Only bad news ...

- EBITDA declines by 3.0%
- Net income declines by 12.3%
- Net debt rises by 39.1%

TELEKOM AUSTRIA GROUP

Annual Report 2007

... is good news:

+ 650,100 new customers in the Republic of Serbia and the Republic of Macedonia
+ Shareholder remuneration rises by 6.7%
+ 3.1 million customers due to the acquisition of MDC in Belarus

Is it true that only bad news is good news? Not usually, apart from the fact it is guaranteed to get attention. And yet on occasion, bad news can indeed be good news.

This was the case as far as the Telekom Austria Group and the business year 2007 are concerned. There are in fact good reasons for the bad news listed right on the cover: They mostly have to do with the large-scale investments we made as part of our value-oriented strategy of expansion and internationalization, which in turn is strengthening our growth profile for sustainable corporate development.

The pleasure and pain of growth are sometimes not far apart. This has inspired our illustrator Tex Rubinowitz to take a tongue-in-cheek look at some of the more puzzling aspects of this topic. And this is hopefully a piece of good news that will help communicate the positive aspects of the Telekom Austria Group's growth in the reporting year.

Key Figures of the Telekom Austria Group

Key Operational Data	Dec. 31, 2007	Change in %	Dec. 31, 2006	Dec. 31, 2005
Fixed Net				
Fixed access lines (in '000)	2,434.4	-7.9	2,642.6	2,801.9
Thereof XDSL wholesale	85.5	-30.1	122.3	105.8
Thereof XDSL retail	665.2	+16.4	571.3	468.5
Total XDSL lines	**750.7**	**+8.2**	**693.6**	**574.3**
Fixed access channels	2,983.2	-8.0	3,240.7	3,433.7
Internet customers in Austria	1,561.9	+3.7	1,505.9	1,424.2
Mobile Communication				
Customers (in '000)				
in Austria	3,959.3	+9.1	3,630.5	3,392.2
in Bulgaria	5,098.6	+19.5	4,267.9	3,594.2
in Belarus	3,058.7			
in Croatia	2,179.6	+14.0	1,912.3	1,612.9
in Slovenia	497.3	+18.2	420.9	359.6
in the Republic of Serbia	508.9			
in the Republic of Macedonia	141.2			
in Liechtenstein	5.4	+12.5	4.8	4.2
Total	**15,449.0**	**+50.9**	**10,236.4**	**8,963.1**
Employees – at year-end[1]	17,628	+14.3	15,428	15,595
Key Financial Data (in EUR million)				
Telekom Austria Group[2]				
Operating revenues	4,919.0	+3.3	4,759.6	4,365.2
of which generated abroad (in %)	35.9	–	31.9	25.4
EBITDA	1,854.9	-3.0	1,911.5	1,758.5
of which generated abroad (in %)	31.0	–	28.3	19.2
Operating income	761.4	-2.0	777.1	619.7
Net income	492.5	-12.3	561.8	408.9
Operating free cash flow[3]	1,003.6	+9.7	914.8	1,130.9
Cash flow generated from operations	1,742.0	+9.6	1,589.9	1,637.7
Capital expenditures[4]	851.3	-14.6	996.7	627.6
Net debt[4]	4,407.2	+39.1	3,169.0	3,113.7
Equity	2,565.3	-9.1	2,823.5	2,918.8
Equity ratio (in %)	28.5	–	37.3	37.9
EBITDA margin (in %)	37.7	–	40.1	40.3
Net debt to EBITDA[4]	2.4x	–	1.7x	1.8x
Return on Invested Capital – ROIC (in %)[4]	8.6	–	10.0	8.2
Return on Equity – ROE (in %)[4]	18.3	–	19.6	14.3
Key Stock Exchange Data				
Earnings per share in EUR	1.09	-8.4	1.19	0.84
Market capitalization as of Dec. 31, in EUR billion	8.8	-13.8	10.2	9.5
Stock price as of Dec. 31 in EUR	19.03	-6.3	20.30	19.00
Stock price – high in EUR	21.55	+2.2	21.09	19.55
Stock price – low in EUR	16.90	+1.4	16.66	13.86
Dividend per dividend-bearing share in EUR	0.75[5]	0.0	0.75	0.55

1 Full-time employees

2 The consolidated financial results for 2007 include the financial results of MDC for the period of October 3, 2007 to December 31, 2007. The financial results of MDC are not included in the results for 2006 and 2005.

3 Defined as EBITDA less capital expenditures

4 For definitions see glossary

5 Proposal to the Annual General Meeting

2007 at a Glance

Increase in revenues by 3.3% to EUR 4,919.0 million, 35.9% of which was generated abroad

Decline in EBITDA by 3.0% to EUR 1,854.9 million

Market entry in Belarus, in the Republic of Serbia and the Republic of Macedonia

Increase in customer numbers in the Mobile Communication segment by 50.9% to 15.4 million

Slight increase in revenues in the Fixed Net segment due to the acquisition of eTel and a 16.4% rise in the number of XDSL retail lines to 665,200

Outlook 2008

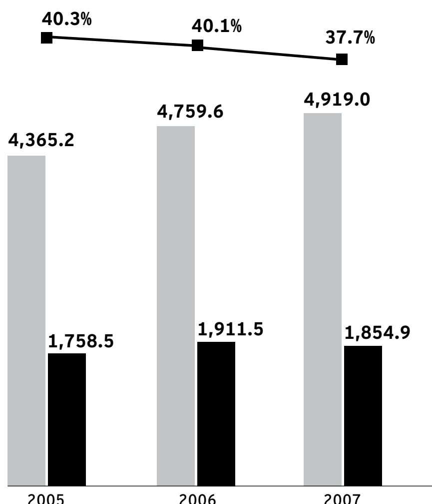
5% increase in revenues

3% increase in EBITDA, stable operating income and a 12% decline in net income due to increased debt as a result of the acquisition of MDC and higher shareholder remuneration

The Mobile Communication segment will continue its growth trend. An innovative product portfolio will safeguard the attractiveness of fixed access lines

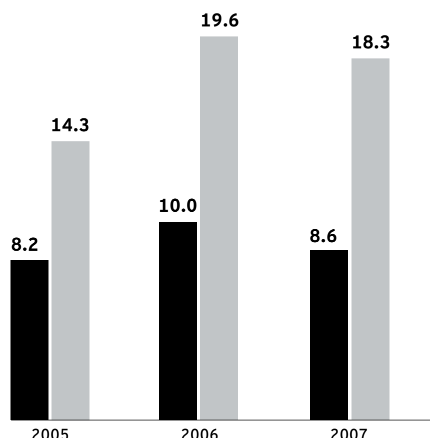
Revenues Rise by 3.3%
EBITDA margin declines by 2.4 percentage points

Revenues in EUR million
EBITDA in EUR million
EBITDA margin in %



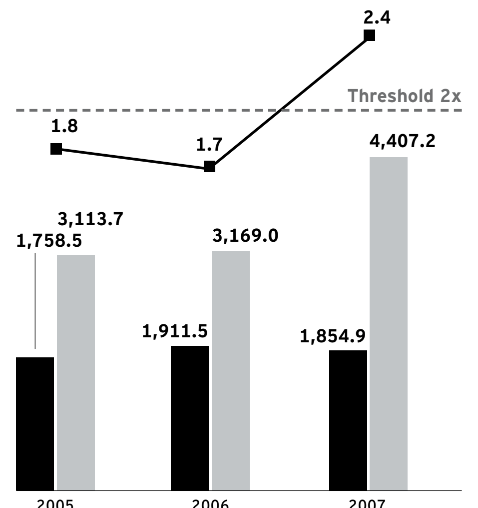
Profitability
impacted by start-up costs due to expansion, higher tax expenses and a 6.7% increase in shareholder remuneration

Return on Invested Capital (ROIC) in %
Return on Equity (ROE) in %



Higher Net Debt
due to increased shareholder remuneration and the acquisition of MDC

EBITDA in EUR million
Net debt in EUR million
Net debt to EBITDA



What did I just say? Damn senility

Growth Puzzle – Example #1

Write this down, Mr. Baumann.
May 4th, 9.30 a.m.
uncontrolled growth outside
the main building

A tender shoot. No way! Customer growth of 50.9% in the Mobile Communication segment is a fact that cannot be overlooked.

TELEKOM AUSTRIA GROUP

Annual Report 2007

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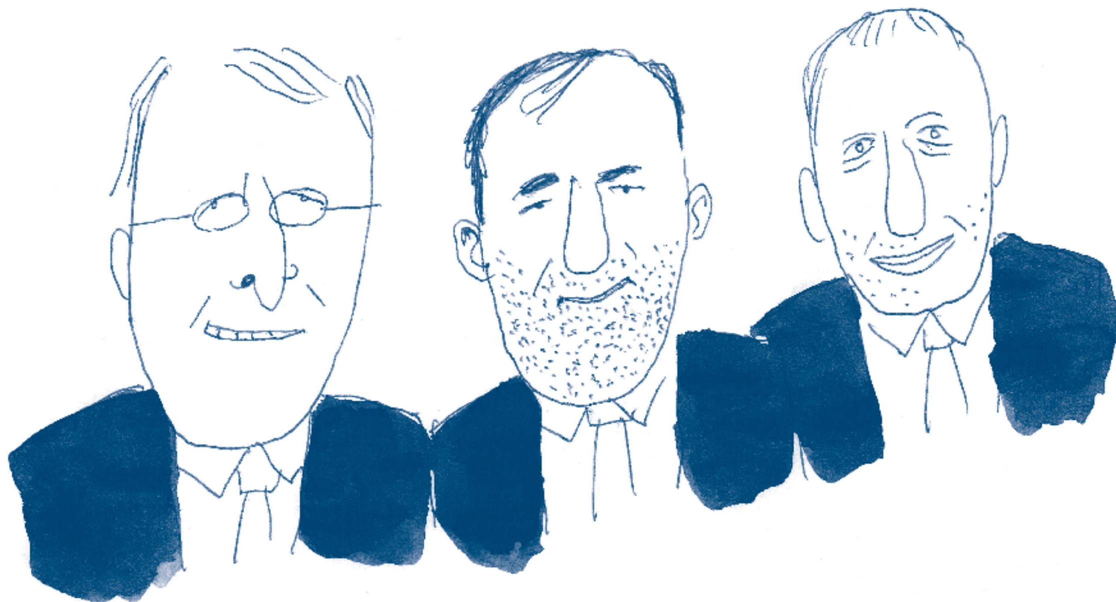


From left to right:
Hans Tschuden, Boris Nemsic, Rudolf Fischer

Introduction by the Management Board

Dear Shareholders,

"Only bad news ... is good news" is the title of our 2007 Annual Report. And we do not mind admitting that this perhaps slightly vexing title and the illustrations which take a tongue-in-cheek look at some of the more puzzling aspects of "balanced growth" are intended to steer your attention to the special circumstances surrounding the business year which just ended. We talk openly and directly about the setbacks in the development of results due to investments, but at the same time we point out the good news these investments will bring for you as shareholders in the future. In keeping with our consistent strategy of value-oriented growth we took further important expansion steps in the year under review, making investments which we are absolutely convinced have the potential to generate corporate value.

On the one hand, the "bad news" in 2007 was that EBITDA declined by 3% to EUR 1,854.9 million and net income fell by 12.3% to EUR 492.5 million as a result of higher interest expenses, with net debt rising by 39.1% to EUR 4,407.2 million. These setbacks are closely correlated with Telekom Austria Group's investments in future growth. But we are not trying to merely console you, our shareholders, with promises for the future: we remain committed to our cash use policy aimed at achieving a balance between shareholder remuneration and profitable growth investments. In 2007, we invested EUR 369.9 million in share buybacks. A dividend payment of EUR 0.75 per share represents a payout of EUR 343.0 million for 2007, increasing return to Telekom Austria Group shareholders by more than 6.7% in comparison to the previous year.

So what is the good news in 2007? Your company has reported strong, sustainable growth. In the Mobile Communication segment we launched commercial operations in the Republic of Serbia and the Republic of Macedonia within only a few months of having acquired the licenses in 2006 and early 2007 respectively. By the end of 2007 we had already won 650,100 customers in these two countries. This success confirmed our strategy of giving preference to business start-ups instead of over-priced acquisitions. We also exercised financial discipline when we purchased the Belarusian operator MDC in the year under review. This expansion step – MDC was consolidated in the group financial statements in early October 2007 – enabled us to enter a market with strong growth potential. With a market share of 43.4% MDC is the second largest mobile operator in Belarus and at year-end 2007 had approximately 3.1 million customers. At 71.5% the penetration rate in Belarus is well below the western European average. In the Fixed Net segment we used the strong competition and pressure for consolidation on the Austrian market to acquire eTel, an integrated telecommunications provider for small and medium-sized businesses.

These acquisitions and start-ups had a fundamental impact on the development of revenues and results in the 2007 financial year. Telekom Austria Group revenues grew by 3.3% to EUR 4,919.0 million compared to the previous year. Following a slight decline in 2006, the Fixed Net segment saw revenues rise by 0.6% to EUR 2,133.0 million due to the acquisition of eTel. In the Mobile Communication segment declining revenues in Austria were more than offset by the international subsidiaries, leading to an overall increase in revenues of 4.6% to EUR 3,035.1 million. In Austria, subscriber growth was unable to offset the negative effects of the recent introduction of comprehensive regulation of roaming tariffs and the retroactive reduction of termination charges.

Operating income in the Fixed Net segment rose by 30.1% to EUR 151.2 million due to lower depreciation and amortization charges, partly compensating for the 6.1% decline to EUR 637.5 million in the Mobile Communication segment. However, total operating income for the 2007 financial year decreased by 2.0% to EUR 761.4 million compared to 2006. Following a 20% higher corporate income tax expense of EUR 115.3 million, net income totaled EUR 492.5 million. Thus, despite a decline in the number of outstanding shares, earnings per share decreased from EUR 1.19 to EUR 1.09. However, in order to ensure that you, the shareholders of Telekom Austria AG, receive a stable return, we will request the Annual General Meeting to approve a dividend payment of EUR 0.75 per eligible share, and thus to increase the payout ratio to 67%.

As we announced in April 2007 when we updated our cash use policy, we intend to continue earmarking excess liquidity, which cannot be used for value-enhancing growth investments, for share buybacks. The prerequisite for this is that net debt to EBITDA does not exceed 2.0 times. As this ratio was exceeded due to the acquisition of MDC, the share buyback program was suspended in October 2007. It will be resumed as soon as the ratio falls below this target level again.

We are convinced that we took the right steps in 2007 to safeguard the positive future development of the Telekom Austria Group in your interests and to tackle the challenges of the highly dynamic market environment in which we operate. For our customers this means that we will continue to win their confidence with innovative products and solutions in both segments. The growth strategy of our existing international operations will be consistently continued and further opportunities for expansion, in Bosnia-Herzegovina for example, will be constantly monitored. On the basis of the full-year consolidation of MDC we also aim to increase Telekom Austria Group revenues by roughly 5% in 2008 – the anticipated increase in the Mobile Communication segment should more than compensate for a decline in the Fixed Net segment. We should be able to increase EBITDA by approximately 3% and operating income will probably remain stable. In 2007 the acquisition of MDC in Belarus and higher shareholder remuneration led to an increase in net debt, which will lead to higher interest expenses and a decline in net income of some 12% in 2008.

