase in equity.

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

	2008	2007
Cash paid for		
Interest	170,506	149,192
Income taxes	80,656	85,518
Cash received for		
Interest	10,890	8,198
Income taxes	1	21

The dividends received in 2008 and 2007 (see Note (7)) had already been settled in cash as of December 31.

In 2008, the item "Other" amounting to EUR 19,733, which is part of the reconciliation of net income to the cash flow from operating activities, mainly consists of interest and the hedging expenses relating to the purchase price liability of SBT.

Cash and cash equivalents acquired in acquisitions totaled EUR 155 and EUR 15,447 in 2008 and 2007, respectively. Cash and cash equivalents sold in the course of the disposal of subsidiaries totaled EUR 2,961 and EUR 125 in 2008 and 2007, respectively (see Note (2)).

(33) Financial Instruments

Financial risk management

Overview

The Company has exposure to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying assets, liabilities and anticipated transactions. The Company selectively enters into derivative financial instruments to manage the related risk exposures in areas such as foreign exchange rates and interest rate fluctuations. These policies are laid down in the Treasury Guidelines and have been approved by Management. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

This Note presents information about the Company's exposure to each of the above risks, as well as the objectives, policies and the processes for measuring these risks. Further quantitative disclosures are included throughout these consolidated financial statements.

The chief financial officers of the holding company and of the two segments have overall responsibility for the implementation and oversight of the Company's risk management and are responsible for monitoring the Company's risk management process.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that the Company will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference of incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk).

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is juxtaposed against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for the group as well for the segments Fixed Net and Mobile Communication. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated. The liquidity plan is discussed periodically within the risk committee. The risk committee is the primary organizational unit of the Company to plan, coordinate and make decisions on active risk management.

An analysis of the structural liquidity risk takes place upon determining the net working capital and the redemption structure of the financing portfolio (risk of concentration of maturities). Individual investment financing is structured in such a way that a balanced redemption schedule can be adhered to in the aggregate portfolio and any concentration of maturities in a single year is avoided.

The Company invests excess liquidity in instruments with counterparties and within limits approved by the Chief Financial Officer (CFO) and the risk committee. All long-term instruments and derivatives are contracted with counterparties having a rating of "A-" or higher from Standard & Poor's or an equivalent rating from another globally recognized rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

Funding sources

The Company pursues a central treasury approach in meeting the capital needs of its subsidiaries. The Company's treasury department acts as an internal financial services provider, realizing potential synergies in financing the operations of the Company's subsidiaries. Its primary goal is to assure liquidity in a cost-effective manner applying the pooling of cash flows and the clearing of the group's accounts' enabling the management of short-term investments and borrowings at optimal interest rates with minimal administrative effort.

Cash flow from operations is the basis for securing sufficient liquidity. Principal sources of external funding are debt securities issued to the Austrian and international debt capital markets and bank loans. For details of outstanding long-term debt and a description of the different classes of the debt, other than lease obligations, see Note (25).

Other funding sources

In order to diversify its short-term funding sources, the Company implemented a multicurrency short-term and medium-term treasury notes program (multicurrency notes) with a maximum volume of EUR 300,000 in 2007.

As of December 31, 2008 and 2007, the Company had total credit lines of EUR 1,188,000 and EUR 1,050,000, respectively. These credit lines were not utilized. The credit line commitments will expire between December 2009 and July 2013.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the fair values of the derivative financial instruments. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of December 31, 2008. Foreign currencies were translated at the rates at balance sheet date.

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At December 31, 2008						
Financial liabilities						
EMTN and Multi-Currency Note Program	2,281,550	154,675	40,000	575,625	926,250	585,000
Bank debt without guarantee	2,129,386	476,184	214,479	126,792	1,253,693	58,238
Bank debt guaranteed	15,603	5,452	50	5,222	4,879	-
Accounts payable - trade	590,130	558,209	31,037	40	554	289
Lease obligations	1,569	392	81	446	650	-
Other financial liabilities	821,113	134,819	32,777	652,319	-	1,198
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	(21,454)	6,066	(2,240)	(14,333)	(10,947)	-
Variable to fixed IRS	12,586	(6,130)	7,572	4,576	6,569	-
Forward exchange contracts						
Notional amount in EUR	600,659	9,016	(65,993)	657,636	-	-
Notional amount in USD*	(879,438)	(13,467)	84,029	(950,000)	-	-
At December 31, 2007						
Financial liabilities						
EMTN and Multi-Currency Note Program	2,248,125	38,125	47,500	651,250	947,500	563,750
Bank debt without guarantee	2,054,598	810,257	131,458	664,719	448,164	-
Bank debt guaranteed	20,821	-	5,711	5,346	9,764	-
Accounts payable - trade	639,225	609,016	29,123	150	637	299
Lease obligations	1,413	198	213	250	752	-
Other financial liabilities	1,152,066	406,543	29,778	-	714,872	873
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	8,258	3,001	4,962	(985)	1,280	-
Forward exchange contract						
Notional amount in EUR	635,121	451	-	634,670	-	-
Notional amount in USD*	(915,661)	(661)	-	(915,000)	-	-

* Inflows of cash are shown in brackets

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline approved by the Company's Management. For derivative financial instruments used for risk management purposes, the Company generally applies hedge accounting in accordance with IAS 39.

For the purpose of determining the fair value of the existing financial instruments, the Company considers the interest rate curve applicable to calculate discount factors of matching maturities.

The exposure to market risk, its origin and the objectives, policies and processes for managing market risk (interest rate risk and exchange rate risk) and the methods used to measure credit risk remained unchanged compared to prior years.

Interest rate risk

The Company considers changing interest rates as its major market risk exposure. The Company's risk management strategy strives to balance the related exposure to fair value and cash flow risks.

Since the majority of our long-term debt has fixed interest rates, the cash flow exposure due to fluctuating interest rates is limited. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans. In line with its risk policy, the Company entered into fixed to floating interest rate swap agreements to create a fix-to-floating mix of its total debt portfolio to support the Company's Value at Risk/Cash Flow at Risk approach. Under the interest rate swap agreements, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount.

The following tables summarize the nominal and fair values, maturity and contract terms of its interest rate sensitive financial instruments at December 31, 2008 and 2007.

Exposure to interest rate risk
The risk of changes in interest rates is considered low due to the short-term nature of financial assets.

For details on the risks related to long-term financial liabilities, see Note (25).

