

Annual Financial Report 2008

According to § 82 Para 4 Stock Exchange Act

TELEKOM AUSTRIA  GROUP

Annual Financial Report 2008

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Group Management Report 2008

Financial Crisis Weakens the 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%.

Massively growing impact on real economy

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.

Almost no effects on telecommunications industry so far

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

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.

Sustained competition in both segments

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

National regulatory decisions

Fixed Net

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.

EU roaming regulation for calls within the EU

Mobile Communication

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.

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 inter-connection. 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.

Regulatory trends in the international markets of the Telekom Austria Group

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

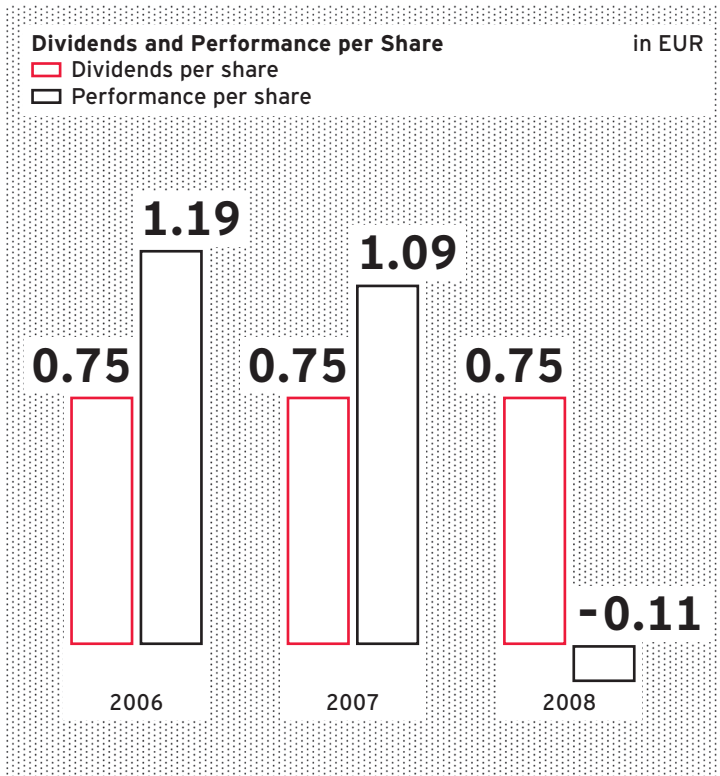
in EUR million	2008	2007	Change in %
Revenues	5,170.3	4,919.0	5.1
EBITDA	1,295.6	1,854.9	-30.2
Operating income	135.5	761.4	-82.2
Net income/loss	-48.8	492.5	-
Performance per share in EUR	-0.11	1.09	-
Capital expenditures	807.6	851.3	-5.1
Net Debt	3,993.3	4,407.2	-9.4

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.

Development of operating expenses impacted by consolidation and restructuring effects

Operating Expenses

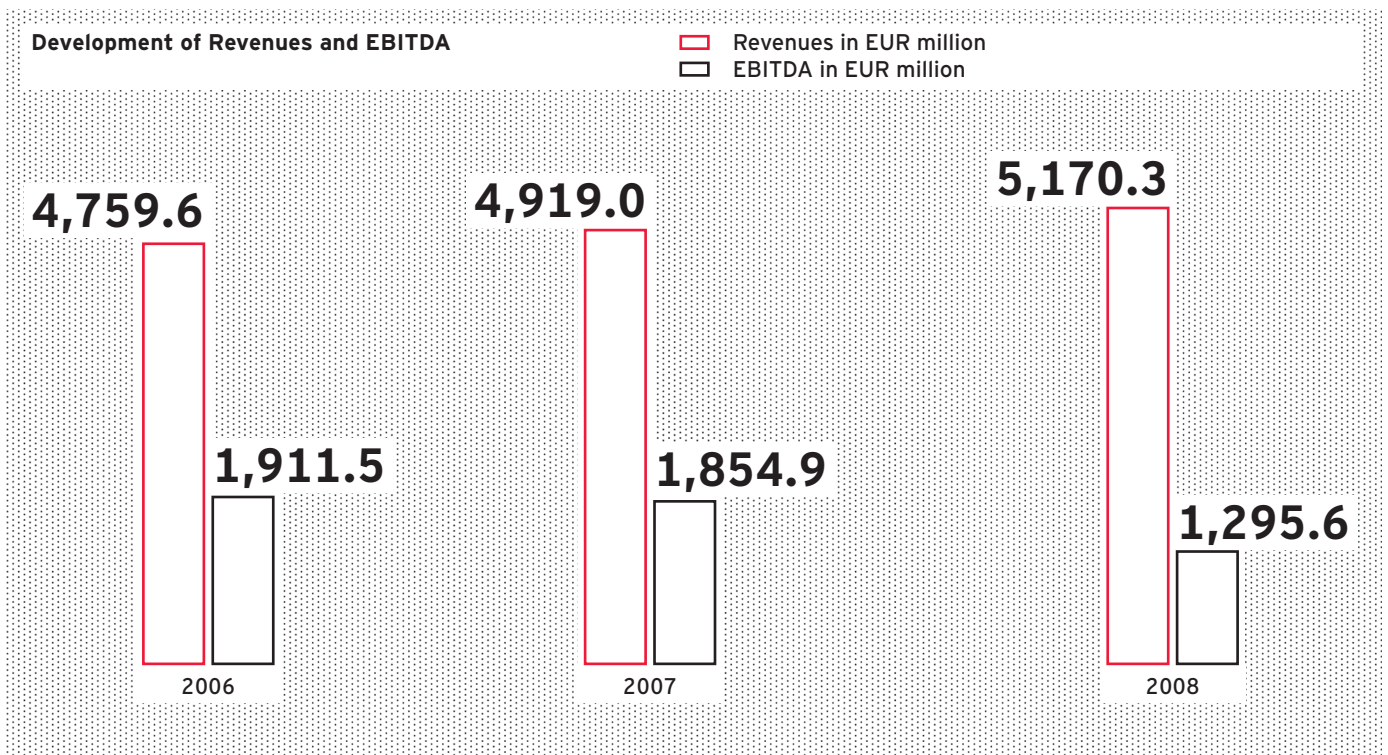
in EUR million	2008	2007	Change in %
Material expenses	428.3	405.7	5.6
Employee costs	1,454.6	797.8	82.3
Depreciation, amortization and impairment charges	1,160.1	1,093.5	6.1
Other operating expenses	2,080.7	1,945.7	6.9