We would like to take this opportunity to thank our employees for the commitment they have shown to executing our growth strategy. However, we would also like to thank you, our valued shareholders, for your confidence in the Telekom Austria Group. It remains our common goal to bring you as much "good news" about the group as possible – even if at first sight the title of this Annual Report perhaps gives a slightly different impression.

Sincerely,

Boris Nemsic, Chairman of the Management Board
Rudolf Fischer, Vice Chairman of the Management Board
Hans Tschuden, Chief Financial Officer

Management Board

Boris Nemsic

Chairman of the Management Board, appointed until April 30, 2011
Boris Nemsic, born in 1957, earned his diploma as an electrical engineer at the Sarajevo Technical University in 1980 and was awarded a doctorate by the Vienna University of Technology in 1990. After employment at Ascom and Bosch Telekom in Austria, Germany and Switzerland, he was hired as head of network planning at mobilkom austria in 1997. In November 1998 he took over as managing director of the Croatian subsidiary Vipnet. In May 2000 Boris Nemsic was appointed CEO of mobilkom austria. As of July 2002 he was also appointed to the Management Board of the Telekom Austria Group where he was responsible for the Mobile Communication segment. In 2006 Boris Nemsic also assumed the position of Chairman of the Management Board of the Telekom Austria Group in addition to his responsibility for the Mobile Communication Segment.

Rudolf Fischer

Vice Chairman of the Management Board, appointed until April 30, 2011
Rudolf Fischer was born in 1953. After finishing his studies at the Vienna University of Economics and Business Administration, Mr. Fischer began his career at Alcatel Austria. From 1989 to 1993 he was head of AOSA, a joint venture between Siemens and Alcatel Austria. In 1994 he was appointed Chairman of the Board of United Telecom Investment in the Netherlands. Between 1996 and 1998 he was President of LTOA, an association of local telecommunications operators in Hungary. In 1998 Rudolf Fischer became a member of the Management Board of Telekom Austria AG. In 2001, he assumed responsibility for the Fixed Net segment of the Telekom Austria Group and in 2006 he became the Vice Chairman of the Telekom Austria Group.

Hans Tschuden

Chief Financial Officer since April 1, 2007, appointed until March 31, 2012
Hans Tschuden was born in 1958. He graduated from the Vienna University of Economics and Business Administration and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberger Group, first in controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. From 1995 he served as managing director of Keramo Wienerberger in Belgium before moving to Steinzeug Abwassersysteme in Cologne in 1998. In 1999, he became a member of the Wienerberger Management Committee and, in May 2001 joined the Management Board of Wienerberger AG as CFO. Hans Tschuden has been the Chief Financial Officer of the Telekom Austria Group since April 1, 2007.

Stefano Colombo

Chief Financial Officer until March 31, 2007
In April 2000, Stefano Colombo was appointed Chief Financial Officer of the Telekom Austria Group, a position he held until he left the Telekom Austria Group on March 31, 2007.

Report by the Supervisory Board

Ladies and Gentlemen,

The acquisition of MDC in Belarus and the launch of the new mobile communication operators in the Republic of Serbia and the Republic of Macedonia in 2007 demonstrate the success of the Telekom Austria Group's strategy of internationalization and growth. In the face of massive challenges the Group also successfully maintained its strong position as the market and innovation leader in the domestic market.

However, the reporting year was also marked by important organizational changes and new appointments at the top management level. On April 1, 2007 Hans Tschuden took over the position of Chief Financial Officer from Stefano Colombo, who left the company. Following approval by the Annual General Meeting, the fixed line business was spun off into a separate company, creating a new corporate structure. As a result, the two operational segments Fixed Net and Mobile communication operate under the umbrella of the listed holding company Telekom Austria AG. This also necessitated the reappointment of those members of the Supervisory Board who represent the workforce and, for the first time ever, a personnel representative from mobilkom austria was delegated to the Supervisory Board of Telekom Austria AG.

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 Stefano Colombo, who in his capacity as Chief Financial Officer oversaw the initial public offering of Telekom Austria AG and successfully contributed to co-shaping the strategic orientation as well as important decisions of the Group.

The expansion strategy necessitated frequent meetings of the Supervisory Board and its committees in 2007. The business development and strategic focus of the Telekom Austria Group was discussed extensively at seven meetings of the Supervisory Board, two meetings of the Audit Committee established in compliance with US law, two meetings of the Audit Committee established under Austrian law and at one strategy meeting. Other areas of the Supervisory Board's work focused on maintaining the position of the Fixed Net and the Mobile Communication segments in Austria, risk management and the internal control system.

Due to the low trading volume of Telekom Austria shares in New York, the Group withdrew from the New York Stock Exchange in mid 2007. This step led to a reorganization of the Audit Committee established under Austrian law, which until then had played an important role in monitoring the effectiveness of the internal control system for financial reporting in accordance with US financial regulations. The Audit Committee continues to implement the effective corporate governance mechanisms in compliance with European requirements. The monitoring of the integrity of the financial statements, the quality, independence and performance of

the auditors and the functioning of internal audit controls remain key areas of the Audit Committee's activities.

As Chairman of the Supervisory Board I have also assumed the position of Chairman of the Audit Committee. The Chairmen of the Audit Committee established under Austrian law and, prior to this, of the Audit Committee established under US law, provided the Supervisory Board with regular and detailed reports on the Committees' work.

The Supervisory Board of Telekom Austria AG remains strongly committed to compliance with the Austrian Corporate Governance Code and to responsible company management and control aimed at sustained value creation. The Supervisory Board of Telekom Austria AG 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, 2007 received unqualified opinions from KPMG Austria GmbH 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 established under Austrian law, and extensive discussions and review, the Supervisory Board approved the 2007 annual financial statements in accordance with § 125 Para. 2 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee (Austrian law) and after detailed discussion and review it also approved the consolidated financial statements prepared in accordance with § 245 of the Austrian Commercial Code pursuant to IFRS, the Management Report and the Group Management Report.

The Supervisory Board gave its assent to 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 offer my sincere thanks to the members of the Management Board and all our employees for their hard work and commitment in 2007. I would also like to thank our growing number of customers in Austria and abroad for the confidence they have placed in us as well as the shareholders of the Telekom Austria Group for the loyalty they have shown despite a volatile and challenging stock market climate. I hope they will continue to support our Group of companies along the path towards future growth.

Peter Michaelis
Chairman of the Supervisory Board
Vienna, February 2008

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, Austrian Airlines AG, Österreichische Post AG, APK-Pensionskasse AG	Yes (not however, according to Rule 54 of the Austrian Corporate Governance Code)	2008
Edith Hlawati (28.6.2001) Vice Chairwoman	Österreichische Post AG	yes	2008
Rainer Wieltsch (12.6.2002)	Austrian Airlines AG, OMV AG, Österreichische Post AG, Bundesrechenzentrum GmbH, Pavatex SA	yes	2008
Johann Haider (4.6.2003)	Energie Klagenfurt GmbH, Siemens AG Österreich, Meinl International Power Ltd.	yes	2008
Stephan Koren (17.9.1999)	Bawag PSK Leasing GmbH, Bawag PSK Versicherung AG, easybank AG, Österreichische Verkehrskreditbank AG, uni venture Beteiligungs AG, Sparda Bank AG, ISTROBANKA A.S., BAWAG Bank cz, Bausparkasse Wüstenrot AG, Omnimedia Werbegesellschaft mbH, Wiener Stadtwerke Holding AG, Austria Wirtschaftsservice GmbH	–	2008
Wilfried Stadler (15.7.2005)	VBV Anlagenvermietungs- und Beteiligungs AG, Investkredit Investment Bank AG, ATP Planungs- und Beteiligungs-AG, Die Furche – Zeitschriften-Betriebsgesellschaft m.b.H., TRODAT Holding GmbH, WIENSTROM GmbH	yes	2008
Harald Stöber (4.6.2003)	Deutsche Messe AG Hannover	–	2008
Wolfgang C. Berndt (23.5.2006)	Cadbury Schweppes PLC, Lloyds TSB Group PLC, Lloyds TSB Bank PLC, GfK AG	yes	2008

Members of the Supervisory Board Delegated by the Works' Council

Name (first appointed)	Functions
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: Telekom Austria TA AG, Telekom Austria Personalmanagement GmbH Outside the Group: APK Pensionskasse AG, Österreichische Industrieholding AG
Werner Luksch (3.8.2007)	Within the Group: mobilkom austria AG

Supervisory Board Committees and their Members

Personnel and Nomination Committee: Peter Michaelis (Chairman), Edith Hlawati, Michael Kolek

Chairing and Remuneration Committee: Peter Michaelis (Chairman), Edith Hlawati

Audit Committee: Peter Michaelis (Chairman), Rainer Wieltsch (Financial Expert), Michael Kolek

Members who Retired (Retirement Date)

Hans Jörg Schelling (6.2.2007)

Walter Hotz (3.8.2007)

Franz Kusin (3.8.2007)

I only want a
fried egg,
not a bath

Unlimited growth? Yes, but only on the basis of strict economic principles. Because we don't want to see our financial solidity or good rating go down the drain, we have set a target value of 2.0 times for net debt to EBITDA.

Committees of the Supervisory Board and their Responsibilities

The Supervisory Board of Telekom Austria AG comprises up to ten members, who are elected by the Annual General Meeting and up to five employees, who are delegated by the Works' Council. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria. The Articles of Association of Telekom Austria AG stipulate that individuals can be elected to the Supervisory Board up to the age of 65.

In order to carry out its work effectively and in compliance with legal requirements, the Supervisory Board has set up three committees:

- The Audit Committee supports the Supervisory Board in monitoring the integrity of the financial statements, the quality, independence and performance of the auditors and the effectiveness of internal audit controls.
- The Chairing and Remuneration Committee is responsible for the contracts and remuneration of the Management Board; it also sets the targets for the calculation of performance-related bonuses and monitors the achievement of goals.
- The Personnel and Nomination Committee deals with appointments to the Management Board.

All meetings of the three committees were attended by all their members; average attendance at meetings of the Supervisory Board was 90%. No member of the Supervisory Board attended fewer than 50% of Supervisory Board meetings.

Criteria for Determining the Independence of Supervisory Board Members

In 2006 the Supervisory Board of Telekom Austria AG laid down guidelines to determine the independence of its members which comply with Rule 53 of the Austrian Corporate Governance Code. Accordingly, members of the Supervisory Board may declare themselves to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest or influence the Supervisory Board's behavior.

Each member of the Supervisory Board must verify the extent to which they meet these criteria and declare their independence themselves. In compliance with Rules 39 and 53 of the Austrian Corporate Governance Code, the Supervisory Board established that it had a sufficient number of independent members. According to Rule 54 of the Austrian Corporate Governance Code, the Supervisory Board must include at least two independent shareholder representatives, who are not shareholders with a stake of more than 10% or who represent such shareholders' interests. Telekom Austria complies with this rule for companies as the Supervisory Board has not just two, but five independent members.

Remuneration Report

Remuneration of the Management Board

At year-end 2007 the members of the Management Board of the Telekom Austria Group were Boris Nemsic, Rudolf Fischer and Hans Tschuden. On April 1, 2007 Hans Tschuden took over the position of Chief Financial Officer from Stefan Colombo who left the company on March 31, 2007. The members of the Management Board are employed by Telekom Austria AG and are obliged to perform additional group functions without additional remuneration. They may only undertake secondary occupations outside the Group with the consent of the Supervisory Board.

The structuring of the remuneration package for the Management Board is the responsibility of the Remuneration Committee. Remuneration comprises non-variable components and a variable bonus which is contingent upon the achievement of defined business results. The members of the Management Board also receive stock options within the framework of the multi-year stock option program ESOP. These options require participants to hold an investment in the company via the purchase of Telekom Austria shares. Thus, the total amount of the option-based remuneration depends on the price of the Telekom Austria share.

The performance-based bonus awarded to members of the Management Board may not exceed 120% of their gross annual salary and is contingent upon the achievement of the targets defined by the Supervisory Board. These targets are based equally on financial figures such as Economic Value Added (EVA) or free cash flow generated from operations and on the achievement of strategic objectives.

In 2007 total remuneration expenses for the members of the Management Board amounted to EUR 1,258,000 plus bonuses of EUR 1,735,000. Benefits derived from the multi-year stock option program amounted to EUR 747,000.

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

Remuneration of Individual Members of the Management Board in 2007

Director's remuneration in EUR thousand	**Fixed salary (incl. benefits in kind)**	**Performance-based bonus payments**	**Multi-year stock options***	**Total**
Boris Nemsic	473	627	322	1,422
Rudolf Fischer	410	564	425	1,399
Hans Tschuden	285	317	-	602
Stefano Colombo	90	227	-	317
Total	**1,258**	**1,735**	**747**	**3,740**

* Benefits derived from stock options granted in 2005 and 2006

Stock Option Program

The Telekom Austria Group regards its stock option program as an important element of good corporate governance, as it aligns the interests of the participating managers with the shareholders' expectations of corporate value enhancement. The Telekom Austria Group established a multi-year Employee Stock Option Program (ESOP) in 2004, in which some 300 employees participate each year.

Participants are required to make an investment by purchasing Telekom Austria shares, experiencing just like any other shareholder, both share price appreciations and depreciations.

Furthermore, the options may only be exercised if earnings per share reach the target value defined by the Supervisory Board. A detailed description of the stock option program can be found on page 122.

In 2007 Boris Nemsic and Rudolf Fischer were each granted 120,000 options with an exercise price of EUR 20.34 from the tranche ESOP 2007+. This grant is contingent upon the purchase of 4,800 Telekom Austria shares each, which must be held until the option is exercised. The options have an exercise period expiring on May 31, 2012 and their exercise is contingent upon the achievement of the earnings per share target referred to above.

In order to meet the eligibility requirements of the multi-year Employee Stock Option Program ESOP, the members of the Management Board held the following investments in Telekom Austria shares as of December 31, 2007:

Boris Nemsic	14,331
Rudolf Fischer	13,007
Hans Tschuden	10,000

In 2007 the members of the Management Board exercised options from the tranches ESOP 2005+ to ESOP 2006+ granted in 2005 and 2006 as follows:

Boris Nemsic
49,645 options from the tranche ESOP 2005+
Rudolf Fischer
48,100 options from the tranche ESOP 2005+
40,000 options from the tranche ESOP 2006+

Remuneration of the Supervisory Board

The Annual General Meeting held on May 30, 2007 approved compensation of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairman and EUR 15,000 for all other shareholder representatives.

All members of the Supervisory Board receive a meeting attendance allowance of EUR 300 per meeting. Detailed information about current business relationships between the Telekom Austria Group and members of the Supervisory Board is available on page 102 of the Consolidated Financial Statements.