Short-term liabilities with exposure to interest rate risk	2008	2007
Bank overdrafts		
Variable rate, carrying amount	-	10,515
Average interest rate in %*	-	3.86%
Short-term borrowings		
Fixed rate carrying amount	9,932	458,056
Average interest rate in %*	4.96%	4.96%
Asset backed security loan (ABS)		
Variable rate, carrying amount	-	279,089
Average interest rate in %*	-	5.08%
Multi-currency notes program		
Fixed rate carrying amount	117,994	9,647
Average interest rate in %*	4.04%	4.82%

*Weighted average of the year-end interest rates applicable to the outstanding amounts.

Fair value sensitivity analysis for financial instruments:
One measure used to express the potential change in the value of a portfolio of financial liabilities in response to a change in interest rates is the modified duration. Modified duration (sensitivity measure) follows the concept that interest rates and the price of fixed rate financial instruments move in opposite directions. The modified duration on the total portfolio was 2.40% in 2008 and 2.09% in 2007. The sensitivity is based on the assumption of a 100 basis points parallel shift in market interest rates for all terms occurring at the balance sheet date. The methods and assumptions used remained unchanged to those used in prior years.

A change of 100 basis points (bps) in interest rate at the reporting date would have increased (decreased) the fair value of the financial portfolio by the amounts shown below (amounts in brackets represent decreases in financial liabilities):

		Change of financial portfolio	
At December 31,	Capital amounts	100 bps increase	100 bps decrease
2008			
Fixed and variable rate financial liabilities	3,796,257		
Fair value sensitivity at 2.40%		(90,958)	90,958
2007			
Fixed and variable rate financial liabilities	3,994,658		
Fair value sensitivity at 2.09%		(83,488)	83,488

Cash flow sensitivity analysis for variable rate financial instruments
A change of 100 basis points (bps) in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The values presented refer to the variable portion of the total debt portfolio. Amounts in brackets represent positive effects on the consolidated statement of operations.

At December 31,	Capital amounts	100 bps increase	100 bps decrease
2008			
Variable rate financial liabilities	653,203		
EMTN bond with interest rate swap (variable leg)	800,000		
Sensitivity		**14,532**	**(14,532)**
2007			
Variable rate financial liabilities	500,953		
EMTN bond with interest rate swap (variable leg)	800,000		
Sensitivity		**13,010**	**(13,010)**

Interest rate swap agreements
The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining term of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining term of the hedged item is less than twelve months. Derivative financial instruments which do not qualify for hedge accounting are classified as current financial assets or financial liabilities.

In 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (a fully consolidated financing subsidiary of Telekom Austria AG) initiated a Euro Medium-Term Note ("EMTN") Program.

Under this program, the Company issued in total three bonds with a face value of EUR 1,750,000, coupons between 3.375% and 5.00%, and maturities between five and twelve years. These bonds are described in Note (25). For Eurobonds with a face value of EUR 800,000, the Company entered into fixed to floating interest rate swap agreements.

On August 6, 2008, the Company issued promissory notes for a total value of EUR 300,000 (see Note (25)). For a total value of EUR 200,000, the Company entered into floating to fixed interest rate swap agreements.

The following table indicates the types of swaps in use at December 31, 2008 and 2007, and their weighted-average interest rates and the weighted-average remaining terms of the interest rate swap contracts. The "average pay rate" represents the weighted-average interest rate at December 31, 2008 and 2007. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that the Company must pay. "Average receive rate" represents the weighted average interest rate applicable at December 31, 2008 and 2007. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that the Company receives. The notional amounts under the relevant contracts are the amounts used notionally to calculate the amount of interest to be paid or received as appropriate, and are not actually received by either party and are not, therefore, repayable under the terms of the contract.

	2008	2007
Variable to fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	200,000	-
Average receive rate	6.20%	-
Average pay rate	5.68%	-
Average maturity in years	3.65	-
Fixed to variable swaps in EUR (fair value hedge)		
Notional amount in EUR	800,000	800,000
Average receive rate	3.98%	3.98%
Average pay rate	5.18%	4.75%
Average maturity in years	2.43	3.43

The interest rate swap transactions resulted in an increase in effective interest rates of 1.27 percentage points and 0.62 percentage points in 2008 and 2007, respectively.

Information with respect to fair value hedges

Telekom Finanzmanagement GmbH designates interest rate swap agreements as fair value hedges of the interest rate risk attributable to the change of the fair value of the bonds under the EMTN Program.

The critical terms of the interest rate swap agreements and the bonds are identical. Therefore, the following conditions have been met:

a) The formula for computing net settlement under the interest rate swap is the same for each net settlement. Therefore, the fixed rate is the same throughout the term.

b) There is no floor or cap on the variable leg of the interest rate swap.

c) The bonds are not prepayable.

The Company can therefore reasonably conclude, both at the inception and on an ongoing basis, that the hedging relationship is expected to be highly effective in offsetting fair value changes attributable to interest rate variability. Changes in the fair value of the derivative hedging instrument will offset changes in the fair value of the underlying liability due to fluctuations in interest rates (Dollar Offset Method).

According to IAS 39, the hedge effectiveness must be between 80 and 125 percent for a hedge to be considered effective. The effectiveness is calculated by dividing the hedged portion of the change of the fair value of the underlying liability by the corresponding change in the fair value of the derivative hedging instrument or vice versa. When calculating the hedge effectiveness according to the above mentioned method, the hedge could show a mathematical ineffectiveness even if an economic effectiveness is given. This could be the case when changes in the values of the underlying liability and the corresponding interest rate swap are rather small. In order not to preclude the hedge effectiveness by mathematical ineffectiveness, the Company has set an absolute limit: the difference between the change in value of the interest rate swap and the change in value of the hedged item shall not exceed a limit of 0.5%. As long as this limit is no exceeded, the hedge is considered effective. The analysis (hedge effectiveness test) assumes that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

Hedge Effectiveness Test Fair Value Hedges

At December 31,	Notional amount	Fair value at origination	Fair value at reporting date	Fair value change	Effectiveness
2008					
Hedged items	800,000	799,254	812,428	(13,174)	
Hedging instrument (interest rate swap)	800,000	1,501	(10,647)	12,148	
Effectiveness in %					(108.45)%
Effectiveness in EUR					(1,026)
2007					
Hedged items	800,000	799,254	780,418	(18,836)	
Hedging instrument (interest rate swap)	800,000	1,501	19,985	18,484	
Effectiveness in %					101.91%
Effectiveness in EUR					352

Information with respect to cash flow hedges

Cash flow hedges are entered into by the Company to reduce its exposure to changes in the cash flows resulting from interest payments with respect to floating interest rate liabilities. Upon issuing the promissory notes, the Company entered into floating to fixed interest rate swap agreements for the part of the notes subject to variable interest rate, amounting to EUR 200,000, for which the conditions essentially correspond to those of the promissory notes (see Note (25)).