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

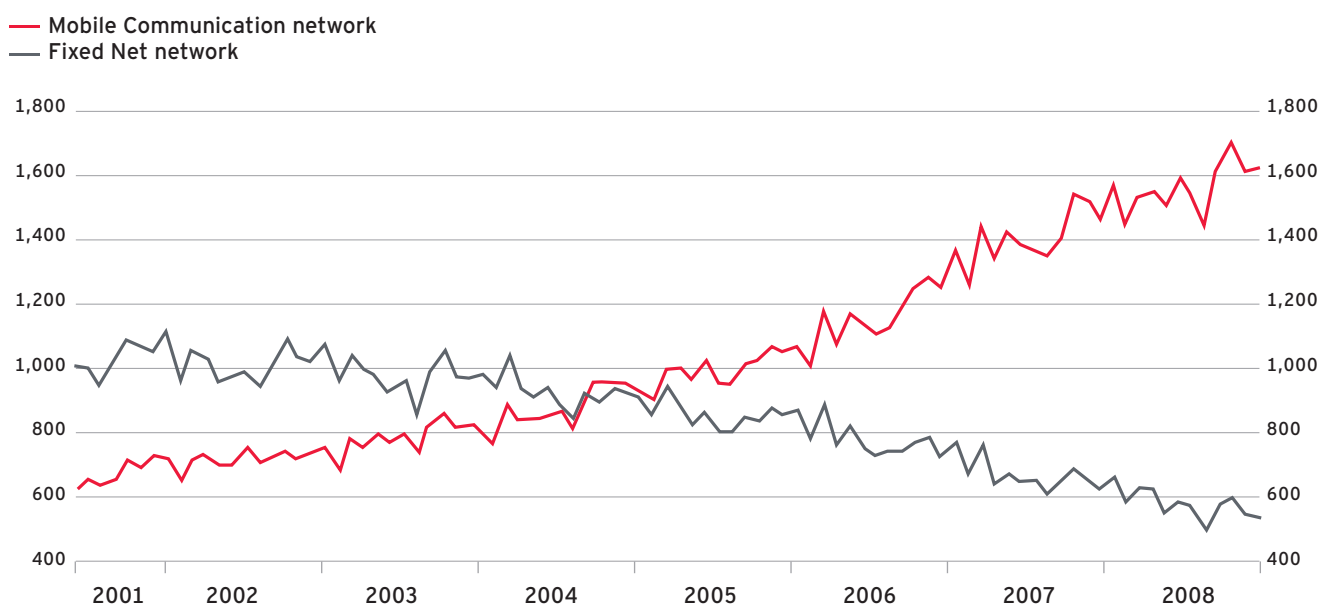
Segment Reporting

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

Development of Traffic Volumes in Austria
in millions of minutes per month



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).

Increase of 15.2% to 17.8 million customers

Mobile Communication Segment

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.

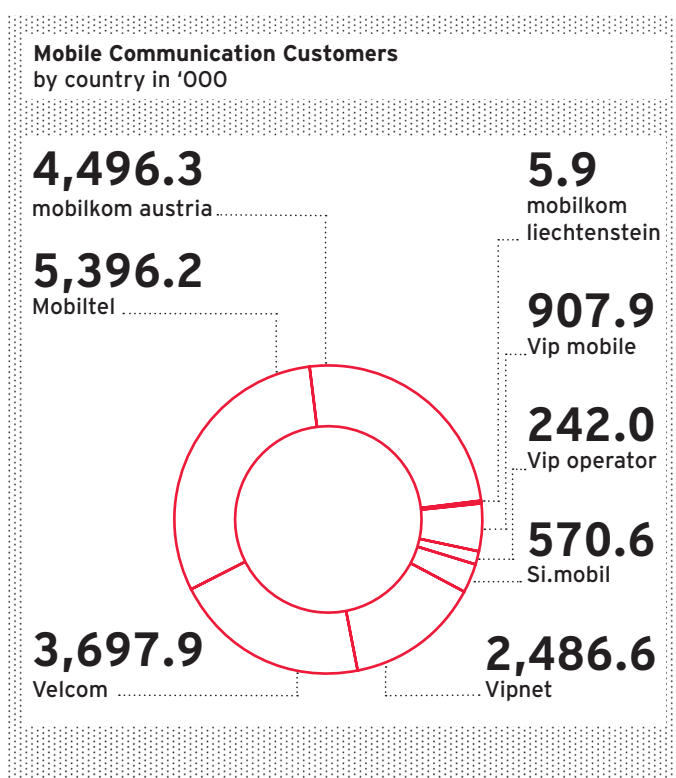
In its first full year of operations Vip mobile, the third-largest mobile communications operator in the Republic of Serbia, achieved subscriber growth of 78.4% to 907,900 customers, gaining a market share of 9.1%. At year-end 2008 the Republic of Serbia had a mobile penetration rate of 132.9%. In the 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

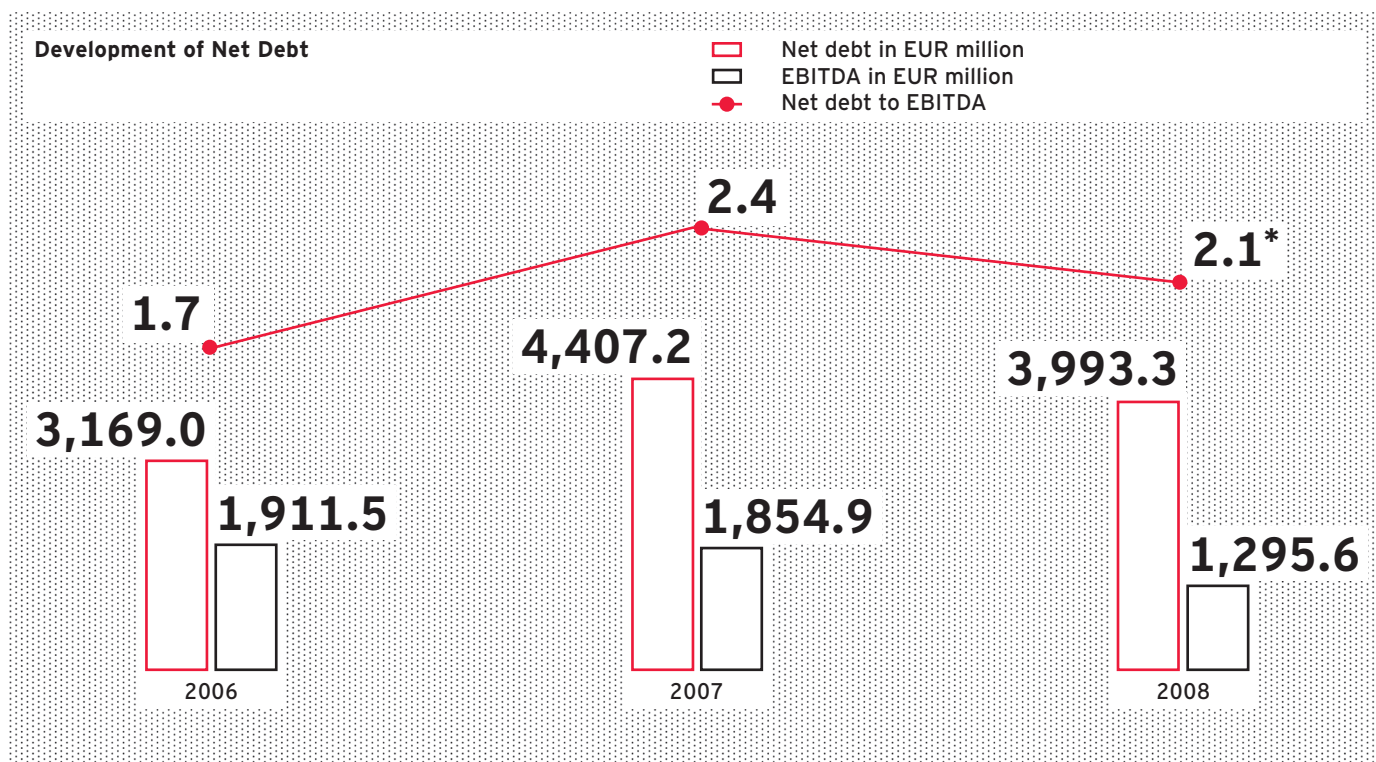
The Telekom Austria Group closed 2008 with a balance sheet total of EUR 8,997.4 million, almost unchanged from the previous year's level. Current assets rose by 16.5% to EUR 1,545.4 million, mainly due to an increase in cash and cash equivalents. Other intangible assets declined by 6.9% to EUR 2,265.6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

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.