Auditor's Fees

After the choice of auditor had been approved by the Annual General Meeting the Supervisory Board appointed the auditor and approved the audit fee. The expenses for the annual audit of the 2007 annual financial statements amounted to EUR 2.3 million, compared with EUR 4.0 million in the previous year. The cost of audit-related services increased in the reporting year from EUR 0.1 million to EUR 0.6 million. Expenses for tax consultancy and other services remained stable at EUR 0.4 million.

Corporate Governance Report

At a Glance
Delisting from the New York Stock Exchange – high standards of corporate governance are maintained

Code of Ethics defines standards for the Management Board and executives

The internal control system is continuously adapted

The Telekom Austria Group regards corporate governance as an effective framework for sustainable and transparent company management and therefore made a voluntary commitment to comply with the Austrian Corporate Governance Code in 2003. While the company was listed on the New York Stock Exchange, effective corporate governance mechanisms were established in compliance with strict US standards, which will be maintained as far as possible, even after the withdrawal of the US listing in the year under review.

Cooperation between the Management Board and Supervisory Board

Every year the Management Board and the members of the Supervisory Board define the basic strategic focus of the Telekom Austria Group at a joint strategy meeting. During the year, the implementation of the strategy is monitored and discussed at the meetings of the Supervisory Board. For this purpose, the Management Board provides the Supervisory Board with regular and informative reports which permit an up-to-date assessment of the company's development and risk situation. In addition, the members of the Audit Committee and the Chairman of the Supervisory Board also receive monthly reports on the development of financial results.

In the year under review the frequency of meetings of the Audit Committee established under Austrian law and, prior to this, of the Audit Committee required by US regulations, effectively supported the Supervisory Board in monitoring the integrity of financial reporting, the quality, independence and performance of the auditors and the effectiveness of internal audit controls.

The Telekom Austria Group has also adopted additional instruments of corporate governance such as the Code of Ethics. This defines mandatory standards for the Management Board and other executives designed to ensure ethical conduct in all the company's business activities, and it can be viewed at http://www.telekomaustria.com/ir. Telekom Austria Group's Whistleblower Directive enables all employees to report confidentially or anonymously to the Audit Committee any incidents, which might impact the integrity of financial reporting. Such reports will then be investigated.

The internal control system put in place in 2006 is continuously adjusted in response to changing corporate processes in order to ensure its effectiveness. Due to the extensive implementation of this internal control system throughout both segments, the Telekom Austria Group is well prepared for the corporate governance requirements under EU law anticipated for 2008. Further information regarding risk management at the Telekom Austria Group is provided in the Group Management Report from page 57 to page 59.

Telekom Austria Shares Held by the Management and Supervisory Boards

Name	Shares held as of December 31, 2007
Boris Nemsic	14,331
Rudolf Fischer	13,007
Hans Tschuden	10,000
Edith Hlawati	2,425
Rainer Wieltsch	1,100
Wilfried Stadler	2,590
Johann Haider	2,090
Michael Kolek	53
Wilhelm Eidenberger	203
Markus Hinker	274
Werner Luksch	274

Austrian Corporate Governance Code

Starting from the 2003 Annual Report, the Telekom Austria Group has voluntarily complied with the Austrian Corporate Governance Code. The Telekom Austria Group complies in full with the amendments to this code published in June 2007. An evaluation carried out by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft confirms the correctness of the published statements of the Telekom Austria Group regarding compliance with the Code. The evaluation report is available on the corporate website under http://www.telekomaustria.com/ir.

The Austrian Corporate Governance Code lays down 80 rules, of which 30 are based on mandatory requirements such as stock exchange or stock corporation law. Any deviation from 45 rules must be explained. Non-compliance with the other five rules must neither be disclosed nor explained. By making the following statement the Telekom Austria Group is also deemed to comply with the following rules:

Rule 28

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

Compliance Guideline

Since the beginning of 2005 a uniform legal framework to prevent and combat the misuse of information by insiders and market manipulation has been in force in the EU; this framework has also been incorporated into the Austrian Corporate Governance Code. The Telekom Austria Group has introduced group-wide mandatory compliance guidelines. In addition to this, twenty two classified units have also been defined. Regular workshops and training programs are organized to promote a strong understanding of compliance among the employees concerned. Prior to the announcement of the annual and quarterly results they also are notified of specific blocking periods and trading prohibitions. In addition, organizational measures have been put in place in the area of IT security, documentation and the distribution of sensitive data to prevent the misuse of insider information.

In accordance with the legal provisions and rules of the Corporate Governance Code, details of directors' dealings are published on the corporate website under http://www.telekomaustria.com/ir. Details concerning the shares held by members of the Management and Supervisory Boards at year-end 2007 are available in the table on the left.

It is said that talking brings people together. Unconditional customer orientation is vital for the 48% of Fixed Net staff who work at customer interfaces and for the approximately 200 million customer contacts in the Mobile Communication segment.

Investor Relations

At a Glance
Massive correction on international capital markets

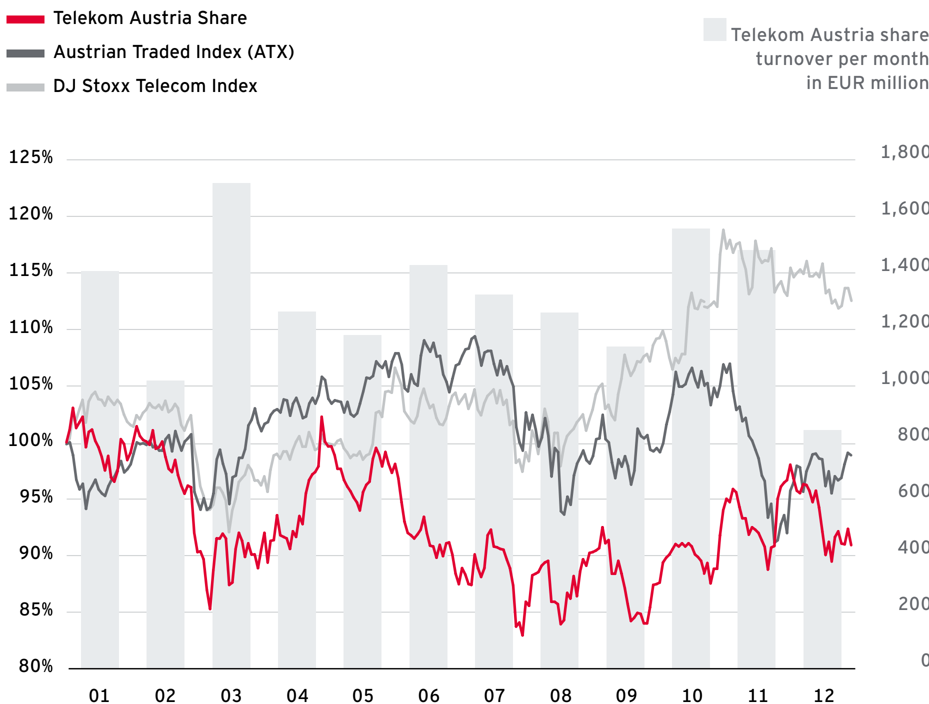
Share price falls by 6.3%

Intensive Dialogue with Investors

In 2007 the Telekom Austria Group further intensified its regular, open dialogue with analysts, institutional and private investors. At 18 roadshows and ten international investor and telecommunications conferences top management presented Group strategy, details of the Group's economic situation as well as the quarterly and annual results. Members of the financial community also received regular, comprehensive information at 233 one-on-one meetings, 146 telephone conferences and 57 Group presentations.

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

Development of Telekom Austria Share Price since January 1, 2007 Source: Datastream



Challenging Capital Market Conditions

International capital markets faced difficult conditions in 2007. After solid growth in the first half year, which in some cases even produced new all-time highs, mounting problems on the US mortgage market triggered a massive worldwide correction from mid July. The high price of crude oil also helped cloud the mood. The Dow Jones Index, which had posted a gain of 16% in the previous year, fell by 14% in 2007. Most European stock markets followed this downward trend, albeit to varying degrees. The FTSE 300 Eurotop index recorded an increase of 1.6%, compared to 16% in the previous year. The ATX, the leading index for the Vienna Stock Exchange, showed a similar development, gaining only 1.1% in 2007 compared to 22% in the previous year. Although the ATX managed to break though the 5,000 mark in July 2007 for the first time ever, it then faltered and ended the year at 4,513 points. The German index DAX was able to resist this trend, posting an increase of 22% comparable to the previous year's figure.

Development of the Telekom Austria Share Price

The DJ Stoxx Telecom, the leading index for the telecommunications industry, did not follow the general downward spiral in 2007, closing the year 14.6% higher supported by positive company reports. The Telekom Austria share was unable to follow this trend. After hitting a record high of EUR 21.55 at the start of the year, it lost 6.3% in year-on-year terms. A number of factors may have played a role in this regard. In addition to increased risk aversion to stocks with any relation to eastern Europe, there was also speculation in Q1 2007 about a possible acquisition of a minority interest in the Greek company OTE by the Telekom Austria Group. On the other hand, the updated cash use policy was well received by the

Analyst Coverage
Arete
Bear Stearns International
CAI Cheuvreux
Citigroup
Credit Suisse
Deutsche Bank
Dresdner Kleinwort
Erste Bank
Euromobiliare
EXANE BNP Paribas
Execution
Goldman Sachs
HSBC
ING
JPMorgan
Landesbank Baden-Württemberg
Lehman Brothers
MainFirst
Metzler
Merrill Lynch
Morgan Stanley
New Street Research
Raiffeisen Centrobank
Sal. Oppenheim
UBS
UniCredit
Volksbank Investmentbank
West LB

capital markets in April 2007. Publication of a decline in earnings in Q1 2007 as well as concerns about the regulation of roaming prices may also have had a negative impact on the share price. Furthermore, the dividend of EUR 0.75 per share was discounted from the share price in Q2 2007. Most of the uncertainties, which had emerged in the run-up to the acquisition of MDC in Belarus, were dispelled following the announcement and disclosure of the purchasing price agreement.

At year-end 2007 the Telekom Austria Group had a market capitalization of EUR 8.8 billion. The 13.7% decline in comparison with the previous year is attributable to the lower share price, but also to the reduced number of outstanding shares. Telekom Austria shares are bearer shares and traded in the Prime Market Segment of the Vienna Stock Exchange. With a weighting of 10% at year-end 2007, the Telekom Austria share was, as in the previous year, ranked fourth in the ATX, the Vienna Stock Exchange's leading index.

Turnover from trading (double count without over-the-counter) increased by 25% to EUR 15.6 billion compared to the previous year. Turnover from over-the-counter-trading (double count) rose from EUR 4.0 billion to EUR 4.1 billion in 2007. 169,723 option contracts with a value of EUR 331 million, with Telekom Austria as the underlying instrument, were traded on the Austrian Futures and Options Exchange (ÖTOB) in 2007. Internationally the Telekom Austria share is listed in the sectoral index DJ Stoxx Telecom and the FTSE 300 Eurotop index.

Delisting from the New York Stock Exchange

Due to the low volume of Telekom Austria shares traded in New York, the Telekom Austria Group withdrew its American Depositary Receipts (ADR) from the New York Stock Exchange on May 17, 2007. Since this date the ADR have been traded over-the-counter under a Level 1 ADR program. This has made it possible to reduce administrative work and the costs related to the listing. While the specific reporting obligations ceased to apply as of the middle of the year, the Telekom Austria Group remains committed to meeting the same high standards of corporate governance and transparency towards shareholders.

Resolutions Passed by the Annual General Meeting

The seventh Annual General Meeting of Telekom Austria AG was held on May 30, 2007 at the Austria Center Vienna. It was attended by approximately 400 shareholders.

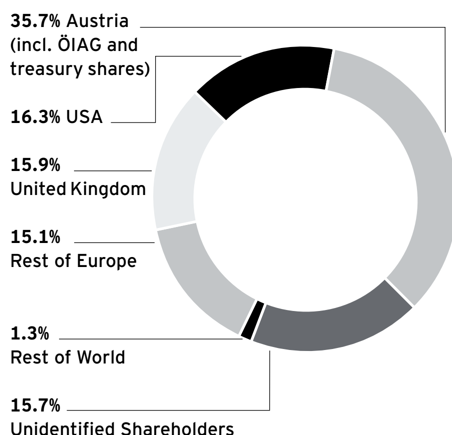
The resolutions which were adopted included:

- The discharge of the members of the Management Board and the Supervisory Board for the financial year 2006
- Election of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors for the 2007 financial year
- Payment of a dividend of EUR 0.75 per eligible share
- Increased meeting attendance fee for each member of the Supervisory Board for the 2007 financial year
- The spin-off of the fixed line business as of December 31, 2006 – establishment of the listed holding company Telekom Austria AG

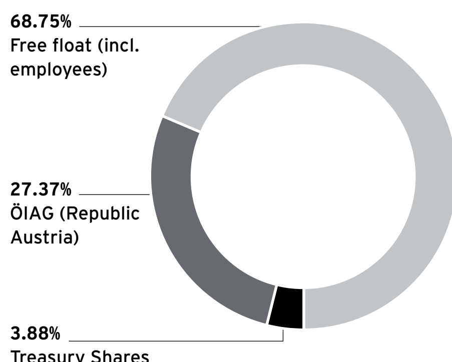
Telekom Austria Stock Data

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

Shareholder Structure by Country
as of Dec. 31, 2007



Shareholder Structure
as of Dec. 31, 2007



- Extension of the authorization of the Management Board to buy back shares during an 18 month period for a price of between EUR 9 and EUR 30 per share
- A revision of the Articles of Association in order to update, adjust and amend them

Dividend Policy

The Telekom Austria Group continues to adhere to its dividend policy with a payout ratio of roughly 65%. However, the expenses incurred in the year under review for the launch of operations in the Republic of Serbia and the Republic of Macedonia led to a decline in net income. As a sign of a consistent and shareholder-friendly dividend policy, the Management Board of the Telekom Austria Group will ask the Annual General Meeting to be held on May 20, 2008 to approve a dividend payment of EUR 0.75 per eligible share, and thus to temporarily increase the payout ratio to 67%. This represents a return of 3.9% on the share price at year-end 2007.

Buyback and Retirement of Shares

A balance between profitable growth projects and adequate shareholder remuneration is crucial for ensuring increased corporate value for the company's shareholders. Growth investments are only made if they produce a greater increase in corporate value than shareholder remuneration via share buybacks.

In the year under review, 19.6 million shares were bought back for an average price of EUR 18.90; in the previous year 21.3 million shares were purchased for an average price of EUR 19.09 per share. In accordance with the resolution of the Annual General Meeting, treasury shares may be used to service stock options and convertible bonds, issued to employees or used as consideration for acquisitions, or for resale and retirement. In compliance with this mandate, 86,742 shares were awarded to employees within the framework of the Employee Participation Program in December 2007.

On the basis of the authorization granted by the Annual General Meeting on May 23, 2006, the Management Board decided to retire 40 million treasury shares or 8% of the common stock of Telekom Austria AG on March 19, 2007. As a result, the number of shares was reduced to 460 million, the equivalent of EUR 1,003,260,000 in stockholder equity.