At December 31, 2008, the derivative financial liability (including deferred interest) amounts to EUR 9,879. The hedged cash flows with respect to the interest payments will become due on every February 6 and August 6 of each year until, presumably, August 6, 2012, and will affect the consolidated statement of operations in the respective reporting periods. In 2008, an amount of EUR 10,286 relating to derivative financial liabilities was recognized in other comprehensive income (OCI). In 2008, no ineffectiveness was recorded in the consolidated statement of operations.

Exchange rate risk

As of December 31, 2008 and 2007, one variable interest rate liability resulting from the acquisition of SBT in the amount of TUSD 907,832 and TUSD 872,587, respectively, was subject to foreign exchange rate risk. The liability is due in 2010.

As of December 31, 2008 and 2007, of all accounts receivable - trade and accounts payable - trade, only the following are denominated in a currency other than the functional currency of the reporting entities or their subsidiaries (for foreign exchange rates, see Note (1)):

At December 31,	2008			2007		
	EUR	USD	Other	EUR	USD	Other
Accounts receivable - trade	6,678	7,649	23,890	12,440	10,839	5,755
Accounts payable - trade	47,127	37,698	12,067	47,669	41,922	9,727

A sensitivity analysis was carried out neither for accounts receivable – trade, denominated in foreign currencies, nor for accounts payable – trade, denominated in foreign currencies.

The assets and the liabilities relating to the cross border lease transactions are denominated in USD; however, the Company is not exposed to exchange rate risk because the deposits under the cross border lease transactions match the lease obligation. Upon opening, the USD deposit of TUSD 84,029, serving as a securitization of the guarantees, was hedged by a forward exchange contract.

Foreign exchange agreements

Forward exchange contracts entered into by the Company serve as economic hedges of the Company's transactions in foreign currencies. In principle, the Company applies hedge accounting to these contracts.

In November and December 2007, the Company entered into a series of forward exchange contracts covering TUSD 915,000 serving as hedges of the purchase price payable and of future interest payments related to the acquisition of SBT. Changes in the fair value of the derivative financial instruments were reported in other operating income or operating expenses in 2007. In 2008, another forward exchange contract amounting to TUSD 35,000 was concluded. Starting with the second quarter of 2008, the forward purchases of USD are designated as hedging instruments (cash flow hedge accounting according to IAS 39). Effective interest, which is composed of the interest component of the forward rate (interest differential) and the interest accretion on the

purchase price liability, is recognized in the financial result until the end of the third quarter 2010. As of December 31, 2008, the derivative financial asset amounts to EUR 36,467. In 2008, an amount of EUR 3,938 was recorded in other comprehensive income (OCI). The difference between the effective interest and contractual interest of the purchase price liability is recognized in the financial result.

As a securitization of the guarantees related to the cross border lease transactions (see Note (26)) a deposit, amounting to TUSD 85,029 had to be opened. The hedged USD deposit will most likely become due on July 2 and, without hedging instruments, the foreign exchange risk would affect the consolidated statement of operations of the respective reporting periods. Thus, the Company enters into cash flow hedges to reduce its exposure to fluctuations in foreign exchange rates. For this purpose, the Company entered into forward exchange contracts upon opening the USD deposit. As of December 31, 2008, the derivative financial asset amounts to EUR 5,211. According to cash flow hedge accounting, the interest differential is compounded and recognized in the financial result over the term of the hedging instrument. Due to the distribution of the compounded interest differential, the amount of EUR 172 was recognized in other comprehensive income (OCI) and no ineffectiveness was recorded in the consolidated statement of operations for the year ended December 31, 2008.

As of December 31, 2007, the Company entered into forward exchange contracts with a nominal value of EUR 204 which served as commercial hedges of the Company's operating exposure to fluctuations in foreign currencies, which were not accounted for according to hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of operations as other operating income or operating expenses.

The following tables indicate the types of foreign exchange agreements in use at December 31, 2008 and 2007, and, if applicable, their weighted-average remaining terms and the respective exchange rates of the contracts (amounts to be received are stated in brackets):

At December 31,	2008	2007
Forward exchange contract - USD long		
Notional amount in EUR	657,636	635,121
Notional amount in USD	(950,000)	(915,661)
Forward exchange rate (weighted)	1.44	1.44
Exchange rate as of the balance sheet date	1.39	1.47
Longest term of the contracts	September 2010	September 2010

At December 31,	2008	2007
Forward exchange contract - USD short		
Notional amount in EUR	(65,993)	-
Notional amount in USD	84,029	-
Forward exchange rate (weighted)	1.27	-
Exchange rate as of the balance sheet date	1.39	-
Longest term of the contracts	July, 2009	-

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables from customers, investment activities and derivative financial instruments.

The exposure to credit risk, its origin and the objectives, policies and processes for managing credit risk as well as the methods used to measure credit risk are unchanged to prior years.

The Company does not have significant exposure to any individual customer or counterparty, nor does it have any major concentration or credit risk related to any financial instrument other than noted under the section concentration of risk in "Significant Accounting Policies" (Note (1)). Due to internal guidelines and the setting of counterparty limits, the Company does not have significant exposure to credit risk in respect of financial instruments.

The Company does not require collateral in respect of financial assets. In order to reduce the risk of non-performance by the other parties to swap agreements, the contracts are subject to the Swap Dealer Agreements.

in EUR '000s

Accounts receivable - trade and other receivables
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer or customer groups. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, have less of an influence on credit risk.

The Credit Management Department has established a credit policy that requires each new customer to be analyzed individually for creditworthiness.

Credit risk or the risk of default in payment by contractual partners is continuously monitored via credit checks, credit limits and test/verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the consolidated financial statements. Within the Company, operative credit risk management functions are performed at the operating company level.

The Company does not require collateral in respect of trade and other receivables.

Investments
The Company limits its exposure to credit risk by only investing in fungible financial instruments and by placing deposits only with counterparties that have an appropriate external or internal rating based on quantitative parameters.

Given these procedures, Management does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

Guarantees
As of December 31, 2008 and 2007, one guarantee amounting to EUR 200 and EUR 210 had been provided to a third party.

Exposure to credit risk
The carrying amount of financial assets and of accounts receivable – trade represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

At December 31,	2008	2007
Available-for-sale financial assets	76,011	21,256
Held-to-maturity investments	1,932	-
Financial investments valued at cost	633	772
Loans and receivables	42,541	30,477
Cash and cash equivalents	384,762	209,126
Deposits under cross border lease	50,402	57,429
Interest rate swaps	11,440	-
Forward exchange contracts	42,353	2,864
Carrying amount of financial assets	**610,076**	**321,924**

The following table sets forth the maximum exposure to credit risk for trade receivables at the reporting date by geographic region:

At December 31,	2008	2007
Domestic	760,395	804,030
Foreign	106,652	78,147
Allowances	(142,756)	(131,018)
Accounts receivable - trade	**724,291**	**751,159**

Trade receivables from the Company's most significant customer amount to EUR 9,531 and EUR 6,092 as of December 31, 2008 and 2007, respectively. With respect to the aging of trade receivables and the allowance recorded, see Note (5).