EUR 1,563.8 million of cash flow generated from operations

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

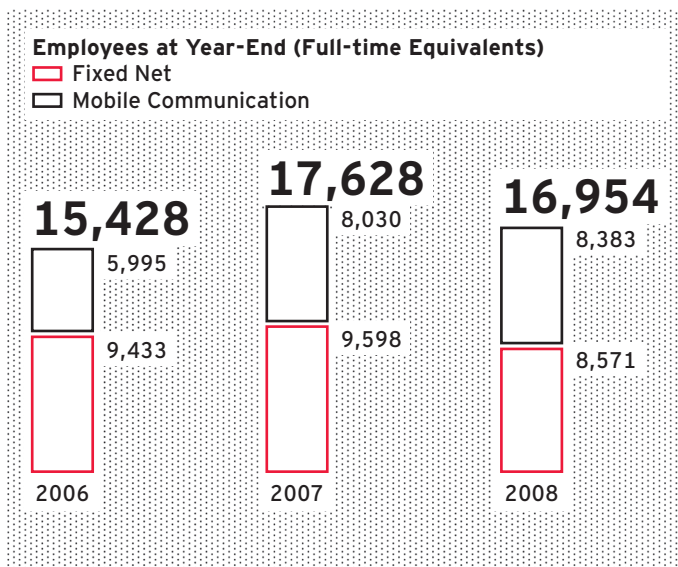
Although the Fixed Net segment continued to expand its network infrastructure in order to increase bandwidths, total investments were reduced by 18.8% to EUR 263.5 million. Total investments in the Mobile Communication segment rose by 3.7% to EUR 546.3 million, mainly as a result of the full-year contribution 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		Change
	December 31, 2008	December 31, 2007	
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.

EUR 41.5 million for research and development

Innovation and Technology

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

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.

Sustainable increase in shareholder value as top priority

Balanced Use of Capital

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.

Resumption of share buyback program under scrutiny

Shareholder Structure

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.

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

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

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.

Systematic identification and steering measures

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.

Price decline in both segments

Market and Competitive Risks

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

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.

Regular impairment tests

Personnel

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.

Restructuring program in the Fixed Net

Technical and Geographical Risks

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.

Rapid technological change

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

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.

Reliability and correctness of external financial reporting

Major Subsequent Events

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.

Devaluation of the Belarusian ruble at the beginning of 2009

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 under-taking 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.

Stable revenue and earnings development in 2009

Outlook 2009-2012

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

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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.

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.

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.

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

TELEKOM AUSTRIA AG - Notes to the Consolidated Financial Statements

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.

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.

(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	
	2008	2007	2008	December 31, 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 mobil-points (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 infeasible rights of use of cable fiber or wave length over a fixed period of time. The infeasible 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 decommissioning, 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.

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
<hr/>							
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

	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.

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

	2008	2007
At December 31,		
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:

	2008	2007
At December 31,		
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.

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 EUR1,071 and EUR176,919, 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.

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

(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:

	Restruc- turing	Employees	Customer allowances	Customer retention	Asset retirement obligation	Legal	Intercon- nection/ 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 reduction in 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 erecting tar-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).

(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	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 EUR129,906 and EUR103,356 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").

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 EUR1,009 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

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 EUR109,050 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% (EUR100,326) 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.

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)
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 EUR10,523. 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:

	50%	60%
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 Euro16.69 in 2008 and Euro19.93 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 EUR19,733, 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 EUR155 and EUR15,447 in 2008 and 2007, respectively. Cash and cash equivalents sold in the course of the disposal of subsidiaries totaled EUR2,961 and EUR125 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 value 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):

At December 31,	Capital amounts	Change of financial portfolio	
		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 EUR1,750,000, 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 not 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.

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.

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 date 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 border 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 Slovakia 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

Financial Statements 2008 of Telekom Austria AG

According to Austrian Commercial Code - UGB

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ANNEX I/1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Balance Sheet as of December 31, 2008

	31.12.2008 EUR	31.12.2007 TEUR
ASSETS		
A. Fixed assets		
Financial assets		
1. Investments in affiliated companies	4,222,979,923.31	4,203,214
2. Investments	543,341.86	543
	4,223,523,265.17	4,203,758
B. Current assets		
I. Accounts receivable		
1. Accounts receivable - affiliated companies	549,848,127.86	806,973
2. Other receivables and assets	28,810,690.18	30,373
	578,658,818.04	837,346
II. Treasury stock	191,859,380.20	334,350
III. Cash and cash equivalents	856.86	0
	770,519,055.10	1,171,696
C. Prepaid expenses	6,222,125.02	6,854
	5,000,264,445.29	5,382,307

ANNEX I/2

Telekom Austria Aktiengesellschaft, Vienna, Austria

	31.12.2008 EUR	31.12.2007 TEUR
LIABILITIES AND STOCKHOLDERS' EQUITY		
A. Stockholders' equity		
I. Common Stock	1,003,260,000.00	1,003,260
II. Additional paid-in capital		
Appropriated	1,015,240,856.33	1,015,241
III. Taxed reserves		
1. Reserve for treasury stock	191,859,380.20	334,350
2. Other reserves (unrestricted reserves)	609,626,716.29	576,500
	801,486,096.49	910,850
IV. Net profit		
thereof profit carryforward	(31,423.13)	(59,031)
	3,151,816,952.82	3,261,041
B. Accrued liabilities		
1. Accrued severance payments	918,390.00	1,166
2. Accrued taxes	189,881,928.17	188,761
3. Other accruals	3,184,989.08	4,882
	193,985,307.25	194,809
C. Liabilities		
1. Accounts payable - trade	363,673.03	408
2. Accounts payable - affiliated companies	1,654,088,957.81	1,925,717
3. Other liabilities	9,554.38	333
thereof due to social security	(9,554.38)	(11)
	1,654,462,185.22	1,926,457
	5,000,264,445.29	5,382,307
Contingent liabilities	5,300,000,000.00	4,078,144

ANNEX II

Telekom Austria Aktiengesellschaft, Vienna, Austria

Statement of Operations for Financial Year 2008

	2008 EUR		2007 TEUR	
1. Operating revenues	6,616,547.04		7,575	
2. Other operating income				
a) Income from reversal of accrued liabilities	0.00		0	
b) Other	114,167.87	114,167.87	29	29
3. Cost of other production services	(170.72)		(1)	
4. Employee costs				
a) Salaries	2,013,780.02		3,902	
b) Severance expense	549,139.15		507	
c) Pension expense	171,295.56		125	
d) Expenses for statutory social security and payroll related taxes and contributions	242,181.76		368	
e) Other social benefits	1,245.70	(2,977,642.19)	0	(4,903)
5. Other operating expenses				
a) Taxes	132,653.76		188	
b) Other	22,365,639.76	(22,498,293.52)	20,143	(20,331)
6. Subtotal from line 1 to 5 (EBIT)	(18,745,391.52)		(17,631)	
7. Income from investments	545,512,520.95		746,095	
thereof from affiliated companies	(545,106,520.95)		(746,000)	
8. Other interest and similar income	362,487.54		1,550	
thereof from affiliated companies	(348,079.99)		(1,507)	
9. Income from disposal of short-term securities	0.00		22	
10. Expenses for financial assets and short-term securities	(143,345,684.74)		(1)	
thereof Depreciation	(-141,761,327.48)		(0)	
thereof from affiliated companies	(2,775,500.00)		(1)	
11. Interest and similar expenses	(88,327,903.87)		(78,693)	
thereof for affiliated companies	(-87,384,299.27)		(-77,778)	
12. Subtotal from line 7 to 11 (Financial result)	314,201,419.88		668,972	
13. Ordinary business result	295,456,028.36		651,342	
14. Income tax expense	(73,021,663.94)		26,060	
15. Net profit for the year	222,434,364.42		677,402	
16. Reversal of untaxed reserves	109,364,212.45		0	
17. Allocation to taxed reserves	0.00		(404,743)	
18. Profit carried forward from prior year	31,423.13		59,031	
19. Net profit	331,830,000.00		331,691	

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5.8	Credit risks	100
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6	Members of the Management Board and the Supervisory Board	100

1 Fundamental Details

1.1 Measures under company law

The Company is a parent company with a duty to consolidate its subsidiaries for the purposes of Section 244 of the Austrian Commercial Code. The consolidated financial statements are deposited with the Commercial Register of the Vienna Commercial Court.