The cash use policy published in April 2007, provides for the acquisition of up to 10% of Telekom Austria shares by April 2009 if no value-enhancing investments are possible. Due to the acquisition of the 70% stake in the Belarusian mobile operator MDC, the share buyback program was suspended in October 2007 as the level of debt had exceeded net debt to EBITDA of 2.0 times. The program will be resumed as soon as the ratio falls below this threshold again.

Shareholder Structure

The retirement of treasury shares led to an increase of 8.7% in the stakes of the current shareholders, as a result the interest held by the ÖIAG grew from 25.2% to 27.37%. Capital Research and Management Company, which at year-end 2007 held a total of 7.7% of the shares, reported a reduction to 4.8% on October 16, 2007 and an increase to 5.02% on December 13, 2007. 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. In an analysis carried out as of December 31, 2007, 84% of the shares were identified. According to this survey, roughly 16.3% of the shares are held by investors from the USA, approximately 15.9% by British

Financial Calendar and Contacts

Financial Calendar
February 27, 2008 Results for the Financial Year 2007
May 14, 2008 Results for the First Quarter 2008
May 20, 2008 Annual General Meeting Austria Center Vienna (starts 10:00)
May 26, 2008 Ex-dividend day
May 28, 2008 Dividend Payment Date
August 20, 2008 Results for the First Half 2008
November 12, 2008 Results for the First Nine Months 2008

Contacts
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Shareholder Hotline: 0800 100 111
investor.relations@telekom.at
www.telekomaustria.com/ir

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Barbara Plößnig
barbara.ploessnig@telekom.at

investors, while a substantial 35.7% are held by Austrian investors (including ÖIAG and treasury shares). Most of the remaining stock is held in other European countries. The percentage of shares owned by the Telekom Austria Group employees remained stable at 0.3% compared to the previous year.

Diversification of Financing Instruments

In September 2007 the Telekom Austria Group entered into a EUR 300 million commercial paper program, which makes it possible to access attractive financing alternatives with medium to short-term maturities.

No further corporate bonds were issued by Telekom Austria AG in 2007. In 2003, a corporate bond for a total of EUR 750 million with a maturity of ten years and a coupon of 5% was issued by Telekom Austria AG. In early 2005, a further bond was issued in two tranches with maturities of five and twelve years, coupons of 3.375% and 4.25% and a total volume of EUR 1 billion. Both bonds are listed for trading on the Vienna and Luxembourg stock exchanges.

In summer 2006 Telekom Austria AG obtained a seven-year syndicated credit line of EUR 750 million as a liquidity reserve.

Rating by External Agencies

Telekom Austria AG is subjected to regular evaluations by the two largest and most renowned rating agencies, Moody's Investor Service and Standard & Poor's. Telekom Austria AG has been regularly evaluated by both agencies ever since the first corporate bond was issued in 2003. In May 2007 Moody's Investor Service affirmed the Telekom Austria Group's "A3" rating, but downgraded the outlook from positive to stable, explaining that its decision was based on the cash use policy announced in April 2007.

In early June 2007 Standard & Poor's also revised its outlook from positive to stable following publication of the cash use policy, but confirmed the long-term rating and the short-term rating of "BBB+" and "A-2" respectively.

Overview of Telekom Austria Share Performance	2007	2006	2005
Stock price low in EUR	16.90	16.66	13.86
Stock price high in EUR	21.55	21.09	19.55
Stock price as of Dec. 31 in EUR	19.03	20.30	19.00
Earnings per share in EUR	1.09	1.19	0.84
Market capitalization in EUR billion	8.8	10.2	9.5
Average stock exchange turnover/day in EUR thousand	62,949	50,500	31,776
Number of shares issued	460,000,000	500,000,000	500,000,000
Number of outstanding shares as of Dec. 31,	442,211,742	461,692,527	482,502,894
Common Stock in EUR	1,003,260,000	1,090,500,000	1,090,500,000
Weighting ATX	10%	11%	14%
Weighting DJ Stoxx Telecom	1.3	1.8	1.6

Growth Puzzle – Example #4

Our expansion activities in eastern and southeastern Europe require major investments on our part, but at the same time they provide the basis for tomorrow's growth today. Thus, we are not going to let the grass grow under our feet!

Group Structure and Business Model

Operational Focus and Markets

The Telekom Austria Group is successfully positioned on international markets and in 2007 generated revenues totaling EUR 4,919.0 million. At year-end 2007 the Mobile Communication segment served approximately 15.4 million customers, while the Fixed Net segment had a total of 2.4 million access lines. The Telekom Austria Group operates in Austria, Bulgaria, Croatia, Slovenia, the Czech Republic and Liechtenstein and in the year under review also launched operations in Belarus, the Republic of Serbia and the Republic of Macedonia. Due the successful strategy of internationalization 36% of revenues (2006: 32%) and 31% (2006: 28%) of EBITDA were generated outside Austria in the reporting year.

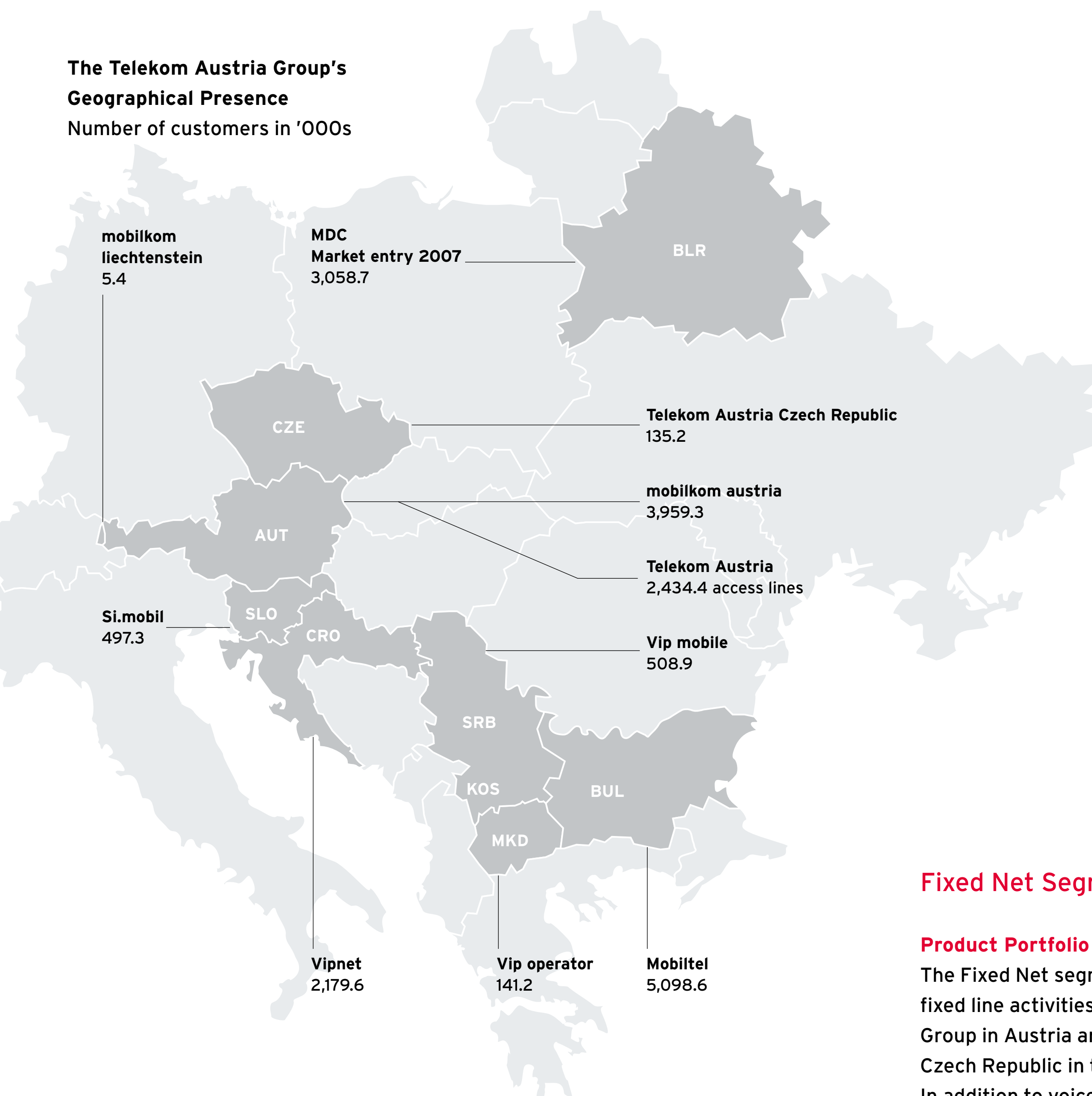
In 2007 we continued to consistently execute our strategy, creating strong growth potential by launching operations in the Republic of Serbia and the Republic of Macedonia.

Our entry into the Belarusian market with the acquisition of MDC once again demonstrated our pioneering role and further strengthened our growth profile in eastern and southeastern Europe.

"Creating Growth Potential with a Pioneering Spirit"

Boris Nemsic, Chairman of the Management Board

Overall, we expanded our subscriber base by 50.9% through organic growth and acquisitions.



Customer requirements and also market and competitive conditions have changed dramatically in recent years. In order to cope with these changes effectively, a new organizational structure was put in place, which was approved by the last Annual General Meeting on May 30, 2007 and confirmed by registration in the Register of Companies on July 10, 2007. Today the two operational segments Fixed Net and Mobile Communication operate under the umbrella of Telekom Austria AG, which is listed on the Vienna Stock Exchange. This management holding is responsible for setting the strategic focus, investor relations, international mergers and acquisitions, financial management including Group accounting and reporting, as well as for Group communications. The operational segments focus on their respective core businesses and customer needs.

Fixed Net Segment

Product Portfolio and Trends

The Fixed Net segment encompasses all fixed line activities of the Telekom Austria Group in Austria and of Telekom Austria Czech Republic in the Czech Republic. In addition to voice telephony its product portfolio includes data and IT solutions, Internet access and media, added-value services and wholesale. Revenues in the Fixed Net segment have declined slightly in recent years, due to migration to mobile communication networks and fierce competition. However, supported by acquisitions and higher revenues from the business areas wholesale voice telephony and Internet, data and IT solutions including wholesale, and Internet access and media, revenues in the year under review rose slightly.

Expansion and Challenges

In April 2007 the Telekom Austria Group purchased 100% of the common stock of the operating companies of eTel. This company offers voice telephony, Internet and data services and has wholesale operations in central and eastern Europe. In the Austrian fixed line market eTel had successfully established itself as a provider for small and medium-sized businesses.

The success of mobile communication has fundamentally altered the Fixed Net segment's business model. In Austria 75% of all calls are made via mobile phone, besides mobile broadband is increasingly used to access the Internet, and we expect this trend to continue.

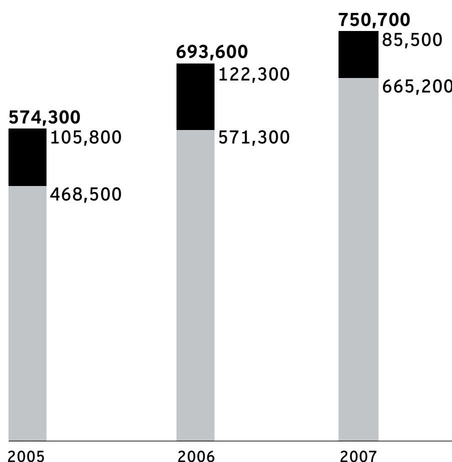
In this environment we have to safeguard the attractiveness of fixed access lines by continuously expanding our product portfolio beyond voice telephony and Internet services.

"We adjust to the requirements of the market"

Rudolf Fischer, Vice Chairman of the Management Board

We have taken important steps in this direction with the development of an attractive broadband product portfolio which offers constant and higher transfer speeds than mobile broadband and with aonTV, our innovative digital cable television service.

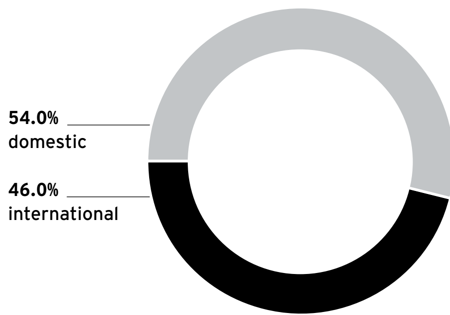
XDSL Access Lines



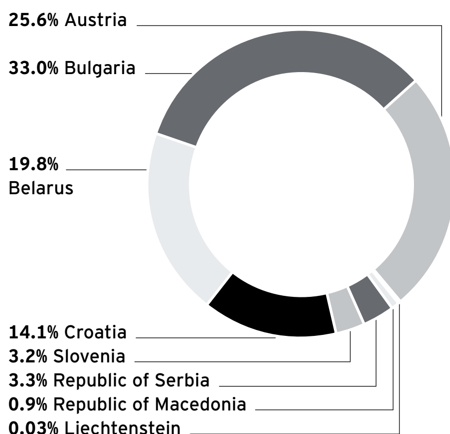
Safeguarding access lines remains the biggest operational challenge in the Fixed Net segment. In the year under review the number of fixed access lines declined from 2.6 to 2.4 million, reflecting the increased use of mobile communication. In 2007 the broadband market continued to stimulate growth, even though competition sharpened due to falling prices and higher mobile broadband bandwidths. The number of XDSL lines increased by 57,100 to 750,700. On the broadband market, customers are won through the development of an attractive portfolio of broadband products offered in combination with multimedia applications such as aonTV or products such as aonAlarmServices. Moreover, a service bundle featuring fixed line, broadband Internet and mobile telephony was successfully launched onto the market as part of a Christmas marketing offensive.

Mobile Communication Segment

Mobile Communication Revenues
domestic and international



Customer Structure Mobile Communication
in %



Growth through Internationalization

At year-end 2007 the segment had 15.4 million customers, 50.9% more than in the previous year. The percentage of customers served by companies outside Austria rose during the year under review from 64.5% to 74.4%, clearly demonstrating the dynamism of the internationalization process. This international focus is also reflected in the structure of the financial figures. In 2007 the international markets already generated 46% of the segment's revenues, up from 41% in the previous year.

Industry Trends and Success Factors

The most important factors behind the success of the Mobile Communication segment are its innovative strength, the quality of the segment's products and services as well as a network infrastructure with sufficient capacity and transmission quality. The value creation chain is developing vertically toward the data business. Despite a steady increase in voice minutes, average revenues per user declined in the 2007 financial year due to falling prices as a result of fierce competition as well as interventions by the regulator. The proportion of revenues generated by the data business rose by 20.2% to 23.2% compared to the previous year. This trend is also driving the emphasis on innovative data products and services in the area of product development.

In markets with high penetration rates such as Austria, Bulgaria and Croatia there is an increasing trend toward multiple SIM cards. By the end of the year, roughly 290,000 customers in Austria were using mobile broadband. Vodafone live! packages and mobile e-mail accounts via BlackBerry were also in heavy demand. In the voice telephony business the focus is on stabilizing the development of revenues and maintaining an attractive, economically sound tariff model. Measures to strengthen customer loyalty are becoming more and more important, especially in saturated markets. In order to address the growing low-price segment, a two-brand strategy was implemented in 2006 with "tomato" in Croatia and "bob" in Austria.