Capital management

The capital structure of the Company consists of financial liabilities and equity attributable to the equity holders of the parent, comprising common stock, treasury shares, additional paid-in capital, reserves and retained earnings as disclosed in the statement of changes in stockholders' equity.

The Company manages its capital to ensure that entities in the group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the entities' debt and equity balances. Exchange rate risks arising from group entities outside the Euro zone are reduced by appropriate measures.

At the group level, the Management of the Company is committed to achieving a net debt/EBITDA (earnings before interest, taxes, depreciation and amortization) ratio ranging from 1.8 to 2.0, and to keeping the current rating stable.

Within these parameters, Management strives to balance growth and return to shareholders by exclusively focusing on profitable growth. If profitable growth projects are not sufficiently available, shares will be bought back in line with the net debt/EBITDA ratio.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Management Board monitors both the return on capital, which the Company defines as total stockholders' equity less minority interest, and the level of dividend to ordinary shares.

There were no changes in the Company's approach to capital management in 2008.

Neither the Company nor any subsidiary is subject to externally imposed capital requirements, except for one subsidiary, which is a bank and, therefore, has to comply with minimum equity and reserves requirements.

Fair value of financial instruments

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial assets and financial liabilities:

At December 31,	Carrying amount 2008	Fair value	Carrying amount 2007	Fair value
Financial assets				
Cash and cash equivalents	384,762	384,762	209,126	209,126
Accounts receivable - trade	724,291	724,291	751,159	751,159
Receivables due from related parties	3,234	3,234	3,394	3,394
Other current financial assets	28,290	28,290	23,811	23,811
Other non-current financial assets	11,017	11,017	6,137	6,137
Loans and receivables	**766,831**	**766,831**	**784,501**	**784,501**
Long-term investments	11,197	11,197	14,243	14,243
Short-term investments	64,814	64,814	7,014	7,014
Available-for-sale investments	**76,011**	**76,011**	**21,257**	**21,257**
Investments at cost	**633**	**633**	**773**	**773**
Deposits cross border lease	50,402	50,402	57,429	57,429
Held-to-maturity investments	**50,402**	**50,402**	**57,429**	**57,429**
Derivatives - held for trading			2,864	2,864
Hedging instruments (fair value hedges)	11,440	11,440	-	-
Hedging instruments (cash flow hedges)	42,353	42,353	-	-
Financial assets carried at fair value	**53,793**	**53,793**	**2,864**	**2,864**
Financial liabilities				
Liabilities to financial institutions	9,932	9,932	458,056	458,056
Bank overdrafts	-	-	10,515	10,515
Bonds under EMTN Program	942,350	861,458	941,164	840,684
Assets backed security debt	-	-	279,089	279,069
Other current financial liabilities	163,348	163,348	156,494	156,494
Multi-Currency Note Program	117,994	117,994	9,647	9,647
Non-current liabilities to financial institutions	1,919,462	1,950,457	1,498,502	1,481,686
Lease obligations and cross border lease	51,740	51,740	58,842	58,841
Other non-current liabilities	654,488	654,488	600,292	600,292
Accounts payable - trade	589,159	589,159	637,083	637,083
Payables due from related parties	13,734	13,734	17,299	17,299
Other financial liabilities	49,454	49,454	46,779	46,780
Financial liabilities at amortized cost	**4,511,661**	**4,454,114**	**4,713,762**	**4,596,446**
Bonds under EMTN Program - hedged item	**810,778**	**779,972**	**777,048**	**762,974**
Derivatives - held for trading	-	-	5,623	5,623
Hedging instruments (fair value hedges)	793	793	19,935	19,935
Hedging instruments (cash flow hedges)	10,286	10,286	-	-
Financial liabilities carried at fair value	**11,079**	**11,079**	**25,558**	**25,558**

Cash and cash equivalents, accounts receivable - trade and other receivables have maturities below one year. Therefore, their carrying amounts at the reporting date approximate the fair values.

The fair values of other non-current receivables due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market and partner-based changes to terms and conditions and expectations.

Trade and other payables, as well as other liabilities, have maturities below one year. Therefore, the values reported approximate the fair values.

The fair values of the quoted bonds (EMTN bonds) and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of all other unquoted bonds, liabilities to banks, promissory notes and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and credit spread curve for specific currencies.

The credit-spread curve applied for the determination of the fair values was between 10 and 100 percentage points for 2008 and 2007. The applicable yield curve was in the range of 2.35% Eonia overnight and 3.74% Euro swap rate for 10 years in 2008, and 3.92% and 4.72% in 2007, respectively.

The Company estimates the fair values of investments in equity instruments and investments in unconsolidated subsidiaries that do not have a quoted market price in an active market in order to approximate the carrying amounts based on the audited financial statements, if available.

(34) Commitments and Contingencies

As of December 31, 2008 and 2007, the Company has incurred lease obligations totaling EUR 482,448 and EUR 576,905 respectively, in connection with the cross border lease transactions (Note (26)) which were not recorded as a liability in accordance with SIC 27 and the framework. There are contingent receivables from securities and deposits covering the same amount. In 2001, two banks issued letters of credit to the trust for the liabilities of the Company resulting from the 1998 and 1999 transactions. As of December 31, 2008 and 2007, these letters of credit totaled EUR 45,111 and EUR 50,149.

As of December 31, 2008 and 2007, the Company had provided a guarantee amounting to EUR 200 and EUR 210, respectively to a third party.

In the normal course of business, the Company is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of monetary liability or the impact on the financial position of the Company with respect to these matters at December 31, 2008. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on the Company, beyond such provided for at year-end, would not be material to its consolidated financial statements.

(35) Remuneration paid to the Management and Supervisory Board

The following table sets out compensation of members of the Management Board and Supervisory Board:

	2008	2007
Compensation Management Board	1,129	1,257
Performance-based remuneration	1,449	1,736
Share-based payments*	-	747
Total	**2,578**	**3,740**
Compensation Supervisory Board	174	183

* related to the Stock Option Plans ESOP 2004+, 2005+, 2006+ and 2007+ offered in 2004, 2005, 2006 and 2007.