2 Accounting and Valuation Methods

2.1 General principles

The annual financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (UGB) and generally accepted accounting principles in Austria with the general objective of providing a true and fair view of the balance sheet, the financial position and operating results of the Company.

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

The principles of individual valuation and going concern were complied with in valuing the individual assets and liabilities.

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

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

2.2 Long-lived assets

Shares in affiliated companies and investments are generally valued at acquisition cost. Impairment charges are recorded if the fair value on the reporting date is lower than the carrying value and the impairment is expected to be permanent. Impairments amounting to TEUR 2,775 were recorded for Telekom Projektentwicklungs GmbH in financial year 2008.

2.3 Current assets

Accounts receivable and other assets are stated at their face value unless a lower value is recorded in the event of identifiable individual risks. General credit risk is accounted for by recording allowances on an individual basis.

Foreign currency receivables are stated at the European Central Bank's euro reference rate as of the transaction date or the lower European Central Bank's euro reference rate as of the reporting date.

The treasury shares recognized in current assets are reported at acquisition cost or at their lower fair value in accordance with the strict lower of cost or market principle. They were written down by TEUR 138,986 in financial year 2008.

2.4 Accruals

Accruals for severance payments are recorded for the legal and contractual obligations to members of the Management Board. The calculation is based on the principles of financial mathematics using the partial value method and applying an interest rate of 3.5% (previous year: 3.5%).

Other accruals are created equal to the expected utilization. They take account of all identifiable risks and liabilities that are still indeterminate at the reporting date.

2.5 Liabilities

Liabilities are reported at the amount due to be repaid in accordance with the principle of prudence. Foreign currency liabilities are recorded at the European Central Bank's reference rate as of the reporting date if this value exceeds the carrying amount.

3 Notes to the Balance Sheet

3.1 Long-lived assets

Telekom Austria Aktiengesellschaft's shares in affiliated companies and investments amounting to at least 20% of the relevant company's equity:

Name and company domicile	Share in capital as of December 31, 2008 %	Book value of equity as of December 31, 2008 TEUR	Net profit for the year 2008 TEUR
Affiliated companies			
mobilkom Austria AG, Vienna	100.0	2,105,322	501,866
Telekom Austria TA AG, Vienna	100.0	949,520	(488,785)
Telekom Projektentwicklungs GmbH, Vienna	99.0	39	(2,796)
G4S Dienstleistungs GmbH, Vienna	100.0	35	0

G4S Dienstleistungs GmbH was established on December 17, 2008.

3.2 Receivables and other assets

The structure of accounts receivable is shown in the accounts receivable table (Exhibit 2).

Other receivables include earnings of TEUR 28,117 (December 31, 2007: TEUR 29,916), which will not be received until after the reporting date and which largely arise from claims to the tax office as a result of Group taxation.

3.3 Prepaid expenses

This item consists mainly of a discount (EMTN program).

3.4 Shareholders' equity

The common stock of Telekom Austria Aktiengesellschaft amounts to TEUR 1,003,260 and is divided into 460,000,000 bearer shares (unit shares). ÖIAG holds 27.37%, 68.80% of the shares represent a free float, while the remaining 3.83% are held as treasury stock by the Company.

3.5 Dividend payment

The Management Board will ask the Annual General Meeting on May 20, 2009 to approve the payment of a dividend of EUR 0.75 per unit share that is entitled to a dividend. The remaining retained earnings will be carried forward.

3.6 Authorized capital

The Management Board is authorized, with the consent of the Supervisory Board, on the basis of the resolution by the Annual General Meeting on May 23, 2006 to approve a conditional capital increase of up to EUR 21,810,000 by issuing up to 10 million new bearer or registered shares with no par value (unit shares) against cash contributions to grant stock options to employees, top-level management and members of the Management Board/Executive Management of the Telekom Austria Group. This authorization is valid for 5 years from the date the change to the Articles of Association is registered in the Commercial Register. Section 4 of the Articles of Association was amended to this effect.

At the Annual General Meeting on May 20, 2008, the Management Board was authorized to reduce the Company's shareholders' equity by up to EUR 100,326,000 by calling in up to 46 million bearer or registered shares with no par value, in accordance with Section 65 Paragraph 1 No. 8 last sentence in conjunction with Section 192 of the Austrian Stock Corporation Act, without any additional resolution by the Annual General Meeting.

3.7 Accruals

Accrued tax liabilities as of December 31, 2008 relate to a deferred tax liability of TEUR 189,882 (Dec. 31, 2007: TEUR 188,761).

Account was taken of the obligation to create an accrued liability for deferred taxes on earnings on temporary differences between the profit calculated in accordance with the Austrian Commercial Code and the profit calculated in accordance with the Austrian Fiscal Code. All accrued deferred tax assets and liabilities resulting from recording all temporary differences in profits were netted, resulting in a figure of TEUR 189,882 to be transferred to accrued deferred tax liabilities.

Other accruals include provisions for outstanding purchase invoices amounting to TEUR 1,606 (Dec. 31, 2007: TEUR 2,227); stock options amounting to TEUR 283 (Dec. 31, 2007: TEUR 834); unused vacation amounting to TEUR 453 (Dec. 31, 2007: TEUR 561) and miscellaneous accruals amounting to TEUR 843 (Dec. 31, 2007: TEUR 1,260).

3.8 Liabilities

The maturity and structure of liabilities are shown in the accounts payable table (Exhibit 3). Other liabilities contain expenditure of TEUR 10 (Dec. 31, 2007: TEUR 333) that is not payable until after the reporting date.

3.9 Other financial obligations

Commitments and contingencies

	December 31, 2008 TEUR	December 31, 2007 TEUR
Guarantee in connection with EMTN Program	1,750,000	1,750,000
Bank guarantees	3,550,000	2,328,144
	5,300,000	4,078,144

On June 30, 2003, Telekom Austria AG (TA) and Telekom Finanzmanagement GmbH (TFG) initiated a Euro Medium Term Note (EMTN) program of EUR 5 billion. All payments due in relation to bonds issued by TFG under this framework program are guaranteed irrevocably and unconditionally by TA.

Only July 10, 2003, TFG successfully launched and placed a Eurobond offering which raised TEUR 750,000 with a 10-year maturity and a coupon of 5.00% under the EMTN program. The notes were issued at a re-offer price of 99.193% and used to refinance existing debt.

On January 27, 2005, TFG successfully launched and placed two Eurobonds which raised TEUR 500,000 each with maturities of 5 and 12 years and a coupon of 3.375% and 4.250% respectively under the EMTN program. The notes were issued at a re-offer price of 99.598% and 98.829%.

In its guarantee of November 10, 2008, the Company guaranteed that Telekom Austria TA AG would fulfill its obligations resulting from the profit and loss exclusion agreement to Telekom Austria Personalmanagement GmbH.