Internal Synergies

The structures and hierarchies of the Mobile Communication segment are essentially decentralized. In order to exploit synergies within the segment despite growing internationalization, a service company has been established to function as a link. It is responsible for the coordination of the partnership with Vodafone, the centralized steering of procurement and controlling, roaming issues and questions of network architecture or strategic aspects of human resources policy However, local requirements and specific features of the regional market are given priority in these cross-border activities.

mobilkom austria – Austria

In a highly competitive market mobilkom austria was able to win 328,800 new subscribers in the year under review and had approximately 4.0 million customers at year-end 2007. The penetration rate in Austria on the reporting date was 118.3%. Following a change in ownership at the third-largest operator One and despite the acquisition of tele.ring by T-Mobile in the previous year, competitive pressure has continued to grow. Despite this trend, mobilkom austria was able to expand its market share from 38.7% to 40.3%, increasing its competitive edge over its main rival.

MDC – Belarus

In October 2007 the Telekom Austria Group acquired a 70% stake in the Cypriot company SB Telecom, the owner of the Belarusian mobile communication operator MDC. Call and put options exercisable in Q4 of 2010 were agreed for the remaining 30% stake. MDC is the second-largest mobile communication provider in Belarus and operates under the brand names "Velcom" for postpaid services and "Privet" for prepaid services. With some 3.1 million customers MDC has a market share of approximately 43.4%. At year-end 2007 this market of 9.7 million people had a penetration rate of 71.5%.

Mobiltel – Bulgaria

With a 50.3% market share Mobiltel is the leader in a highly competitive market in which it competes against two other operators. In December 2007 Mobiltel passed the 5 million customer mark, registering 5.1 million customers at year-end. In terms of profitability, Mobiltel is one of the most successful operators in Europe. The company demonstrated its innovative strength in the year under review when it became the first operator to launch HSDPA 7.2 and HSUPA on the Bulgarian market.

Vipnet – Croatia

In 2007 Vipnet expanded its subscriber base by 14.0% to roughly 2.2 million customers, recording the highest growth on the Croatian market, which at year-end 2007 had a penetration rate of 114.9%. Vipnet once again confirmed its innovation leadership with products such as the Homebox and the Officebox, which was introduced in Q1 2007. The company also became the first to offer a "VIP over IP" service in Croatia, which combines traditional mobile telephony with Internet telephony.

Si.mobil – Slovenia

With approximately half a million customers Si.mobil is the second largest operator in the country and holds a 26.9% share of the market, which has a penetration rate of 92.2%. In addition to the market leader, which is currently up for sale, the company has four other competitors. In September 2007 Si.mobil launched its UMTS network which covers 25% of the Slovenian population and features HSDPA technology with bandwidths of up to 3.6 Mbit/s. This network expansion strengthens Si.mobil's data business and thus its position in the market.

Start-ups in the Republic of Serbia and the Republic of Macedonia

In order to sharpen the Telekom Austria Group's growth profile, mobile communication licenses for the Republic of Serbia and the Republic of Macedonia were acquired in November 2006 and February 2007, respectively. These acquisitions once again underlined the pioneering role played by the Telekom Austria Group. Both markets offer higher-than-average growth potential. Vip mobile in the Republic of Serbia launched operations in June 2007 and Vip operator in the Republic of Macedonia followed suit in September 2007. Thus, both companies had a successful start: At year-end 2007 Vip mobile already had 508,900 customers, while Vip operator in the Republic of Macedonia had 141,200 customers.

mobilkom liechtenstein – Liechtenstein

The Mobile Communication segment is represented in the Principality of Liechtenstein by mobilkom liechtenstein which with a 18.4% share is the market leader. mobilkom liechtenstein's technical basis and 5,400 customers enable the company to implement innovations and new services rapidly, thus gaining valuable experience for the segment as a whole.

Corporate Strategy

At a Glance

Growth from product innovations and expansion into new geographical markets

Balance between growth investments and shareholder remuneration

Telekom Austria Group Strategic Goals

The prime objective of the Telekom Austria Group is to steadily increase shareholder value. In accordance with this focus, the Group makes maximum use of internal synergies to optimize business performance and pursues a value-oriented policy of expansion. The two operating business segments require a differentiated implementation of this strategy.

The Fixed Net segment aims at safeguarding cash flow and developing innovative product areas. In the Mobile Communication segment the goal is to maintain the leading position in the domestic market and fully leverage the potential of existing international markets. At the same time, the development of product innovations and expansion into new geographical markets should safeguard growth. The Telekom Austria Group profits from the strong positioning of the two segments in Austria and is able to strengthen its presence with product packages which cut across segments. In addition to this operational integration, synergies are also exploited in the area of technology. Growth in subscriber numbers and traffic volume in the Mobile Communication segment as well as strict cost management should counteract the fierce competition in the domestic market.

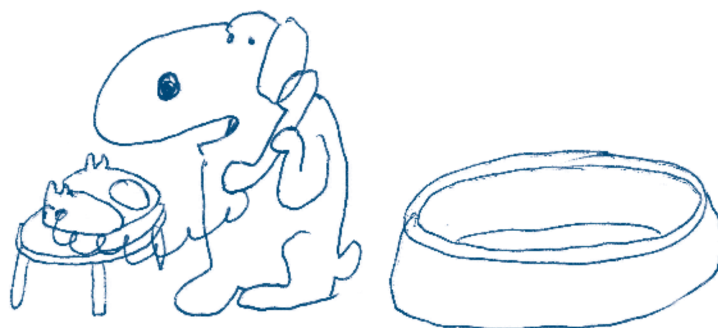
Between the initial public offering in November 2000 and December 31, 2007 the Telekom Austria Group almost doubled its market capitalization to approximately EUR 8.8 billion. Furthermore, with the hitherto implemented strategy of expansion important growth markets have been developed for the future.

Value Management

A balance between value-oriented growth investments and adequate shareholder remuneration is crucial for ensuring increased 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. In order to ensure a stable capital structure and healthy liquidity net debt to EBITDA may not exceed 2.0 times in the medium term. This limit may be temporarily exceeded for profitable investment projects provided that the minimum ratings of BBB stable/Baa 2 defined in the cash use policy are safeguarded.

This value management system allows an analytical evaluation of corporate decisions and their impact on total shareholder return. This represents the average annual interest rate that a shareholder receives for his invested capital and is calculated on the basis of share price appreciation and the dividend payment for the year. Between November 2000, the date of the IPO, and year-end 2007, total shareholder return for Telekom Austria AG shareholders averaged 14.2% per year.

For the purpose of internal corporate management, the return on invested capital (ROIC) is used to ensure that all growth investments and acquisitions are able to recoup at least the capital costs.



I've invented a giant bowl. How big is your biggest bone?

Telekom Austria shareholders can be confident that a balance between value-oriented growth investments and adequate shareholder remuneration will not leave them with an empty plate.

Strategic Goals Fixed Net Segment
Develop innovative business areas

Safeguard the existing core business

Migrate network infrastructures to ALLMediaNET

Fixed Net Segment

The Austrian fixed line market is highly competitive due to migration to mobile communication providers. This trend is attributable to low prices for mobile communications and the increased spreading of mobile broadband. Declining call volumes and subscriber lines, which fell by 7.7% and 7.9% respectively compared to the previous year, therefore pose the biggest challenge to the Fixed Net segment.

With 2.4 million subscriber lines and 750,700 broadband access lines (including wholesale access lines) the Fixed Net segment holds a strong position in the market, making it possible to establish new business areas, which help safeguard cash flow in the long term. As an integrated provider the Telekom Austria Group has a greater degree of flexibility and is able to offer both fixed line and mobile communication services from one source.

Top priority is given to designing and implementing measures which herald new and extended product lifecycles for the Fixed Net segment. Efforts to safeguard the core business encompass the development of an attractive broadband product portfolio in combination with multimedia applications such as aonTV, products such as aonAlarmServices, active product and price management as well as customer retention measures. Telekom Austria is responding to the convergence of the fixed line and mobile communication markets with attractive triple-play offers, such as the "KombiPaket" service bundle featuring fixed line, broadband Internet and mobile communication services, which was launched as part of a Christmas marketing offensive.

Business Solutions has a strong focus on providing solutions for customer-specific needs in the area of IT and applications.

In addition to these marketing measures, the Fixed Net segment pursues strict cost management in order to safeguard cash flow. At the same time, network infrastructures for voice, data and Internet are gradually being migrated to an integrated next-generation All-IP-based network, the ALLMediaNET. This network architecture makes it possible to offer convergent products, reduce network complexity and thus optimize the long-term development of costs.

Mobile Communication Segment

The Mobile Communication segment operates in Austria, Bulgaria, Belarus, Croatia, Slovenia, Liechtenstein, the Republic of Serbia and the Republic of Macedonia. These very different markets are managed taking into account regional peculiarities, while exploiting inter-segmental synergies through coordinated product development or uniform standards. This market-focused approach is also reflected in the high degree of autonomy enjoyed by the respective companies and individualized market approaches.

The segment's flat and efficient structures support rapid decision-making processes, the transfer of knowledge through the segment-wide deployment of experts and the utilization of synergies and economies of scale for procurement and the launch of new products. In order to successfully maintain its position as a regional player in the face of international competition, the Telekom Austria Group entered into a partnership with Vodafone in 2003, which does not entail any equity investment by either company.

Strategic Goals Mobile Communication Segment

Safeguard market leadership in Austria and fully leverage the potential of international activities

Increase usage through innovative data service

Explore further value-enhancing acquisitions

Realize synergies within the segment and the Telekom Austria Group

Continuously optimize the cost structure and improve efficiency

Eastern and southeastern Europe remains the prime target region for the expansion strategy. In addition to the acquisition of MDC in Belarus, operations were successfully launched in the Republic of Serbia and the Republic of Macedonia in the year under review. Efforts to enter the market in the Republic of Bosnia and Herzegovina will be continued.

The segment pursues a three-pronged strategic approach:

- A value-oriented acquisition policy focusing on attractive markets in eastern and southeastern Europe to safeguard cash flow growth.
- Increasing operating results remains the prime objective when integrating new companies. Tried-and-tested standards are implemented at these companies, although due consideration is given to local conditions.
- Product innovations and a target-group-oriented market approach are used to manage market shares. A multi-brand strategy should permit a differentiated approach when addressing specific customer segments, especially in markets with a high penetration rate. At the same time, an optimal combination of excellent network quality and selected product innovations such as HSUPA, NFC, mobile television, voice over IP or the expanded Vodafone live! product portfolio guarantees high levels of customer satisfaction. It is also essential to continuously improve efficiency and effectiveness and thus profitability by consistently optimizing cost structures and pursuing a prudent investment strategy.

The acquisition of MDC in Belarus represented another successful step in the expansion of the Telekom Austria Group and once again proved the group's ability to rapidly integrate new companies. An integration team has been working at the new company since October 2007 and is involved in all relevant corporate decision-making to ensure the rapid implementation of segment standards for working methods and processes, corporate governance and reporting. Other important strategic measures focus on expanding marketing activities and safeguarding sales structures. The company was consolidated into the Mobile Communication segment as of the beginning of October 2007.

Two other expansion projects also confirm the Telekom Austria Group's pioneering spirit and rapid implementation of strategic projects. Vip mobile in the Republic of Serbia commenced operations after only six months. First of all a prepaid offer was introduced, followed only three and a half months later by contract customer products. In the business customer area Vip mobile became the first operator in the country to introduce BlackBerry services. In the Republic of Macedonia, Vip operator introduced a prepaid service within only six months, immediately stimulating competition; contract-customer products were already available seven weeks after operations had been launched. Both operators have therefore been able to comply with the license requirements and achieve a rapid market launch. The next measures will focus on successfully servicing the market, local regulation as the framework for fair competition and on expanding the company's own infrastructure.

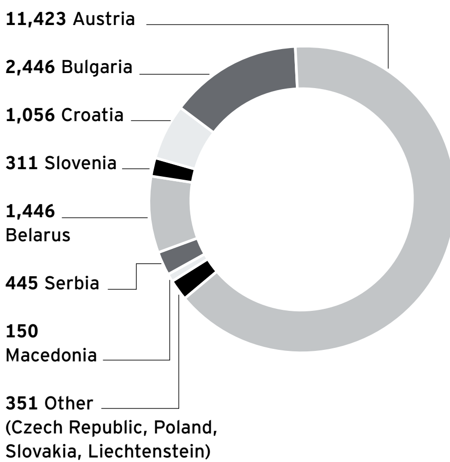
Human Resources

At a Glance

High investments in continuing education and further training

Promotion of inter-segmental and cross-border perspectives

Number of Employees by Country



Customer Service Culture

Telekom Austria Group's innovative and reliable product portfolio forms the basis for its successful positioning in a highly competitive market. Absolute customer focus by all employees and quality of service are imperative and must be guaranteed by all business units. In the Fixed Net segment, approximately 48% of all employees work directly at the customer interface, where they play an important role in safeguarding the core business. In the year under review the Mobile Communication segment registered some 200 million contacts with customers. Thus, it is of vital importance to achieve success with customers and to win them with quality and service leadership.

Qualifications and Expertise

It is only possible to keep up with the rapid pace of development in the ICT industry if employees have the necessary expertise. The Telekom Austria Group, therefore, gives high priority to providing an extensive range of continuing education and further training programs for its staff. In the 2007 financial year, some EUR 14.3 million, the equivalent of EUR 889 per employee, was invested in continuing education and further training.

In the Fixed Net segment, ICT certification provides technical staff working in customer relationship management with a solid opportunity for further education. The sales units have also expanded their programs which combine theoretical courses with practical on-the-job training. On average employees in the Fixed Net segment (including apprentice trainees) spent eight working days attending further education and training courses. Given the need to meet future demand for skilled workers, the Fixed Net segment attaches particular importance to its apprentice training program, which at year-end 2007 included a total of 262 young people, 74 of whom were women. This program also offers the possibility of taking the vocational matriculation examination.

At the Mobile Communication segment further training activities in the year under review focused on management training for heads of department, a high potentials program, the harmonization of project management training and courses designed to improve customer relationship management. On average, roughly 5 working days per employee were spent on further education and training courses.

Internal Flexibilization and Experience Sharing

Due to the increasing internationalization of the Telekom Austria Group and its operational organization in two segments, high priority is given to fostering inter-segmental and cross-border perspectives. A group-wide job market platform not only facilitates a more flexible deployment of human resources, it also keeps valuable expertise within the company by making it possible to fill vacancies internally. In the year under review, mobilkom austria was able to fill around 40% of vacancies from within the Group, while the Fixed Net segment was able to fill approximately 70%. The Mobile Communication segment has also expanded its existing program x.change, which permits a variety of job rotations ranging from brief assignments in other departments within the employees' own business unit to three month international placements elsewhere within the segment. During the successful expansion of this segment a pool of experienced and well-qualified employees was formed, who can be deployed to newly acquired or established companies if necessary. Recruitment and talent management also place a strong emphasis on a willingness and ability to work abroad.

of course it's much
too big for the office,
but it stands in for
me when I'm on holiday

Even in our dynamic markets there is no challenge too big for our staff thanks to our intensive program of further education and professional training designed to safeguard our position as the service and innovation leader.