On August 31, 2008, Rudolf Fischer, Vice Chairman of the Management Board of Telekom Austria AG and Chief Executive Officer of Telekom Austria TA AG, resigned. Boris Nemsic, Chairman of Telekom Austria AG and Chief Executive Officer of mobilkom Austria, took over the agenda of Chief Executive Officer of Telekom Austria TA AG from September 1, 2008 to December 31, 2008. As of January 1, 2009, Hannes Ametsreiter was appointed to the Management Board of Telekom Austria AG and as Chief Executive Officer of Telekom Austria TA AG for a period of 5 years. As of January 1, 2009, Hans Tschuden was appointed Vice Chairman of Telekom Austria AG.

in EUR '000s

On October 23, 2006, Hans Tschuden was appointed by the Supervisory Board as the new Chief Financial Officer of Telekom Austria AG for a period of five years until March 31, 2012. Hans Tschuden succeeded Stefano Colombo and commenced on April 1, 2007.

(36) Employees

The average number of employees during the business years 2008 and 2007 was 17,602 and 16,090, respectively. As of December 31, 2008 and 2007, the Company employed 16,954 and 17,628 employees (full-time equivalents).

(37) Subsequent Events

The Management Board approved the financial statements on February 13, 2009.

On January 2, 2009, the Company acquired 100% in CRI Beteiligungs GmbH for an aggregate purchase price of approximately EUR 10,600. CRI holds 76% in Calbe Runner GmbH, a technology company running glass fibers in sewage circuits.

On January 13, 2009, the Company approved the purchase of a 25.029% stake in Marx Media Vienna GmbH for an aggregate purchase price of approximately EUR 3,000. Conclusion of the transaction depends upon approval by antitrust authorities and compliance with closing conditions.

Based on the approval by the Supervisory Board, an additional ("sixth" or "ESOP 2009+") tranche of 4,923,090 options was granted to the eligible employees of the Company under the extension of the Stock Option Plan 2004 (see Note (31)) on January 14, 2009. The exercise price of Euro 11.06 was defined as the average quoted closing price of Telekom Austria AG's stock during a period of twenty trading days prior to the grant date. For every 30 (25) options awarded, an eligible employee (Management Board member) must hold one ordinary share until exercise. For the stock options to become exercisable, certain performance conditions must be achieved by the Company based on basic earnings per share adjusted for certain effects. The options have a minimum vesting period of twelve months from the grant datwe and an exercise period of approximately three years after they have vested. The options will be settled in cash.

As of January 2, 2009, the National Bank of the Republic of Belarus tied the exchange rate of the BYR to a currency basket of USD, EUR and RUB. Compared to the balance sheet date, the value of BYR compared to EUR has changed by approximately 15%.

On January 29, 2009, the Company issued a bond on the Eurobond market with a volume of EUR 750,000, a maturity of 7 years, a disagio and issue costs of EUR 7,965 and a coupon of 6.375%.

A decree of the Ministry of Justice regulates the reimbursement of investment costs incurred by operators for providing facilities that serve to procure information about data and to control the content of telecommunications. Based on this decree, the Company will be notified of a reimbursement in the course of 2009.

Relating to cross boarder lease transactions entered into in 1999, the Company entered into Payment Undertaking Agreements with AIG Matched Funding Corp (AIG). As a consequence of the recent downgrade of AIG's rating, the Company has to provide additional guarantees. Furthermore, the Company entered into guarantee agreements with the Royal Bank of Scotland plc (RBS) in respect of cross border lease financing. Due to the recent downgrade of RBS's rating, the Company has to replace these guarantees.

Apart from the possibility of providing additional guarantees or exchanging guarantees, the Company is considering the early termination of contracts by mutual agreement, which might result in a cost benefit compared to providing additional guarantees. From a present-day perspective, possible charges for additional guarantees and termination of contracts by mutual agreement cannot be ruled out, but are considered immaterial.

(38) Affiliated Companies

Name and company domicile	Share in capital as of December 31, 2008 in %
Fully consolidated companies:	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Austria TA AG, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
Mass Response Service GmbH, Vienna	100.00
mobilkom austria Aktiengesellschaft, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
JetStream Hungary Kft, Budapest	100.00
JetStream Slowakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
JetStream RO s.r.l., Bucharest	100.00
JetStream Bulgaria EOOD, Sofia	100.00
JetStream Croatia Ltd., Zagreb	100.00
World-Direct eBusiness Solutions GmbH, Vienna	100.00
Österreichische Fernmeldetechnische Entwicklungs- und Fördergesellschaft m.b.H., Vienna	100.00
A1 Bank AG, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00
Vip mobile d.o.o., Belgrade	100.00
Vip usluge d.o.o., Belgrade	100.00
Vip prodaja d.o.o., Belgrade	100.00
Vip operator DOOEL, Skopje-Zentar	100.00
Vip operator uslugi DOOEL, Skopje-Zentar	100.00
Vip operator prodazba DOOEL, Skopje-Zentar	100.00
Alabin 48 EOOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria EAD, Sofia	100.00
SB Telecom Ltd., Limassol	70.00
FE VELCOM, Minsk	100.00
M repair and service EAD, Sofia	100.00
M Game EOOD, Bulgaria	100.00
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)	
Affiliated company not consolidated	
Mass response Deutschland GmbH, Cologne	100.00
eTel GmbH in liquidation, Eschborn	100.00
G4S Dienstleistungs GmbH, Vienna	100.00

Name and company domicile	Share in capital as of December 31, 2008 in %
Affiliated companies consolidated using the equity method:	
paybox austria GmbH, Vienna	83.33
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10
Dr. Maté GmbH, Vienna	40.00
Infotech Holding GmbH, Vienna*	37.47

* reported as asset held for sale as of December 31, 2008

All affiliated companies have December 31 as their reporting date except for Omnimedia and Dr. Maté, which have June 30 as their reporting date.

Independent Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying **consolidated financial statements** of

Telekom Austria Aktiengesellschaft,
Vienna,

for the **financial year from 1 January to 31 December 2008.** Those consolidated financial statements comprise the statements of financial position as at 31 December 2008 and the statements of operations, statements of comprehensive income, statements of cash flows and statements of changes in stockholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December, 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on Other Legal Requirements

Law and regulation applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group.