4 Notes to the Statement of Operations

4.1 Revenues

Revenues of TEUR 6,617 (2007: TEUR 7,575) relate to services such as publicity, public relations and communication, coordination of product development as well as technical infrastructure for the two Fixed Net and Mobile Communications segments, legal and fiscal advice as well as controlling investments, lobbying, services in connection with the Department of Human Resources and the Civil Service Regulations (Beamtendienstrecht), salary and collective agreement negotiations, which are supplied on the basis of the agreement dated February 27 by Telekom Austria AG to Telekom Austria TA AG, Telekom Finanzmanagement GmbH and mobilkom austria AG. These services are reported in the annual financial statements 2007 under other operating income. Reporting has been amended in the annual financial statements 2008 and the prior years' figures have been adjusted to this effect.

4.2 Other operating income

In essence, other operating income is made up of income received in previous periods of TEUR 112 (2007: reimbursement of other costs TEUR 28).

4.3 Personnel expenses

Expenses for severance payments and pensions for members of the Management Board amounted to TEUR 720 (2007: TEUR 632).

In 2007, expenses for severance payments amounted to TEUR 549 (2007: TEUR 507).

In 2008, the Management Board had three members until August 31; subsequently it had two.

4.4 Other operating expenses

	2008 TEUR	2007 TEUR
Other operating taxes	133	188
Other	22,365	20,143
	22,498	20,331

In essence, other operating expenses contain payments to Telekom Austria TA AG and mobilkom austria AG amounting to TEUR 14,995 (2007: TEUR 13,947).

4.5 Income from investments

Income from investments contains dividend payments from the Vienna Stock Exchange amounting to TEUR 406 (2007: TEUR 94).

It also includes dividend payments from mobilkom austria AG of TEUR 543,000 (2007: TEUR 601,000), Telekom Austria TA AG of TEUR 0 (2007: TEUR 145,000) and Telekom Projektentwicklungs GmbH of TEUR 2,107 (2007: TEUR 0).

4.6 Income taxes

The Company is the top-tier corporation in a tax group, as defined in Section 9 of the Austrian Corporation Tax Act, and has concluded a group tax apportionment agreement with the members 3G Mobile Telecommunications GmbH, Telekom Austria Personalmanagement GmbH, Telekom Austria TA AG, mobilkom austria AG, Telekom Projektentwicklungs GmbH, Telekom Finanzmanagement GmbH, Österreichische Fernmeldetechnische Entwicklungs- und FörderungsgmbH, World-Direct eBusiness solutions GmbH, Telekom Austria Beteiligungen GmbH and Mass Response Service GmbH (as at December 31, 2008).

	2008 TEUR	2007 TEUR
Corporate income tax for tax-group	0	31,843
Apportionment group members	71,901	(67,353)
Corporate income tax top-tier corporation	71,901	(35,510)
Deferred tax liability	1,121	9,450
Total income tax expense (benefit)	73,022	(26,060)

There was no reversal of untaxed reserves leading to a tax charge in 2008.

Of the figure for income taxes, TEUR 0 relates to the results of the top-tier corporation and TEUR 1,121 to the changes in deferred taxes.

5 Other information

5.1 Management Board remuneration

	2008 TEUR	2007 TEUR
Compensation Management Board	2,578	2,993
Compensation Supervisory Board	174	183
	2,752	3,176

The remuneration paid to members of the Management Board does not include benefits from the stock option program; see "Stock Option programs".

Use was made of the provision contained in Section 241 Paragraph 4 of the Austrian Commercial Code with regard to former members of the Management Board.

5.2 Stock Option Program 2005 (ESOP 2005+)

In the course of the second tranche of the ongoing Stock Option Program ESOP 2005+, 1,653,360 options in Telekom Austria Aktiengesellschaft were issued on January 19, 2005. Because the hurdle was reached in March 2006 and in line with the Company's decision, participants are solely entitled to exercise their options in the form of a cash payment. The exercise price of EUR 13.98 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 19, 2005).

The second tranche of ESOP 2005+, allocated on January 19, 2005, can be converted up to the end of May 2009 (maturity) if the EPS target value is reached. No options were exercised in 2008 (average value of the options at the time they were exercised in 2007: EUR 7.00). The stock option program led to employee costs of TEUR 0 (2007: TEUR 28) and ancillary wage costs of TEUR 25 (2007: TEUR 79) in the financial year.

In 2008, 17,100 options were exercised in subsidiaries.

5.3 Stock Option Program 2006 (ESOP 2006+)

In the course of the third tranche of the ongoing Stock Option Program ESOP 2006+, 1,924,920 options in Telekom Austria Aktiengesellschaft were issued on January 12, 2006. Because the hurdle was reached in March 2007 and in line with the Company's decision, participants are solely entitled to exercise their options in the form of a cash payment.

The exercise price of EUR 18.91 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 12, 2006).

The third tranche of ESOP 2006+, allocated on January 12, 2006, can be converted up to the end of March 2010 (maturity) if the EPS target value is reached. The options are subject to a 14-month blocking period from the time the option is allocated (vesting period), which means that options can be exercised from March 2007. The options are not transferable.

Because the hurdle was reached in March 2007 and in line with the Company's decision, participants are solely entitled to exercise their options in the form of a cash payment. In 2008, no options were exercised (average value of the options at the time they were exercised in 2007: EUR 1.56).

The options that had not yet been exercised were valued using an option valuation model at EUR 0.44 (2007: EUR 2.17) per unit, as of the reporting date December 31, 2008, and form the basis for calculating Telekom Austria AG's obligation to Management Board members.

In the financial year, the stock option program led to employee income of TEUR 381 (2007: TEUR 27) and ancillary wage costs of TEUR 0 (2007: TEUR 5).

ESOP 2006+	Options granted 2006	Options exercised 2007	Options exercised 2008
Management Board members			
Boris Nemsic	120,000	0	0
Stefano Colombo	120,000	0	0
Rudolf Fischer	120,000	40,000	0
Total Telekom Austria AG	360,000	40,000	0
Eligible employees in affiliated companies	3,548,468	586,424	21,000

5.4 Stock Option Program (ESOP 2007+)

In the course of the first tranche of the Stock Option Program ESOP 2007-2009 (ESOP 2007+), 4,047,472 options in the Telekom Austria Group were issued on January 8, 2007, of which 240,000 were in Telekom Austria AG 240.000. The exercise price of EUR 20.34 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 8, 2007).

As was the case with ESOP 2004+, ESOP 2005+ and ESOP 2006+, ESOP 2007+ is based on the profitability of the Telekom Austria Group. The exercise of options that were allocated in 2007 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2007 has been reached. If this EPS target value set for financial year 2007 is not reached, options may still be exercised if an EPS value set by the Supervisory Board for financial year 2008 or financial year 2009, which must be at least equal to the 2007 target value, is reached.

The tranche of ESOP 2007+ allocated on January 8, 2007 can be converted up to the end of May 2011 (maturity) if the EPS target value is reached. The EPS target was reached. The options are subject to a 14-month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from March 2008. Participants are only entitled to exercise their options in the form of a cash payment. The options are not transferable.

The options were valued using an option valuation model at EUR 0.62 (2007: EUR 1.98) per unit, as of the reporting date December 31, 2008 and form the basis for calculating Telekom Austria AG's obligation to the Management Board members.

In the financial year, the stock option program led to employee income of TEUR 325 (2007: employee costs TEUR 399) and ancillary wage costs of TEUR 0 (2007: TEUR 79).