Performance-Based Remuneration

The Telekom Austria Group has implemented a variety of instruments and measures which are designed to link employees' interests with the company's general strategic goals. Increasing use is being made of individual performance contracts and bonus schemes which promote a performance-oriented work ethic and allow employees to share in the overall success of the company. Managers in the Mobile Communication segment, for example, conduct three appraisals per year with their staff, which also include a professional orientation and potential analysis.

Internal communication is vitally important for forging a common corporate culture and promoting deeper employee involvement. Regular staff magazines at each business segment deliver background reports on the development of the company and its markets, and supplement the information communicated to employees via the Intranet or e-mail.

In December 2006 an Employee Participation Program was introduced for all employees in Austria, under which they will receive a number of Telekom Austria shares – the exact number to be determined by the Supervisory Board – each year until 2010. In 2004 a multi-year Employee Stock Option Program (ESOP) was introduced for members of the Management Board and other key executives. The circle of eligible participants is redefined each year and in 2007 roughly 300 Telekom Austria Group employees were included in the scheme. Besides enhancing profitability – the options can only be exercised if earnings per share reach a defined target value – this program combines the objective of continuously increasing the company's stock market value with the remuneration of the management.

Furthermore, all members of the Austrian workforce with permanent employment contracts are covered by a company pension plan, to which the company currently contributes 5% of the employees' monthly salaries. Voluntary social benefits include childcare facilities, company canteens or lunch vouchers, shopping discounts at company retail outlets and reduced tariff models for employees. The company's sense of responsibility, however, is also reflected in the area of healthcare – besides taking account of ergonomic and safety aspects when designing workplaces, company doctors also offer regular free vaccination programs.

Equal Opportunities

The Telekom Austria Group is committed to treating all of its employees equally. Thus, the Fixed Net segment has a team of ten employees working to ensure equal opportunities for their female colleagues. The Mobile Communication segment has developed support programs to ease the transition back into the workplace of mothers after maternity leave. In 2007 women accounted for one third of employees at the Telekom Austria Group in Austria. The proportion of women in the Fixed Net segment was approximately 23% and in the Mobile Communication segment 48%.

The Telekom Austria Group has assigned a number of employees to take care of the special needs of colleagues with disabilities and to ensure that workplaces are adapted to make them accessible to disabled workers. The integration of these employees not only testifies to the Telekom Austria Group's sense of social

responsibility, it also makes an important contribution to the development of a humane and sensitive corporate culture.

At year-end 2007 the Telekom Austria Group had 17,628 employees, 14.3% or 2,200 more than in the previous year. 1,446 of these are employed at MDC in Belarus. The size of the workforce at the Fixed Net segment in the reporting year grew by 1.7%, due to the acquisition of eTel, and now accounts for 54.4% of Group employees. In the Mobile Communication segment, expansion led to a 33.9% increase in the size of the workforce to 8,030 employees – 73.1% of whom are employed by companies outside Austria. As of December 31, 2007, 37.9% of the workforce had civil service status (2006: 43.8%).

Due to the consolidation of MDC, which commenced in Q4 2007, revenues per employee fell by 0.5% to EUR 305,718; EBITDA per employee declined by 6.6% to EUR 115,283. In the Mobile Communication segment the number of customers per employee improved by 12.7%. However, in the Fixed Net segment, the number of fixed access lines per employee fell by 9.3% due to continuing migration to mobile networks.

Headcount Development in the Fixed Net Segment

In order to safeguard earnings power in the Fixed Net segment and adapt its inherited personnel structure to current business needs, it is necessary to reduce the size of the workforce. In previous years a number of personnel restructuring schemes have been implemented both successfully and in a socially-compatible manner. This approach was continued in 2007 with an attractive severance payment scheme. As of 2008 members of staff who lose their jobs as a result of restructuring measures will also be able to take advantage of another scheme, which will allow them to find a new professional focus while reducing employee costs for the company. They can take on outside employment while retaining all their existing rights. The scope for models involving unpaid leave has been increased following a change in the law, which will allow unpaid leave for civil servants to be reckonable for pension purposes and other time-related benefits as of 2008.

Personnel Development by Segment

Full-time employees at year-end	**2007**	**2006**	**Change in %**
Fixed Net segment	9,598	9,433	+1.7
Mobile Communication segment	8,030	5,995	+33.9
Telekom Austria Group	17,628	15,428	+14.3
of which in Austria	11,423	11,413	+0.1

Productivity Figures	**2007**	**2006**	**Change in %**
Revenues per employee in EUR	305,718	307,210	-0.5
EBITDA per employee in EUR	115,283	123,378	-6.6
Fixed lines per Fixed Net employee	254	280	-9.3
Mobile communication customers per Mobile communication employee	1,924	1,707	+12.7

Growth Puzzle – Example #7

Be it in research initiatives, product development or employee qualifications – the most important objective is always to enhance customer value, because this is the only way to achieve continuous growth.

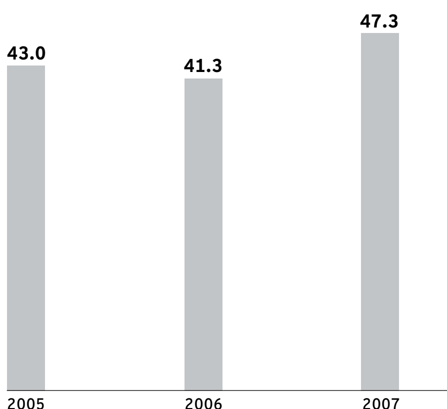
Innovation and Technology

At a Glance
EUR 47.3 million invested in R&D

Product innovations enhance attractiveness of fixed access lines

Studies confirm quality leadership of network infrastructure

Expenses for Research and Development
in EUR million



Objectives

Innovation activities at the Telekom Austria Group enable the early identification of technologies with strong growth potential with a view to satisfying current and future customer needs and opening up new areas of business. This research and development work focuses on specifically enhancing customer convenience and thus makes a crucial contribution to technological progress in Telekom Austria Group markets. In the year under review investments in research and development totaled EUR 47.3 million, compared to EUR 41.3 million in 2006.

Key Areas in Research and Development – Fixed Net

The Fixed Net segment continuously invests in the further development of its network infrastructure and is pushing ahead with the implementation of an IP-based infrastructure. Furthermore, backbone and access technologies as well as open media platforms should safeguard free and unhindered user access to information and content. At the same time, the company also seeks to increase the attractiveness of fixed access lines by expanding its product portfolio. In the reporting year it responded to customer demand for integrated communications solutions by introducing an attractive product package comprising fixed line telephony, broadband Internet and mobile communication within the framework of a promotional campaign.

The television service launched in the previous year, aonTV, remained a key focus of innovation in 2007 and is central to the segment's multimedia activities. Parallel to increasing marketing activities for aonTV and expanding the range of programs, the service's performance features were also developed further. aonTV allows the customer to interact with the television system opening up a multitude of new possibilities. Moreover, the project "Personalized Television" makes it possible for the first time to determine the identity of the viewer using a fingerprint detector incorporated into the remote control. This provides the user with more convenient access and lets them find their personalized settings more quickly.

The Upper Austrian town of Engerwitzdorf is serving as a test bed for the EU research project "Citizen Media". The opportunities and possibilities that broadband technology offers for regional communication are being tested and evaluated on the basis of the Telekom Austria Group's aonTV platform.

Innovations – Mobile Communication Segment

Innovation and development work at the Mobile Communication segment concentrates on increasing the quality and capacity of network infrastructure, and on providing innovative and market-oriented products. A study by the Institute of Broadband Communications of the Vienna University, for example, confirmed for the seventh time in a row, that mobilkom austria has the best network and quality leadership in the market. A further study confirmed that mobilkom austria offers its customers Austria's fastest network with the shortest upload and download times for data applications.

Innovation Highlights in 2007

Fixed Net Segment
February Presentation of the Telekom Austria Cube – an innovative TV remote control – which works with movements such as tilting and turning

July Expansion of the Austrian high-speed science network ACOnet

August Completion of the roll-out of aonTV in provincial capitals throughout Austria

November Completion of technical preparations for ICT infrastructure with a transport capacity of 90 Gbit/s for UEFA EURO 2008™

Mobile Communication Segment
January Start of test phase of mobile TV based on DVB-H technology

February First provider in Europe to offer HSDPA 7.2 and HSUPA

February A1 over IP goes into operation

September Launch of NFC Services

Following the integration of HSDPA and HSUPA technology in 2006, offering upload speeds of up to 1.4 Mbit/s, the world's first hardware for this technology was made available to Austrian customers in early 2007. The strong growth and the frequent usage of mobile high-speed broadband services clearly demonstrate that customer demand for such services is considerable. High-definition mobile television technology via live streaming impresses with its extremely sharp images and offers TV entertainment also on UMTS mobile phones. In early 2007 mobilkom austria started a trial to test mobile TV based on DVB-H (Digital Video Broadcasting – Handheld) technology. This trial demonstrated customer interest and provided valuable feedback for further product development in the area of mobile TV services.

In 2007 several international awards once again confirmed the innovative strength of the Mobile Communication segment. Awards for innovative products were received, for example, at the world's largest mobile communication exhibition (GSMA Award) and at the Mobility Award 2007 for the product "md-sales" – a solution for sales applications in the area of logistics and customer relationship management. A1 over IP received the GTB Innovation Award 2007 as the world's most innovative product, which combines traditional mobile telephony with Internet telephony.

Following the successful field trial with Near Field Communications (NFC) technology, a contactless transmission technology, mobilkom austria joined forces with other renowned industry representatives to launch the world's largest range of commercial NFC services on the Austrian market. NFC services make many everyday activities such as the purchase of parking vouchers or public transport tickets even easier, requiring nothing more than a flick of the wrist.

R&D Partnerships

The dynamics and complexity of the ICT industry make it hard for a single company to develop market-oriented products and services on its own. The Telekom Austria Group therefore maintains an extensive network of partners which includes scientific institutions, other companies, customers and incubators. The partnership established with Vodafone several years ago, for example, has enabled the Group to participate in global development projects in the mobile communication industry and in product innovation such as Vodafone live!.

Moreover, institutions such as the Telecommunications Research Center Vienna (ftw) actively promote the consistent bundling of scientific and applied research with the development competence of leading industrial companies.

"Open Innovation" is another important approach that has been adopted by the Fixed Net segment as part of its innovation process. In 2007 the net.culture.labs were established in Vienna and Dornbirn at the initiative of the Telekom Austria Group. Their purpose is to work together on a project basis with young software developers and other important players on the digital culture scene to transform innovative ideas into prototypes.

Internationally, the Telekom Austria Group is represented in competence networks such as Eurescom, ETSI, ITU, BSF, the UMTS-Forum, OMA and 3GPP and also participates in R&D support projects within the framework of the EU Information Society Technologies (IST) program.

Sustainability

At a Glance
Increasing and safeguarding shareholder value in the long term

CSR initiatives and environmental protection measures demonstrate commitment to sustainability

Social Sponsorship (Selection)
Light into Darkness (Austria)
Doctors without Borders (Austria)
Breast Cancer Initiative Pink Ribbon (Austria)
mirno more peace flotilla (Austria)
Saferinternet.at (Austria)
147 "Rat auf Draht" (Austria)
Face to Face Bulgaria (Bulgaria)
SOS-Kinderdorf (Bulgaria)
Eyes on four paws (Bulgaria)
Mobility.Communication.Life
Mine clearance (Croatia)
Long-term support of regional healthcare centers (Croatia)
Policlinic SUVAG (Croatia)
Cooperation with the Road Safety Council (Slovenia)
UNICEF and CARITAS Christmas projects (Serbia)
Support for flood victims in the Vojvodina (Serbia)

Arts and Educational Sponsorship (Selection)
Grafenegg Music Festival (Austria)
VIENNALE (Austria)
net.culture.space (Austria)
Life Ball (Austria)
Children's University Vienna (Austria)
M-Tel Contemporary Bulgarian Art Awards (Bulgaria)
Dubrovnik Summer Festival (Croatia)
Zagreb Film Festival (Croatia)
SOS-Kinderdorf (Macedonia)
Be a Vip Student (Serbia)

Sports Sponsorship (Selection)
Austrian Ski Federation (Austria)
UEFA EURO 2008™ (Austria)
A1 Beach Volleyball Team (Austria)
Austrian Paralympic Committee (Austria)
Austrian Golf Association (Austria)
Open Water Swimming – Petar Stoychev (Bulgaria)
M-Tel Masters – Chess Tournament (Bulgaria)
Top 3 Croatian Tennis Players (Croatia)
Vip Open – Beach Volleyball World Series (Croatia)
Croatian Alpine Ski Association (Croatia)

Objectives
The strategy of the Telekom Austria Group is directed toward achieving a sustained increase in shareholder value. However, the company rejects the maxim of unconditional growth in scale, instead choosing to focus on value-oriented growth which gives consideration to social and regional conditions. Adherence to the principles of sustainability should enable the environmentally-friendly, socially just and economically efficient development of the value creation chain. In addition to continuous internal communication with employees, a goal-oriented consultation process with all stakeholders is an important aspect of this approach. Besides regular meetings with investors and analysts, the Telekom Austria Group endeavors to continuously intensify the exchange of views with consumer protection organizations and the public. Telekom Austria AG was one of the first companies to be listed in the FTSE4Good index introduced in 2001, which recommends companies that demonstrate a high degree of corporate and social responsibility. The company has also been included in the first Austrian sustainability index, VÖNIX, since it was launched in 2005. Since 2001 the Telekom Austria Group has documented its sustainability activities in sustainability reports which are available for downloading at www.telekomaustria.com under the menu item "Responsibility".

Codes of Conduct
The Group's strategy focused on the sustained enhancement of corporate value, effective corporate governance mechanisms as well as the Group-wide implementation of internal control systems aim at ensuring economic sustainability. Defined corporate values and business principles form important elements of the corporate culture at the Telekom Austria Group and along with compliance guidelines provide employees with a binding framework for actions in their everyday working lives.

Responsible Use of the New Media
Mobile communication and the Internet have become indispensible features of professional and private life and also play an integral role in the daily activities of children and adolescents. In Austria the Telekom Austria Group has joined forces with educators and interest groups in initiatives such as Saferinternet.at, Handywissen.at, ROUNDABOUT KIDS or the mobile phone guide to support children and their parents in making responsible use of the new media and communications technologies. Furthermore, in 2007 mobilkom austria, Mobiltel in Bulgaria and Si.mobil in Slovenia signed the European Framework on Safer Mobile Use by Younger Teenagers and Children initiated by the European Union, under which mobile operators will develop a self-regulatory code of conduct designed to protect minors.