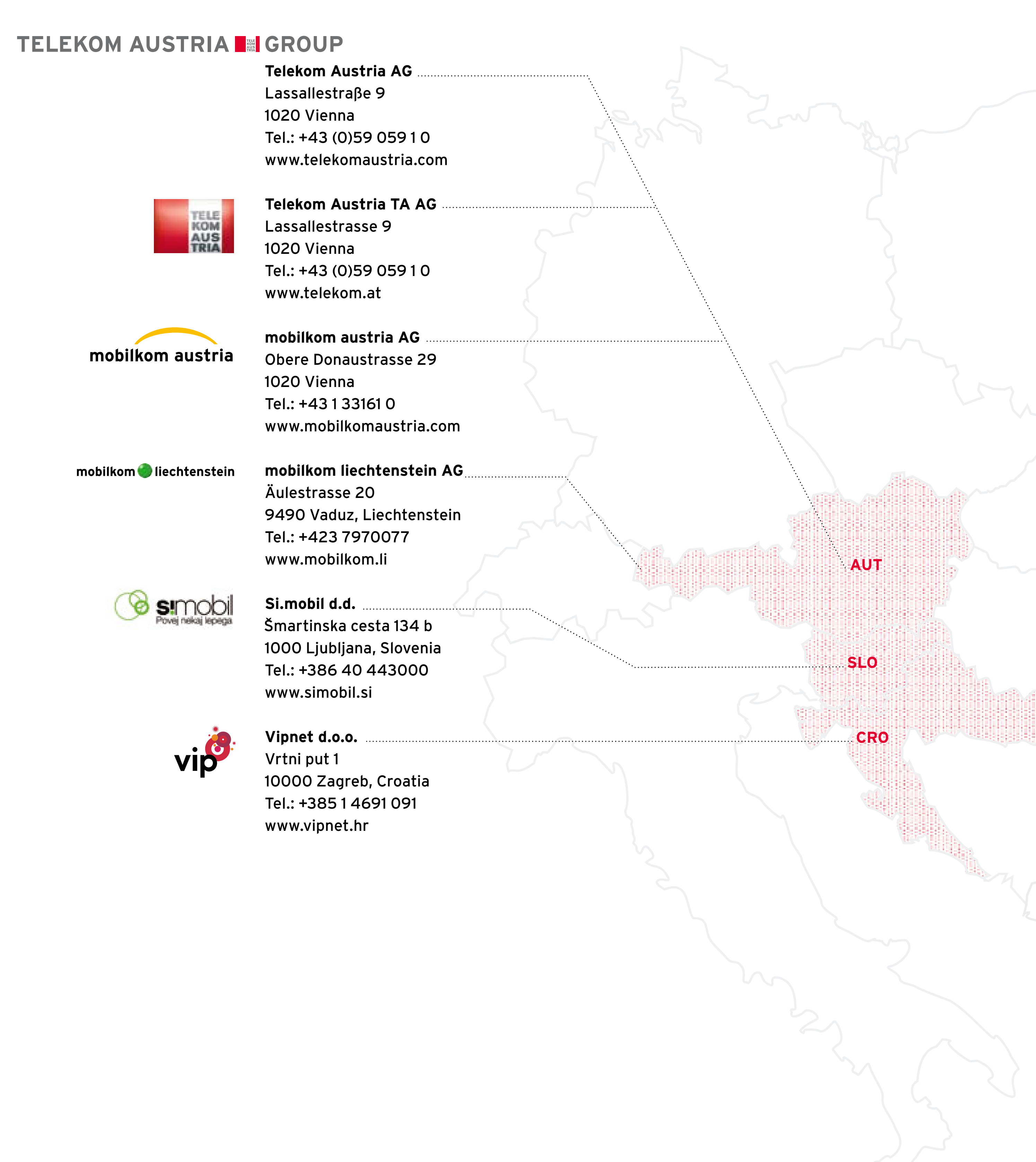
In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Vienna, February 13, 2009

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Rainer Hassler Austrian Chartered Accountant	Martin Wagner Austrian Chartered Accountant

Company Addresses



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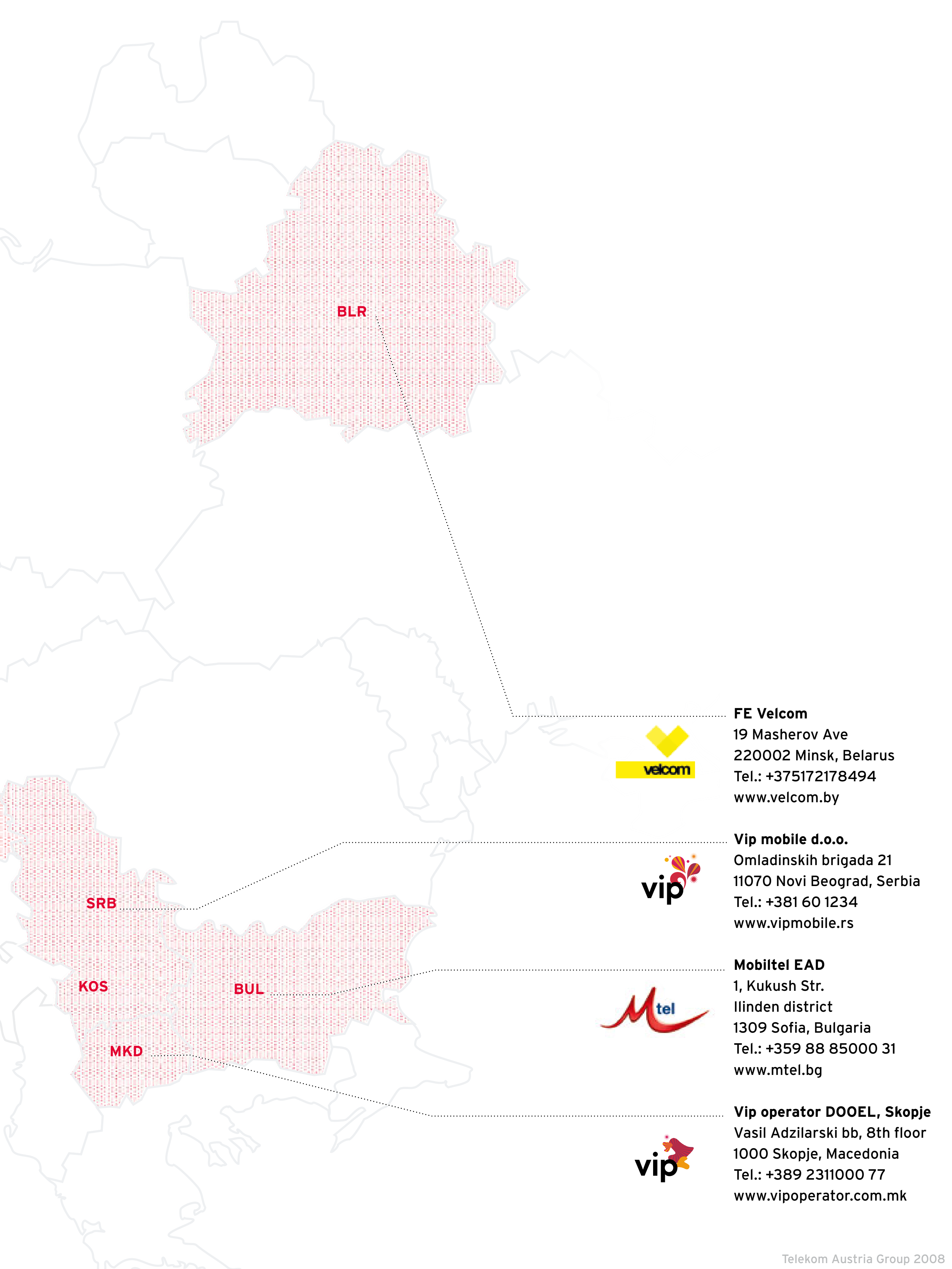

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Glossary

Information and Telecommunications Technology Terms

ARPL: Average Revenues per Fixed Net Broadband Line.