The options granted were allocated as follows:

	Options granted 2007	Options exercised 2008
ESOP 2007+		
Management Board members		
Boris Nemsic	120,000	0
Rudolf Fischer	120,000	0
Total Telekom Austria AG	240,000	0
Eligible employees in affiliated companies	3,807,472	0

5.5 Stock Option Program (ESOP 2008+)

In the course of the second tranche of the Stock Option Program ESOP 2007-2009 (ESOP 2008+), 4,401,130 options in the Telekom Austria Group were issued on January 7, 2008, of which 360,000 were in Telekom Austria AG. In line with the decision by the Company, participants are solely entitled to exercise their options in the form of a cash payment.

The exercise price of EUR 19.39 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 7, 2008).

As was the case with ESOP 2004+, ESOP 2005+, ESOP 2006+ und ESOP 2007+, ESOP 2008+ is based on the profitability of the Telekom Austria Group. The exercise of options that were allocated in 2008 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2008 has been reached. If this EPS target value set for financial year 2008 is not reached, options may still be exercised if an EPS target value set by the Supervisory Board for financial year 2009 or financial year 2010, which must be at least equal to the 2008 target value, is reached.

The tranche of ESOP 2008+ allocated on January 7, 2008 can be converted up to the end of May 2012 (maturity) if the EPS target value is reached. The options are subject to a 14-month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from March 2009. The options are not transferable.

The options were value using an option valuation model at EUR 0.75 per unit, as of the reporting date December 31, 2007, and form the basis for calculating Telekom Austria AG's obligation to the Management Board members, which is built up pro rata over the vesting period.

In the financial year, employee costs of TEUR 156 were incurred in connection with ESOP 2008+.

The options granted were allocated as follows:

	Options granted 2008
ESOP 2008+	
Management Board members	
Boris Nemsic	120,000
Rudolf Fischer	120,000
Johann Tschuden	120,000
Total Telekom Austria AG	360,000
Eligible employees in affiliated companies	4,041,130

5.6 Employee Participation Program

The Employee Participation Program (MAB) was agreed between the Management Board and the employees' representatives and is planned to last until 2010 for the time being, with each tranche being approved separately by the Supervisory Board. The third tranche (MAB 2008/2009) was approved by the Supervisory Board of Telekom Austria AG on December 30, 2008. As part of the third tranche, a total of 186,480 shares, worth a total of EUR 1,920,744.00, were allocated to Group staff gratuitously in December 2008 (2007: allocation of the second tranche of 86,742 shares worth EUR 1,652,435.10).

In financial year 2008, the Company incurred expenses of EUR 1,584,357.26 (2007: income of EUR 22,021.68).

5.7 Share Buyback Program

In accordance with Section 65 Paragraph 1 No. 8 of the Austrian Stock Corporation Act, the Annual General Meeting of May 20, 2008 authorized the Management Board to acquire up to a total of 46 million bearer or registered unit shares, which represented up to 10% of the common stock at the time the resolution was passed. The acquisition must take place within a period of 18 months from the date of the resolution at a price ranging between EUR 9.00 and EUR 30.00 per share.

The authorization by the Annual General Meeting of May 20, 2008 restricts use of the repurchased shares to the following:

- to service options granted to employees, top management and members of the Management Board/executive management of Telekom Austria Aktiengesellschaft or an affiliated company and/or to be issued against payment or gratuitously to employees of Telekom Austria Aktiengesellschaft or an affiliated company,
- to service convertible bonds,
- for acquisitions and
- to sell shares in every legally permissible way, including off-market and by excluding the public from buying,
- to reduce the common stock by up to EUR 100,326,000.00.

At the reporting date, Telekom Austria AG held a total of 17,601,778 treasury shares worth EUR 191,859,380.20 (2007: 17,788,258 shares worth EUR 334,350,308.94).

5.8 Credit risks

The Company monitored its exposure to credit risk continuously in financial year 2008; it does not have any significant exposure to any individual customer or counterpart or any individual financial instrument.

5.9 Market risks

Market risk is monitored using value-at-risk models for interest rate as well as currency risk for the long-term debt and derivative portfolios.

6 Members of the Management Board and the Supervisory Board

Management Board

Boris Nemsic	Chairman of the Management Board
Rudolf Fischer	until August 31, 2008
Hannes Ametsreiter	since January 1, 2009
Johann Tschuden	Chairman until December 31, 2008, Vice-Chairman since January 1, 2009

Supervisory Board

Peter Michaelis	Chairman of the Supervisory Board
Edith Hlawati	Deputy Chairwoman
Silvia Bauer	since January 30, 2009
Wolfgang C. Berndt	until May 20, 2008
Henrietta Egerth-Stadhuber	since May 20, 2008
Wilhelm Eidenberger	
Hans Haider	until May 20, 2008
Markus Hinker	until January 27, 2009
Michael Kolek	
Stephan Koren	
Werner Luksch	
Peter J. Oswald	since May 20, 2008
Wilfried Stadler	
Harald Stöber	
Rainer Wieltsch	

Vienna, 13 February 2009

The Management Board

Boris Nemsic, Chairman of the Management Board

Johann Tschuden, Vice Chairman of the Management Board

Hannes Ametsreiter, CEO of Telekom Austria TA AG

Exhibit 1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Development of Fixed Assets

in TEUR	Cost of acquisition			Accumulated Depreciation	Carrying amount 31.12.2008	Carrying amount 31.12.2007	Depreciation Fiscal year 2008
	As of 31.12.2007	Additions	As of 31.12.2008				
Financial assets							
1. Investments in affiliated companies	4,205,435	22,541	4,227,976	4,996	4,222,980	4,203,214	2,776
2. Investments	543	0	543	0	543	543	0
	4,205,978	22,541	4,228,519	4,996	4,223,523	4,203,757	2,776

Exhibit 2

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table Dec. 31, 2008

in TEUR	Carrying amount	maturity	
		up to 1 year	exceeding 1 year
1. Accounts receivable - affiliated companies			
-trade	661	661	0
-financial	1	1	0
-other receivables and assets	549,186	549,186	0
	549,848	549,848	0
2. Other receivables and assets			
-others	28,811	28,811	0
	28,811	28,811	0
Receivables	578,659	578,659	0

Exhibit 3

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts payable table Dec. 31, 2008

in TEUR	Carrying amount	maturity		
		up to 1 year	1 - 5 years	exceeding 5 years
1. Accounts payable - trade	364	364	0	0
2. Accounts payable - affiliated companies				
-trade	2.404	2.404	0	0
-financial	1.528.947	352.947	676.000	500.000
-others	122.738	122.738	0	0
	1.654.089	478.089	676.000	500.000
3. Other liabilities				
-others	10	10	0	0
	10	10	0	0
Liabilities	1.654.463	478.463	676.000	500.000

Exhibit 4

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table Dec. 31, 2007

in TEUR	Carrying amount	maturity	
		up to 1 year	exceeding 1 year
1. Accounts receivable - affiliated companies			
-trade	1,376	1,376	0
-financial	26,763	20,090	6,673
-other receivables and assets	778,834	778,834	0
	806,973	800,300	6,673
2. Other receivables and assets			
-others	30,373	30,373	0
	30,373	30,373	0
Receivables	837,346	830,673	6,673

Exhibit 5

Telekom Austria Aktiengesellschaft, Vienna

Accounts payable table Dec. 31, 2007

in TEUR	Carrying amount	maturity		
		up to 1 year	1 - 5 years	exceeding 5 years
1. Accounts payable - trade	407	407	0	0
2. Accounts payable - affiliated companies				
-trade	1.430	1.430	0	0
-financial	1.892.373	716.373	146.000	1.030.000
-others	31.914	31.914	0	0
	1.925.717	749.717	146.000	1.030.000
3. Other liabilities				
-others	333	333	0	0
	333	333	0	0
Liabilities	1.926.457	750.457	146.000	1.030.000

Management Report

of Telekom Austria Aktiengesellschaft
for the Period January 1 to December 31, 2008

Financial Crisis Weakens the 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, the rate of inflation 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%. GDP in the 15-member euro zone decreased from 2.7% to 1.1%.