Overcoming the Digital Divide
Access to information is an essential driver of growth and prosperity. Nobody should therefore be excluded from this development, be it for geographic or social reasons. Long-standing partnerships between the Fixed Net segment and the Austrian Council of Senior Citizens and the Austrian Blind Union aim to familiarize these target groups with new technologies. In cooperation with the Ministry of Education, Art and Culture and the Saferinternet.at initiative, a pilot project was launched at Austrian high schools in 2007 in order to investigate the opportunities offered by Web 2.0 in school tuition. Four computer training centers in Kenya were equipped in partnership with the development organization ICEP and Microsoft Austria.

Sustainability Highlights 2007

January Mobiltel "adopts" a Bulgarian SOS-Kinderdorf family

March Vipnet signs the UN Global Compact. This UN initiative requires the recognition and practical implementation of a catalogue of basic principles

May The Slovenian Ministry of Labor, Family and Social Affairs certified Si.mobil as a family-friendly company

June mobilkom austria signs the European Framework on Safer Mobile Use by Younger Teenagers and Children

July The establishment of Vip mobile creates 1,500 new jobs in Serbia through partnerships and joint activities with trading partners

September Internal information campaign at mobilkom austria to reduce energy consumption

October The Telekom Austria Group publishes its third sustainability report

November Active climate protection becomes the first topic of Telekom Austria Fixed Net's "Climate Dialogue"

December Scholarship program of Vip mobile: Be a Vip student

Environmental Protection Measures

Environmental protection at the Telekom Austria Group is the responsibility of the operational companies. In the Fixed Net segment all operational issues relating to environmental protection, from drawing up environmentally-compatible purchasing terms to environmental controlling, fall under the remit of the Chief Financial Officer. At mobilkom austria environmental protection is handled by several different departments. The international subsidiaries of the Mobile Communication segment have also implemented a series of environmental protection measures, such as recycling, waste separation and resource optimization. The Croatian subsidiary Vipnet, for example, also uses solar and wind power to operate its base stations and has introduced a state-of-the-art building management system to regulate temperatures at its headquarters.

Modern Technologies for Climate Protection

Mobile communication and broadband also have enormous potential to make an active contribution to climate protection. Video conferences, teleworking and electronic services such as e-government solutions help eliminate travel, thus reducing CO_2 emissions. However, the Telekom Austria Group is also aware that these technologies, which require higher capacities, will lead to increased power usage and is therefore strengthening its efforts to curb the level of energy consumption. In the Fixed Net segment energy-saving air-conditioning systems are used to cool technical equipment, buildings are being gradually equipped with thermal insulation and – where possible – connected to environmentally-friendly district heating networks. In the Mobile Communication segment mobilkom austria is systematically examining the energy-saving potential of all installations which consume large amounts of electricity, such as radio networks or computer centers. Starting in 2008 out-dated air-conditioning units at radio sites will be replaced by intelligent climate control systems while thermal insulation at computer centers will be improved.

The Environment and Mobile Communication

In 2007 several scientific studies on the impact of electromagnetic fields on human health were published – an overview is provided by the Research Center for Bioelectromagnetic Interaction at www.emf-portal.de. A large number of national agencies as well as the European Commission's Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) have concluded that "no health effect has been consistently demonstrated at exposure levels below the limits established in 1998". The limit values recommended by the World Health Organization represents an important standard for the Telekom Austria Group. They foresee a safety factor of 50 for sensitive groups such as children, the sick and the elderly. The Mobile Communication segment will standardize the safety standards for electromagnetic fields at all international subsidiaries on the basis of a new Electromagnetic Fields guideline by the end of 2008.

Social Commitment

The Telekom Austria Group's sponsorship activities focus on long-term partnerships, which, besides building brand image, demonstrate the company's wide-ranging social commitment. Projects are chosen by the individual Group companies as they are more familiar with local needs and conditions.

Growth Puzzle – Example #8

Sorry, you'll have to wait 'til autumn for cheese

In 2007 the acquisition of the mobile operator MDC in Belarus is only reflected in Q4 results. However, thanks to three million new customers we are now anticipating pleasing contributions to revenues and results. Say Cheese!

Group Management Report 2007

Strong Economic Upturn in All Markets

In 2007 the Austrian economy managed to maintain its robust momentum from the previous year, with GDP rising 3.4% in real terms following 3.2% in 2006. In defiance of the weak dollar, the Austrian export sector benefited from the country's geographical proximity to the flourishing economies of Central and Eastern Europe and was once again the principal growth-driver. However, the economic boom had already passed its peak by the middle of the year. According to Eurostat unemployment in Austria declined from 4.9% to 4.3%, while inflation rose from 1.7% to 1.9% due to rising energy prices. Growth rates in the other countries in which the Telekom Austria Group operates were also higher than the European average. Bulgaria boasts a real growth rate of 6.2%, Belarus of 7.8%, Croatia of 5.5%, the Czech Republic of 5.9%, the Republic of Serbia of 6.5%, Slovenia of 5.7% and the Republic of Macedonia of 5.0%.

Dynamic Environment for Both Segments

For the Telekom Austria Group the 2007 business year was marked by a further intensification of competition. The differing intensity of this development and the structures of the individual markets are reflected in two different trends. The international business units continued to show dynamic development. In Austria a fierce price war in the highly competitive mobile communication market and a decline in the number of fixed access lines due to continuing migration to mobile networks limited growth opportunities for both segments.

The introduction of flat-rate tariffs for voice telephony by all mobile communication operators in Austria propelled fixed-to-mobile substitution, accelerating the decline in the volume of voice traffic carried by the fixed line network which fell by 13.3% to 7.2 billion minutes in 2007. The percentage of calls carried over mobile communication networks reached a level that, at roughly 75%, is well above the comparative figures in other European countries. Furthermore, advances in 3G technology which enable higher-value mobile broadband services, led to stronger fixed-to-mobile substitution in the area of broadband Internet access. As a result, mobile broadband products achieved considerably higher growth rates than the fixed net XDSL offerings in the year under review.

These market characteristics have put increasing pressure on the Austrian telecommunication market to consolidate itself, a pressure the Telekom Austria Group has been successfully able to exploit. In April 2007 the competition authorities approved Telekom Austria Group's acquisition of eTel, a company which offers voice telephony, Internet and data services and which had wholesale operations in Central and Eastern Europe. In October 2007 the Telekom Austria Group agreed to take over the Austrian mobile communication subsidiary of Tele2 with approximately 130,000, mostly prepaid customers, subject to the approval of the Austrian antitrust authority.

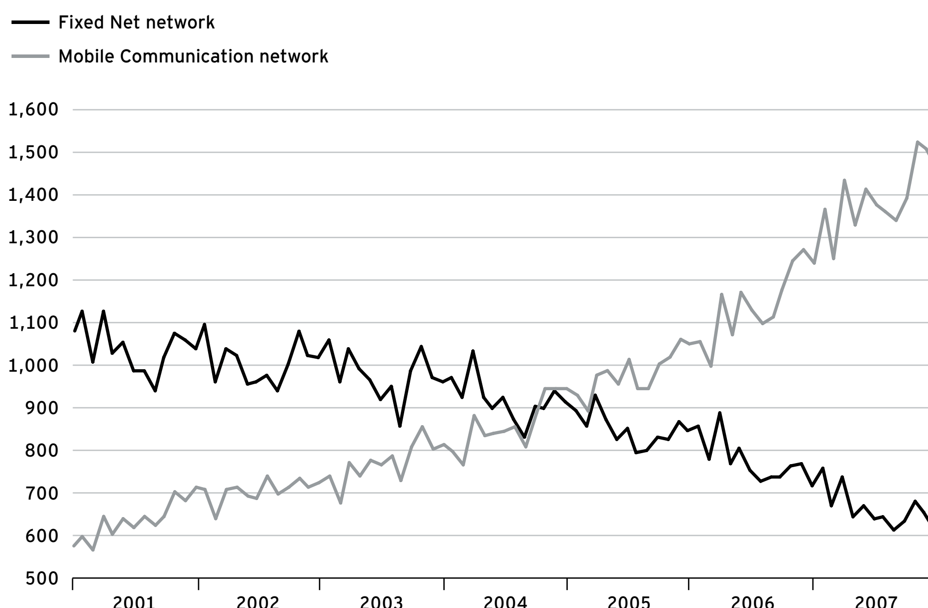
The Mobile Communication segment has also developed very dynamically. All Telekom Austria Group companies operating in this business area have been able to increase their subscriber bases, despite penetration rates which are sometimes in excess of 100%. Steps to strengthen the growth profile of the Telekom Austria Group were taken in July 2007 when

Vip mobile launched operations in the Republic of Serbia followed in September 2007 by the launch of Vip operator in the Republic of Macedonia. Continuing its strategy of expansion the Telekom Austria Group acquired a 70% stake in SB Telecom Limited, which holds 100% of the Belarusian mobile operator MDC.

Telekom Austria Group's Market Positioning

Safeguarding subscriber lines in order to ensure a strong cash flow remained the prime objective in the Fixed Net segment in 2007. The development of an attractive portfolio of broadband products and applications such as aonTV and aonAlarmServices, active product and price management as well as measures to strengthen customer loyalty are all designed to safeguard the core business. In the Mobile Communication segment growth is generated by increasing the customer base and through attractive data products. Moreover, in the highly penetrated Austrian and Croatian markets local companies pursue a two-brand strategy in order to target diverse customer segments.

Development of
Voice Telephony Volumes in Austria
in the Fixed Net and Mobile Communication Networks
(in millions of minutes per month)



Important Regulatory Decisions

Fixed Net

A regulatory review of the Austrian telecommunications markets resulted in a reduction of the regulation intensity in the retail voice telephony markets in 2007. Ex-ante regulation of the wholesale market for transit services was completely abolished.

In the reporting year the European Commission revised its list of telecommunications markets which are to be subject to regulation. As a result, 11 of the 18 previously regulated markets will no longer be subject to ex-ante regulation. This proposed deregulation measure, which is expected to take effect in Austria in mid 2008, will not have much impact, especially on the wholesale markets, as the markets for leased line trunk segments and transit services are no longer subject to ex-ante regulation.

As required by law the EU regulatory framework for the telecommunications industry, which has been in force since 2002, was subjected to review in 2007. The European Commission then published its proposals for reform in November 2007. An amendment of the Austrian Telecommunications Act on the basis of the final legal framework is not expected before 2010.

The acquisition of 100% of the share capital of eTel by the Telekom Austria Group required the approval of the competition authorities. This was given subject to a number of conditions which mainly related to the infrastructure of eTel Austria such as the sale of the fiber optic ring and the return of WLL licenses.

Mobile Communication

At the end of June 2007 an EU regulation came into force restricting the ability of mobile communication operators to set the prices for voice roaming. A price ceiling of 30 cents per minute was set on wholesale prices and retail prices for dialing out were capped at a maximum of 49 cents per minute. Charges for receiving a call were limited to 24 cents. The regulation will expire on June 30, 2010 but envisages further price reductions at both the wholesale and retail levels.

Concepts for the possible regulation of data roaming charges will be presented in 2008. mobilkom austria has already actively responded to this regulatory intervention with the introduction of new tariff options in 2007. In October 2007 the Austrian regulatory authority announced the adoption of the final schedule for the gradual reduction of termination charges between mobile operators. Termination charges for all mobile communication operators will now be successively reduced until a uniform charge of 5.72 cents has been reached on January 1, 2009. mobilkom austria in fact achieved this target value in January 2008.

In Bulgaria an Electronic Communications Act implementing the EU regulatory framework from 2002 came into force in 2007. Agreement was also reached between the regulator and the mobile communication operators regarding the framework for the introduction of number portability, which is expected in the first half of 2008.

In accordance with a regulatory decision taken in 2005, termination charges for all mobile communication operators in Croatia have been regulated until the end of 2008. In 2007 the Croatian regulator established that Vipnet's fixed net substitute Homebox Service complied with regulations and could remain on the market. A new law governing electronic communications which will bring about full harmonization with EU law is expected to come into force in the first half of 2008.

In Slovenia the regulatory authority has slightly lowered asymmetrical interconnection charges for access to the former monopolist's network and presented a gliding path model to achieve symmetry by April 2009, subject to further market analyses.

In Serbia the creation of the Ministry for Telecommunications and Information Society was a positive sign of a willingness to liberalize the market and promote regulation.

In November 2007 the Macedonian Agency for Electronic Communications announced that it was inviting tenders for UMTS frequencies. In December 2007 it established that the two existing providers held significant market power. They were therefore required to make preparations for a standard interconnection charge based on actual costs. This is regarded as the first step towards the introduction of an asymmetrical mobile termination rate in the first half of 2008.

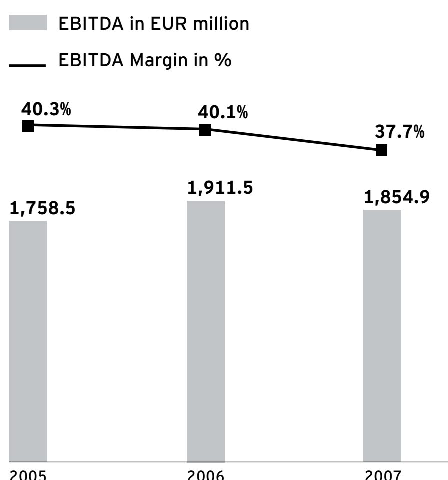
Modified Segment Structure

Segment reporting at the Telekom Austria Group was modified at the start of 2007. The Fixed Net segment essentially corresponds to the former wireline business and Mobile Communication to the former wireless segment. The newly established Holding and Other segment is responsible for carrying out holding functions and financing tasks. For comparative purposes data from previous years have been adjusted.

Growth Puzzle – Example #9

Not all matches work out as well as those within the Telekom Austria Group. In fact, our cross-border cooperation is a major success factor in leveraging synergies.

Development of EBITDA and EBITDA Margin



Development of Results

In the financial year 2007 the Telekom Austria Group increased operating revenues by 3.3% to EUR 4,919.0 million. Due to acquisitions and higher revenues in the data, wholesale and Internet businesses, the Fixed Net segment was able to compensate for the sustained decline in voice telephony and increase overall revenues by 0.6% to EUR 2,133.0 million. Revenues at the Mobile Communication segment rose by 4.6% to EUR 3,035.1 million, due to the dynamic development of the international companies and the first-time consolidation of MDC in Q4.

Telekom Austria Group's international activities increased their contribution to overall revenues by 4.0 percentage points to 35.9% and to EBITDA by 2.7 percentage points to 31.0%.

The 5.3% increase in material expenses to EUR 405.7 million was due to higher sales of handsets in the Mobile Communication segment and technologically more sophisticated merchandise in the Fixed Net segment.