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

ALLmediaNET: Universal network on All-IP basis, in which backbone and access technologies as well as open media platforms converge to form a single standard for interactive multimedia services. Using the ALLmediaNET all forms of media (voice, Internet, television, video-on-demand, unified messaging) can be transported over a single network, providing highly diverse target groups with a wide range of content.

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

Competence Networks: EURECOM, ETSI, ITU, BSF, UMTSForum, OMA, 3GP-I2010 Initiative: Cooperations which bundle the various levels of knowledge and experience of companies and institutions in order to achieve progress.

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

DVB-H (Digital Video Broadcasting - Handheld): Transmission standard with which digital broadcasts can be received by stationary and/or mobile receivers.

DVB-T Tuner: "Digital Video Broadcasting – Terrestrial": A regular antenna is used to receive digital television signals. The old (analogue) generation of transmission technology is being successively replaced by the new generation. Tuner is the colloquial term for the receiver for analogue or digital high-frequency signals which is integrated in the TV set (or video or DVD recorder).

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

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

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

HD Mobile TV (High Definition Mobile Television): uses a higher transmission rate for video streaming than the one used for normal streaming. This produces a higher image resolution which is especially optimized for large mobile phone displays.

HSDPA (High Speed Downlink Packet Access): The latest network technology to follow UMTS. Permits the transmission of data or high-speed multimedia services such as mobile Internet at speeds up to eight times higher than conventional connections.

HSUPA (High Speed Uplink Packet Access): Transmission method belonging to the UMTS mobile communication standard which permits higher upload transfer speeds.

ICNIRP: International Committee on Non Ionising Radiation Protection

ICT: Information and communications technology

I-HSPA: Evolved HSPA and LTE try to improve the efficiency and cost structure of network infrastructure by simplifying the network architecture. Functions which in the past were carried over more than one network element are now converged. I-HSPA or Internet HSPA is a product concept from Nokia Siemens Networks that has anticipated this step. The flow of data to the Internet is carried through fewer network nodes, reducing latency in comparison to conventional HSPA technology. I-HSPA conforms to the relevant HSPA standards and can be used with conventional UMTS-capable handsets.

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

Internet Dial-up: Gateway to the Internet via fixed line telephone or ISDN modem.

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

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

LTE: Long Term Evolution (LTE) is a mobile communications standard that has been defined as the successor to UMTS. The aim is to increase the transfer rate and further reduce latency with a new air interface and above all to increase spectrum flexibility with new spectrum slices. Of course, increasing economic efficiency also plays an important role. By using the spectral efficiency of LTE, the standardization body 3GPP aims to exceed HSPA by a factor of 3-4. LTE will allow operators to serve more customers with greater data transfers, enhancing the customer's quality of experience.

Live Stream: Real-time video transmission.

Mobile Connect Card: Card for transferring data to notebooks. The SIM card provides mobile access to the Internet, to the corporate network or e-mail client via HSDPA, HSUPA, UMTS, EDGE or GPRS.

Mobile Penetration: Measures the percentage of the population, which uses mobile communication services.

Mobile Virtual Network Operator (MVNO): Has no infrastructure of its own, i.e. no own mobile communication network and buys network capacity (air time) from the competition but offers its mobile communication services under a brand name of its own.

Multimedia Messaging Services (MMS): Multimedia text message service, which allows the transmission of tones and images in addition to text messages.

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

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

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

SDSL (Symmetric Digital Subscriber Line): Technology that allows the same data transmission rate to the customer (download) and from the customer (upload).

Termination Charge: The operator of a subscriber network delivers calls, which are initiated in a third party communications network to a subscriber in its own network and charges the operator of the network from where the call originated a fee (interconnection fee).

UMTS (Universal Mobile Telecommunications System): Mobile communication standard that enables high-performance services on the basis of high data transmission rates; approximately 40 times faster than with a GSM handset.

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

Unbundling: Makes subscriber lines and thus access to the end customer available to alternative network operators and Internet service providers.

Universal Service: Minimum range of public telecommunications services to which all end users must have access at an affordable price irrespective of their place of residence or business location.

Value Added Services: Services that extend beyond the usual product range provided by a telecommunications network or enhance existing services.

Video on Demand: It enables users to retrieve and play videos from a video server any time and in real time.

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

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

WiMAX License: Worldwide Interoperability for Microwave Access; international standard for broadband, wireless access networks. Supports high bit rates within a radius of 3 to 10 km and can carry up to 40 Mbit/s per channel. WiMax does not require a direct line-of-sight connection between a fixed/portable terminal device and the base station and is therefore suitable for last mile applications such as Internet connectivity, TDM voice and data traffic or voice over Internet.

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

WLL: Wireless Local Loop technology is used where it is impractical or too expensive to connect subscribers using a fixed line (local loop), e.g. in sparsely populated areas.

Stock Exchange & Finance Terms

A3 stable, BBB+ stable rating: Credit rating for issuers and bond quality assigned by Standard & Poor's and Moody's.

ARPU (Average Revenue Per User): Average revenue per customer; conventional figure in the mobile communication industry.

Asset Backed Securitization Program: Particular form of certificated payment claims in the form of tradable securities. The relevant securities are created by pooling specific financial assets.

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

Austrian Futures and Options Exchange (ÖTOB): Platform at the Vienna Stock Exchange which organizes the trade in options and futures contracts, carries out the settlement of trades and ensures that the transaction is honored.

Capital Expenditures: Defined as "capital expenditures for tangible and intangible assets", as included in the "cash flow used for investment activities" in the cash flow statement.

Change of Control Clauses: Rules that apply if there is a change of control at a company.

Code of Conduct: The Code of Conduct of the Telekom Austria Group comprises group-wide behavior guidelines and regulates the relationship with customers, suppliers and employees, as well as compliance with confidentiality requirements with regard to corporate and business developments. It guarantees the protection of assets, the fair settlement of conflicts of interests and the respect of rules about acceptance of gifts as well as compliance with capital market regulations.

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

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

Cross-Border Leasing: Special cross-border form of leasing designed to arbitrage the difference in tax laws of different jurisdictions, e.g. different rules concerning depreciation.