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, and one which furthermore consumes only a small percentage of disposable income. The further increase in voice and data traffic in the year under review confirms this assumption and indeed 2008 did not show any change in customer behavior which negatively affected business development. The shortage of liquid funds 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

In 2008 the Austrian companies of Telekom Austria AG continued to operate in a business environment that was characterized by strong competition in both segments. Low prices for voice telephony and mobile broadband in mobile communications led to continued fixed-to-mobile substitution. In order to safeguard the core business of the Fixed Net segment, the broadband portfolio has been expanded to include attractive product bundles with higher bandwidths. Against the backdrop of a shrinking domestic fixed line market, downsizing and cost-cutting measures are urgently needed. In the fourth quarter of 2007 Telekom Austria AG therefore initiated a comprehensive cost-cutting program which led to the implementation of a number of measures in 2008.

In November 2008 the Telekom Austria Group announced a further step in the restructuring program for the Fixed Net segment. 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, whose contracts cannot be terminated due to their civil servant status. These measures will 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 million was earmarked for the provision, leading to a net loss for the 2008 financial year. However, this had no impact on the operating performance and the cash flow of Telekom Austria AG. In the years to come lower personnel expenses as a result of this measure will improve future earnings. This provision will not be included in the net debt calculation, but it will be interest bearing starting from 2009.

The international subsidiaries of Telekom Austria AG continued their successful growth in 2008. The consolidation of Velcom in Belarus and higher contributions from the newly established companies in the Republic of Serbia and the Republic of Macedonia strengthened the growth profile of Telekom Austria AG in 2008. The regulation of international roaming tariffs in the second half of 2007 had a negative impact on the revenues of Telekom Austria AG in the first three quarters of 2008 compared to previous years.

Development of Results and Financial Performance Indicators

The services rendered in 2008 by the management holding company to Telekom Austria TA AG, mobilkom austria group and Telekom Finanzmanagement GmbH, essentially comprising management and consultancy services, led to a slight decline in revenues from EUR 7.6 million in 2007 to EUR 6.7 million in 2008. Due to a stable cost structure, the operating loss of EUR 17.6 million in 2007 changed only marginally to EUR 18.7 million in 2008.

Income from investments declined by 26.9% from EUR 746 million in 2007 to EUR 545.5 million in 2008, of which EUR 543 million was contributed by mobilkom austria AG.. Due to a one-off restructuring expense in the Fixed Net segment totaling EUR 632.1 million, Telekom Austria TA AG was for the first time unable to contribute to the income from investments of the management holding in 2008.

The operating result from ordinary business activities declined by 54.6% from EUR 651.3 million in 2007 to EUR 295.5 million, as the financial result for 2008 was strongly impacted by expenses for financial assets amounting to EUR 143.3 million and interest expenses totaling EUR 88.3 million. These essentially comprise the write-down of treasury shares held as current assets amounting to EUR 139 million for 17,601,778 shares, which had to be adjusted to the diminished market value of the Telekom Austria AG share in line with the strict lower of cost or market value rule.

In 2008 the operating result of Telekom Austria AG and revised tax results of group members led to a tax yield of EUR 73.0 million. Due to the restructuring measures implemented in 2008 the revised calculation of group company results led to a total tax loss which impacted the results of Telekom Austria AG with a corporate tax charge of EUR 72 million.

This resulted in net income of EUR 222.4 million for the 2008 financial year. Following the accumulation of retained earnings for a total amount of EUR 109.4 million, the net income for the year amounts to EUR 331.8 million.

The Management Board will ask the Annual General Meeting to approve the payment of a dividend of EUR 0.75 EUR per eligible unit share. The remaining retained earnings will be carried forward.

The equity ratio and fictitious debt repayment period of Telekom Austria AG and the method according to which they are calculated are explained in brief below.

- The equity to assets ratio pursuant to Section 23 of the Business Reorganization Act (URG) increased from 60.6% in 2007 to 63% in the reporting year 2008. This ratio is calculated from total equity plus untaxed reserves divided by total assets.
- The fictitious debt repayment period in 2008 is 7.3 years (2007: 2.6 years) and indicates how many years it would take to discharge debts using the operating cash flow.

Affiliated Companies

Telekom Austria AG is successfully positioned on international markets. At year-end 2008 the Mobile Communication segment served approximately 17.8 million customers, while the Fixed Net segment had a total of 2.3 million access lines.

Owing to the success of the product bundles, the decline in the number of fixed access lines was more than halved in 2008, with a loss of 97,000 lines as opposed to 224,500 in 2007.

In 2008 mobilkom austria expanded its total subscriber base by 13.6% to 4.5 million customers. The share of contract subscribers rose by 19.0%. mobilkom austria expanded its market share from 40.3% at the end of 2007 to 42.4% at year-end 2008, the biggest increase in market share in the company's history. The penetration rate in Austria at the end of 2008 stood at 126.6 %.

Mobilitel's customer base at year-end 2008 amounted to 5.4 million customers, an increase of 5.8% compared with the previous year. In the same period, the market share of Mobilitel, the largest mobile communications provider in Bulgaria, remained stable at 50.0%. The penetration rate in Bulgaria reached 142.1%.

Velcom, the second-largest mobile operator in Belarus, increased its subscriber base by 20.9% from 3.1 million customers at year-end 2007 to 3.7 million at the end of 2008. As of December 31, 2008 Velcom had a market share of 44.8% compared to 43.4% at year-end 2007. Belarus had a penetration rate of 85.1%.

Vipnet, the second-largest mobile communications provider in Croatia, increased its subscriber base by 14.1% to 2.5 million customers at year-end 2008. At the end of Q4, Vipnet's market share fell slightly to 42.2%. The penetration rate in Croatia stood at 133.6%.

Si.mobil, the second-largest mobile operator in Slovenia, expanded its customer base by 14.7 % to 570.600 at year-end 2008. Si.mobil once again increased its market share which rose from 26.9% to 27.7%. At year-end 2008, the penetration rate in Slovenia stood at 102.7% compared to 92.2% at the end of 2007.

Vip mobile, the third-largest mobile communications operator in the Republic of Serbia achieved subscriber growth of 78.4% to 907,900 customers, compared to 508.900 at the end of 2007. The market share stood at 9.1% at the end of 2008. At year-end 2008 the Republic of Serbia had a mobile penetration rate of 132.9%.

Vip operator, the third-largest mobile communications provider in the Republic of Macedonia, had 242,000 customers at the end of 2008, compared to 141,200 at the end of 2007, an increase of 71.4%. Vip operator increased its market share from 7.9% at year-end 2007 to 10.7% at the end of 2008. As of December 31, 2008 the mobile penetration in the Republic of Macedonia rose from 87.4% to 112.3%.

Innovation and Technology

Group-wide innovation activities in 2008 clearly focused on products with a strong market relevance. The overriding goals remain the consolidation of innovation leadership as an integral element of corporate core brand values, the enhancement of customer convenience as well as cost reduction through the optimization of technologies and processes.

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. The ALLmediaNET makes it possible to transport all media over a single network. This network architecture enables convergent products and reduces network complexity.

In the Mobile Communication segment the main focus is on a flexible, well-developed and reliable network infrastructure. 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

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 at the Group such as the Internal control system, the Code of Ethics, compliance guidelines but also the commitment to compliance with the Austrian Corporate Governance Code underline this corporate orientation.

Balanced Use of Capital

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 can 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 been exceeded. The decision whether to resume the share buyback program will be taken after the publication of the Q2 2009 results and will also depend on the general sentiment of financial markets and the sustainability of the company's operational performance.

Shareholder Structure

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 shares or 4.94% of the shares issued. On January 28, 2009 the company announced that it now 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. The Telekom Austria Group holds 3.88% in treasury 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.

Changes to the Management Board

In 2008 the following changes were made to the Management Board of Telekom Austria AG, as Rudolf Fischer resigned as CEO of the Fixed Net segment as of August 31, 2008. Boris Nemsic, the Chairman of the Management Board of Telekom Austria AG, temporarily assumed his duties. In January 2009 Rudolf Fischer was succeeded by Hannes Ametsreiter.

Risk Management

Risk management at Telekom Austria AG systematically identifies possible events and trends and regulates procedures for dealing with potential risks but also 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. Telekom Austria AG's overall risk is calculated on the basis of the sum of individual risks.

Telekom Austria AG is active on various markets (fixed net and mobile communications) 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.

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 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 position of Telekom Austria AG 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

Tougher competition, which is also increasingly affecting international markets, as well as the rapid pace of technological change, are leading to sharply falling prices for voice communications and data traffic in both segments of Telekom Austria AG. There is therefore a risk that growth in volume will not be able to offset this price decline. Falling prices for mobile communications 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". Telekom Austria AG is categorized as such in Austria; the international subsidiaries are also subject to the regulatory frameworks of their own countries.

The operational flexibility of the Fixed Net segment is curtailed by the need to obtain prior approval from the regulator for 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 international roaming tariffs. In 2008 a new proposal was drawn up and discussed by EU bodies and is due for implementation in 2009. Furthermore, regulatory decisions to reduce termination charges can also impact the result of Telekom Austria AG.

Telekom Austria AG 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 Telekom Austria AG to identify problems early on and develop measures to counteract them.

Financial Risks

Telekom Austria AG is exposed to liquidity, loss, currency 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.

Personnel

Against the background of a shrinking fixed line market due to changed market conditions, it has become necessary to adjust the size of the 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.

Technical and Geographical Risks

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

Through its expansion into Eastern and Southeastern Europe, the group operates in markets that have been experiencing political and economic changes, which have 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

Even after delisting from the New York Stock Exchange, Telekom Austria AG 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 AG 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

On January 2, 2009 Telekom Austria TA AG 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 Telekom Austria TA AG agreed to purchase 25.03 % of the shares in Marx Media Vienna GmbH for about EUR 3 million. The transaction is subject to prior approval by the anti-trust authority as well as to compliance with certain closing conditions.

On the basis of the authorization of the Supervisory Board an additional ("sixth" or "ESOP 2009+") tranche of 4,923,090 options from the expansion of the stock option plan 2004 was granted to the eligible employees on January 14, 2009. 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 options awarded, an eligible employee or a member of the Management Board must hold one ordinary Telekom Austria 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.

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 Telekom Austria AG's results.

On January 21, 2009 the company placed a bullet bond on the Eurobond market with a volume of EUR 750 million, a disagio and issue costs of EUR 5.7 million, a coupon of 6.375% and a seven-year maturity. The issuer of the bond is Telekom Finanzmanagement GmbH guaranteed by Telekom Austria AG and Telekom Austria TA AG.

Outlook for 2009

The prime objective of the Telekom Austria Group is to steadily increase 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 payout ratio will remain unchanged at 65% of net profit, but a minimum dividend floor of EUR 0.75 per share has been defined. The potential resumption of the share buyback program will be evaluated after Q2 2009 and will depend on the general sentiment of financial markets and the sustainability of the company's operational performance.

Vienna, 13 February 2009

The Management Board

Boris Nemsic, Chairman of the Management Board

Johann Tschuden, Vice Chairman of the Management Board

Hannes Ametsreiter, CEO of Telekom Austria TA AG

Unqualified Auditor's Report

We have audited the accompanying financial statements including the underlying accounting records of

**Telekom Austria Aktiengesellschaft,
Vienna,**

for the **fiscal year from 1 January to 31 December 2008**. The maintenance of the accounting records and the preparation and contents of these financial statements including the management report in accordance with the Austrian Company Code are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is consistent with the financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether we can state that the management report is in accordance with the financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the Company as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the financial statements and underlying accounting records predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements are in accordance with legal requirements and present fairly, in all material respects the financial position and the results of its operations in accordance with generally accepted accounting principles in Austria. The management report is consistent with the financial statements.

Vienna, 13 February, 2009

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Rainer Hassler
Austrian Chartered Accountants

Martin Wagner
Austrian Chartered Accountants

This report is a translation of the original report in German, which is solely valid.

Report by the Supervisory Board

Extensive discussions about the strategic orientation of the Telekom Austria Group

Ladies and Gentlemen,

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

Members and Committees of the Supervisory Board

Members of the Supervisory Board

Name (first appointed)	Other Supervisory Board and Comparable Functions	Independent Pursuant to Rule 53 of the Austrian Corporate Governance Code	Annual General Meeting at which Mandate Ends
Peter Michaelis (28.6.2001) Chairman	OMV AG	Yes (not however, according to Rule 54 of the Austrian Corporate Governance Code)	2013
	Austrian Airlines AG		
	Österreichische Post AG		
	APK-Pensionskasse AG		
Edith Hlawati (28.6.2001) Vice Chairwoman	Österreichische Post AG	yes	2013
Henrietta Egerth-Stadlhuber (20.5.2008)	Austria Wirtschaftsservice Gesellschaft mit beschränkter Haftung	yes	2013
Stephan Koren (17.9.1999)	Bawag PSK Leasing GmbH	-	2013
	easybank AG		
	Österreichische Verkehrskreditbank AG		
	uni venture Beteiligungs AG		
	Sparda Bank AG		
	Bausparkasse Wüstenrot AG		
	Omnimedia Werbegesellschaft mbH		
	Wiener Stadtwerke Holding AG		
	Austria Wirtschaftsservice Gesellschaft mit beschränkter Haftung		
	Österreichische Lotterien Gesellschaft mbH		
Peter J. Oswald (20.5.2008)		yes	2013
Wilfried Stadler (15.7.2005)	VBV Anlagenvermietungs- und Beteiligungs AG	yes	2013
	Investkredit Investment Bank AG		
	ATP Planungs- und Beteiligungs AG		
	Die Furche - Zeitschriften-Betriebsgesellschaft m.b.H.		
	TRODAT Holding GmbH		
	WIENSTROM GmbH		
Harald Stöber (4.6.2003)	Deutsche Messe AG Hannover	-	2013
	Vodafone Deutschland		
Rainer Wieltsch (12.6.2002)	Austrian Airlines AG	yes	2013
	OMV AG		
	Österreichische Post AG		
	Bundesrechenzentrum GmbH		
	Austrian Research Centers		

Members of the Supervisory Board Delegated by the Works' Council

Wilhelm Eidenberger (30.4.2001)			
Markus Hinker (15.7.2005)	Within the Group: Telekom Austria Personalmanagement GmbH		
Michael Kolek (20.3.2002)	Within the Group: Österreichische Industrieholding AG, Telekom Austria Personalmanagement GmbH		
Werner Luksch (3.8.2007)	Within the Group: mobilkom Austria AG		

Declaration of the Management Board

The Management Board affirms that to the best of its knowledge and in accordance with International Financial Reporting Standards, the consolidated financial statements give a true and fair view of the assets, financial position and profit or loss of the group. The Company's management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

The Management Board



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)