DAX: German stock index.

Deferred taxes: Balance sheet item to show fiscal valuation differences. In the case of temporary discrepancies between the group balance sheet and the fiscal balance sheet, both deferred tax assets and deferred tax liabilities are recognized in order to report the tax expenses in accordance with the group financial result.

Director's Dealings: The trading of shares in a publicly listed company by the management of that company.

Directors and Officers (D&O) Liability Insurance: Corporate Reimbursement Insurance a company concludes for its governing bodies and managing directors to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.

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

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

EBITDA Margin: Ratio of EBITDA to revenues in percent.

Effective Tax Rate: Actual tax burden. This is dependent upon how the assessment basis is defined.

Employee Stock Option Program (ESOP): Stock option program for members of the Management Board and other executives who strongly influence the company's business success (see Stock Option Program).

Enterprise Code (UGB): The new Enterprise Code became effective on January 1, 2007 and replaces the Austrian Commercial Code (HGB).

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

EVA (Economic Value Added): Return less cost of capital deployed. Indicator measuring a company's creation of value.

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

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

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

Investment Grade Rating: It refers to a company or a bond, that is judged likely enough to meet payment obligations.

Market capitalization: Is a measurement of corporate size equal to the share price times the number of shares outstanding.

Net Debt: Debt less cash and cash equivalents.

Net Debt to EBITDA: Net debt net of cash and cash equivalents in relation to EBITDA; measure of the payback period for debt on the basis of net debt and EBITDA.

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

Provision: A present obligation recorded in the balance sheet for future liabilities, whose amount and maturity have not been defined explicitly.

Return on Invested Capital (ROIC): This is calculated by dividing operating income after taxes by invested capital.

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

Stock Option Program: the decision-makers of a company receive options that entitle them to purchase shares at a predefined price provided they meet the performance targets they had agreed upon.

Total Shareholder Return (TSR): Total return comprising share price appreciation, share buybacks and dividends.

Whistleblower Directive: Telekom Austria Group's employees may notify their superior or the General Counsel in confidence if they suspect that legally dubious practices are taking place in their working environment. In the case of matters concerning the integrity of the financial reporting, they may contact the Disclosure Committee or the Audit Committee of the Supervisory Board directly.

Online Annual Report
The Annual Report 2008 of the Telekom Austria Group is also available in a user-friendly online version on the Internet. This data base-supported online report provides fast access to information, search functions, a sitemap, a glossary, Excel and pdf downloads, linked content, and direct subject access to compile a report for your special interests under:
http://ar2008.telekomaustria.com

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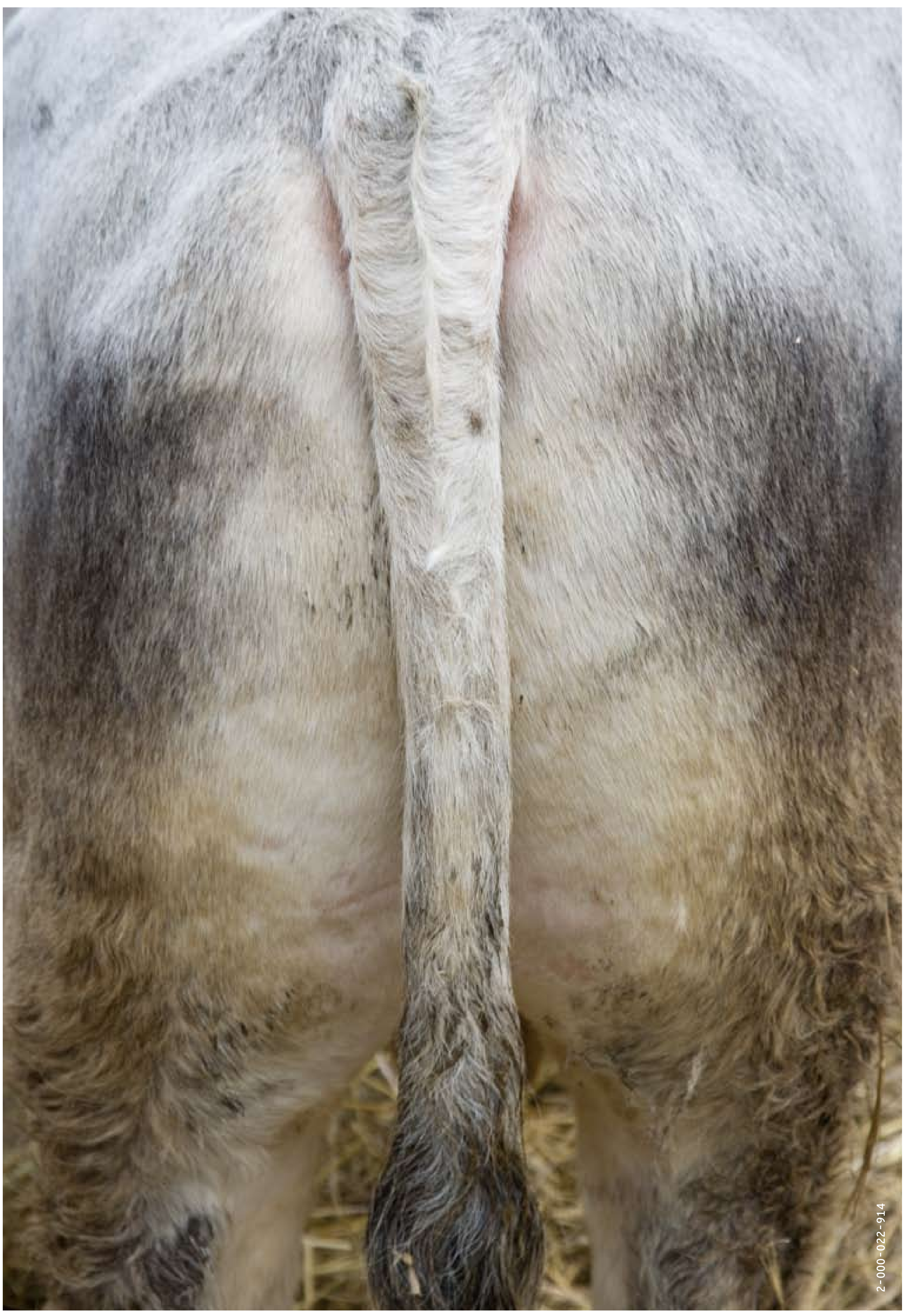
The animals photographed in this Annual Report belong to the Tyrolese Grey Cattle breed and none of them was injured or harmed during the photo shooting. We would like to thank Harbich's Weidebeef for their support: www.weidebeef.at

Forward-looking Statements
This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as "believe", "intend", "anticipate", "plan", "expect" and similar expressions. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

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