Financial Figures (in EUR million)	2007	2006	Change in %
Revenues	4,919.0	4,759.6	+3.3
EBITDA	1,854.9	1,911.5	-3.0
Operating Income	761.4	777.1	-2.0
Net Income	492.5	561.8	-12.3
Earnings per share in EUR	1.09	1.19	-8.4
Capital Expenditures	851.3	996.7	-14.6
Net Debt	4,407.2	3,169.0	+39.1

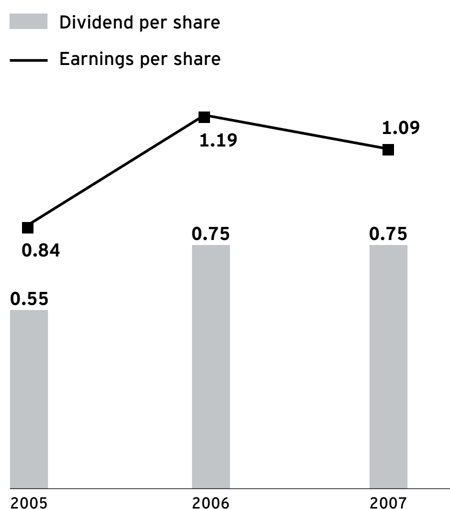
Operating Expenses (in EUR million)	2007	2006	Change in %
Material expenses	405.7	385.2	+5.3
Employee costs	797.8	763.1	+4.5
Depreciation, amortization and impairment charges	1,093.5	1,134.4	-3.6
Other operating expenses	1,945.7	1,759.1	+10.6

Total employee costs rose by 4.5% to EUR 797.8 million due to a 14.3% increase in the size of the workforce to 17,628 employees. The 3.8% increase in the Fixed Net segment was attributable to expenses for severance payments amounting to EUR 13.4 million, wage increases under the collective bargaining agreement and an increase in the size of the workforce as a result of acquisitions. Employee costs in the Mobile Communication segment rose by 8.8% due to the consolidation of MDC and the establishment of new companies in the Republic of Serbia and the Republic of Macedonia.

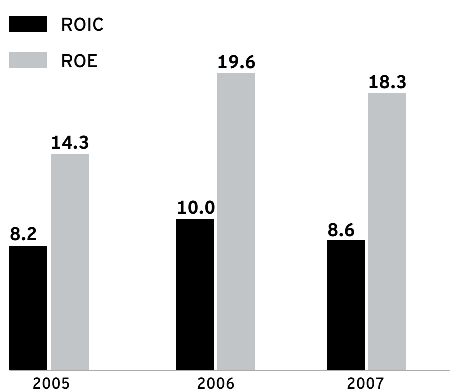
Total other operating expenses increased by 10.6% to EUR 1,945.7 million compared to the previous year. The expenses from interconnections included in this item rose, driven by considerable growth in traffic at the international companies. Additional expenses were incurred in the Mobile Communication segment as a result of extensive marketing and sales activities for the purposes of customer acquisition and retention. In the Fixed Net segment the expenses for services received increased in order to provide for the expansion of the product portfolio; the level of spending on repairs and maintenance, however, was reduced.

The increase in expenses described above led to a 3.0% decline in EBITDA to EUR 1,854.9 million, with a stable trend in the Mobile Communication segment compensating for a 6.3% decline in the Fixed Net segment. The EBITDA margin decreased from 40.1% to 37.7% due to the start-up costs of new subsidiaries in the Mobile Communication segment and higher expenses in the Fixed Net segment.

Dividends and Earnings per Share
in EUR



Return on Invested Capital (ROIC) and Return on Equity (ROE)
in %



Depreciation, amortization and impairment charges amounted to EUR 1,093.5 million in 2007, 3.6% lower than in the previous year. A further decline in the Fixed Net segment was more than offset by an increase in the Mobile Communication segment due to the amortization of licenses in the Republic of Serbia and the Republic of Macedonia and the consolidation of MDC.

Higher operating revenues, increased employee costs, higher material and other operating expenses as well as a decline in depreciation and amortization charges resulted in an operating income of EUR 761.4 million for the full year 2007, a 2.0% decrease compared to the previous year.

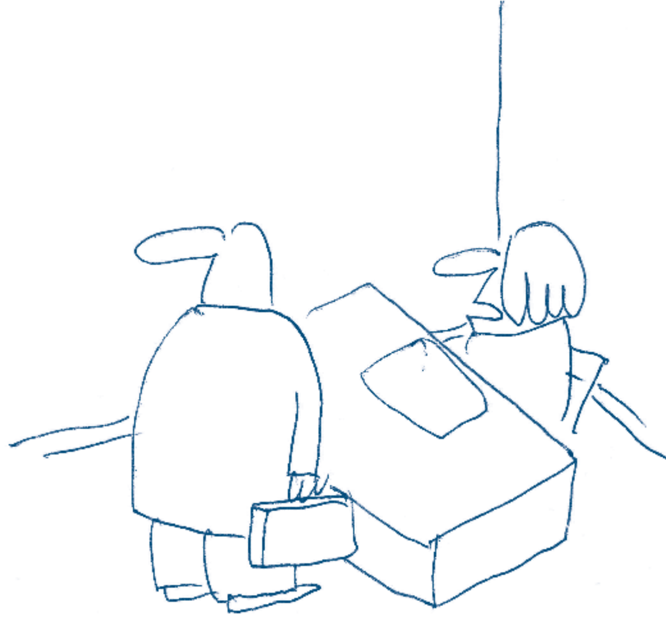
The acquisition of MDC and higher shareholder remuneration in the form of dividend payments and share buybacks led to an increase in average net debt, which in turn resulted in a 28.9% increase in net interest expense to EUR 152.2 million.

Despite a slightly lower tax base, the corporate income tax expense grew by 20.0% to EUR 115.3 million in 2007. While in the previous year the corporate income tax expense was reduced by a one-off tax gain of EUR 43.6 million, in the year under review a one-off tax gain of only EUR 16.6 million was posted. The effective tax rate for the 2007 financial year thus amounted to 19.0% compared to 14.6% in the previous year.

Net income in the 2007 financial year fell by 12.3% to EUR 492.5 million compared to the previous year. Earnings per share declined from EUR 1.19 to EUR 1.09. This development was due to a decline in net income, even though the increased buy-back of shares led to a lower number of outstanding shares compared to the reporting date in the previous year.

Measured in terms of Return on Invested Capital (ROIC) the Telekom Austria Group's return on capital in 2007 declined from 10.0% in the previous year to 8.6%. This decrease is attributable to higher capital expenditures for the newly established companies in the Republic of Serbia and the Republic of Macedonia as well as a higher effective tax burden. Telekom Austria Group's Return on Equity (ROE) remained at a high level of 18.3% (2006: 19.6%).

In 2007 we pushed the doors wide open to marketing cooperation between the Fixed Net and Mobile Communication segments with an attractive bundled product combining fixed net telephony, broadband Internet and mobile communications.



If you want to see Mr. Lottmann, you'll have to knock a hole through that wall. His office doesn't have a door yet.

Segment Reporting

Stabilization of Revenues in the Fixed Net Segment

The Fixed Net segment in 2007 was characterized by a 7.7% decline in voice minutes to 4.3 billion as a result of migration to mobile networks. Despite a comparable trend in the broadband business, the number of XDSL access lines grew by 8.2% to 750,700. The acquisition of eTel increased the share of the voice telephony market by 3.0 percentage points to 59.9% at year-end 2007.

The number of unbundled lines increased by 44.9% to 289,300 due to intensive unbundling activities on the part of alternative providers.

Revenues (in EUR million)	2007	2006	Change in %
Fixed Net	2,133.0	2,119.5	+0.6
Mobile Communication	3,035.1	2,902.6	+4.6
Holding, Others & Eliminations	-249.1	-262.5	-5.1
Revenues	**4,919.0**	**4,759.6**	**+3.3**
EBITDA (in EUR million)			
Fixed Net	705.0	752.8	-6.3
Mobile Communication	1,177.6	1,177.1	0.0
Holding, Others & Eliminations	-27.7	-18.4	+50.5
EBITDA	**1,854.9**	**1,911.5**	**-3.0**
Operating Income (in EUR million)			
Fixed Net	151.2	116.2	+30.1
Mobile Communication	637.5	678.8	-6.1
Holding, Others & Eliminations	-27.3	-17.9	+52.5
Operating Income	**761.4**	**777.1**	**-2.0**

Under these circumstances the Fixed Net segment was able to increase revenues by 0.6% to EUR 2,133.0 million. Innovative communications solutions in the data business and strong growth in the international wholesale business largely compensated for the decline in revenues from voice telephony. In the business area Internet access and media, business customer activities were especially successful; the consolidation of eTel also had a positive impact.

Rising costs led to a 6.3% decline in EBITDA to EUR 705.0 million, with the EBITDA margin falling from 35.5% to 33.1%. Expenses for severance payments as well as the increase in the size of the workforce as a result of acquisitions led to a 3.8% increase in employee costs. Expenses from interconnection rose by 2.0% due to strong growth in the volume of international voice traffic. Lower depreciation and amortization charges overcompensated for rising operating expenses, boosting operating income by 30.1% to EUR 151.2 million.

International Growth in the Mobile Communication Segment

The Mobile Communication segment was able to increase its subscriber base by 50.9% or 5.2 million new additions to 15.4 million customers in 2007. This growth was attributable to positive developments in all operating markets, the acquisition of MDC and the successful launch of the new companies in the Republic of Serbia and the Republic of Macedonia. The subscriber base without MDC totals 12.4 million customers, an organic increase of 21.0% compared to the previous year.

Based on these successes, the Mobile Communication segment was able to increase revenues by 4.6% to EUR 3,035.1 million despite intense competition. EBITDA remained stable at EUR 1,177.6 million, as growth of the international operations and the effect of the first-time consolidation of MDC were able to fully compensate for start-up costs related to the launch of new operations in the Republic of Serbia and the Republic of Macedonia. Higher capital expenditures and the related increase in depreciation and amortization charges led to a decline in operating income of 6.1% to EUR 637.5 million.

mobilkom austria was able to win 328,800 new customers in 2007, expanding its subscriber base by 9.1% to just under 4.0 million. The resulting increase in market share from 38.7% to 40.3% at year-end 2007 was to a large extent attributable to successful data products and attractive tariffs. The penetration rate in the reporting year rose from approximately 114.2% to 118.3%. Revenues from monthly rentals grew due to the larger contract-customer base. However, fierce competition led to a massive decline in traffic revenues, resulting in a decrease in total revenues of 3.8% to EUR 1,660.2 million. EBITDA decreased from EUR 609.8 million to EUR 580.7 million and operating income by 7.5% to EUR 329.0 million while operating expenses remained stable.

While Bulgarian operator Mobiltel was able to increase its customer base by 19.5% to 5.1 million in 2007, its market share declined from 52.5% to 50.3% driven by fierce competition. The penetration rate reached 132.8% compared to 105.9% in the previous year. In this competitive environment Mobiltel increased revenues by 10.1% to EUR 642.7 million. Higher interconnection costs and marketing expenses were offset by the positive development of revenues, with EBITDA rising from EUR 340.2 million to EUR 357.1 million. Operating income increased by 3.9% to EUR 206.6 million.

MDC, consolidated since the beginning of October 2007, is the second largest mobile operator in Belarus and at the end of 2007 had 3.1 million customers, 23.0% more than in the previous year. MDC held a market share of 43.4% at year-end 2007; the penetration rate in Belarus was 71.5%. MDC's consolidated contribution to 2007 full-year results included revenues of EUR 64.0 million, EBITDA of EUR 30.9 million and operating income of EUR 12.6 million.

In the year under review the Croatian operator Vipnet increased its subscriber base by 14.0% to approximately 2.2 million customers and slightly expanded its market share to 43.0%. The mobile penetration rate in Croatia was 114.9%. Revenues grew by 8.3% to EUR 514.2 million, EBITDA by approximately 10.3% to EUR 210.2 million. Supported by lower depreciation and amortization charges, operating income rose by 21.8% to EUR 136.7 million.

In 2007 we once again succeeded in achieving a balanced distribution of financial resources between growth investments and shareholder remuneration.

We generated a free cash flow of approximately EUR 1.0 billion and absorbed a further EUR 1.2 billion by increasing liabilities, reaching a total of EUR 2.2 billion. EUR 710 million of these financial resources were returned to the shareholders of Telekom Austria AG in the form of dividends and share buybacks, approximately 7% more than in the previous year.

"Balance between Profitable Growth Investments and Adequate Shareholder Remuneration"

Hans Tschuden, Chief Financial Officer

Parallel to this, EUR 1.5 billion were invested in further growth in order to increase corporate value in the long term. However, growth investments were only made if they produced a higher increase in corporate value than share buybacks. This will be the main focus of our cash use policy also in the years to come.

In 2007 Si.mobil in Slovenia increased its subscriber base by 18.2% to 497,300 customers, expanding its market share from 24.9% to 26.9%. The penetration rate in Slovenia rose from 85.4% to 92.2%. Operating revenues at Si.mobil rose by 29.8% to EUR 170.3 million and EBITDA by 58.3% to EUR 53.2 million. In comparison with the previous year operating income almost tripled to EUR 29.7 million.

In June 2007 Vip mobile successfully launched operations in the Republic of Serbia and in September 2007 Vip operator went into service in the Republic of Macedonia. By the end of 2007 Vip mobile already had 508,900 customers. At year-end 2007 the penetration rate in Serbia stood at 117.2%; Vip mobile had a market share of 5.8%. In the reporting year the company generated revenues totaling EUR 13.7 million in only six months of commercial operation. Vip mobile posted start-up losses of EUR 52.2 million and an operating loss of EUR 72.6 million.

At year-end 2007 Vip operator in Macedonia had 141,200 customers, holding a share of 7.9% in a market with a penetration rate of 87.4%. In three months of operations the company generated revenues of EUR 2.4 million. Start-up losses amounted to EUR 14.7 million and the operating loss to EUR 15.6 million.

Increase in the Balance Sheet Total due to MDC Acquisition

The balance sheet total of the Telekom Austria Group rose by 19.1% to EUR 9,003.7 million in year-on-year terms. The main factor behind this increase was the consolidation of MDC, which had its strongest impact on goodwill and other intangible assets.

Current assets rose by 14.3% to EUR 1,326.2 million due to an increase in cash and cash equivalents. Despite the consolidation of MDC, property, plant and equipment declined by 0.9% to EUR 3,186.5 million due to higher depreciation charges.

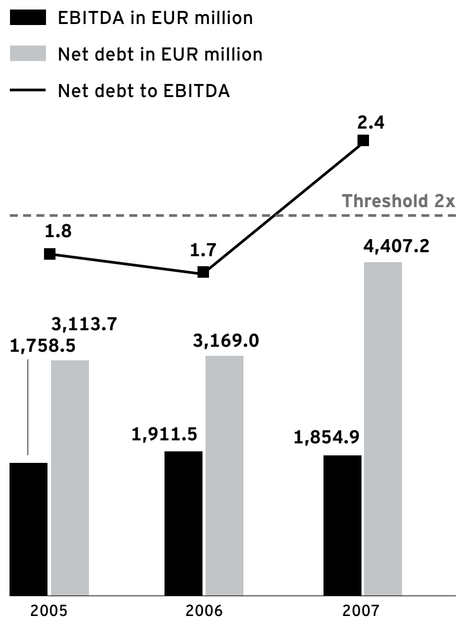
The increase in long-term liabilities of 26.1% to EUR 3,881.2 million and in short-term borrowings of 54.3% to EUR 2,557.2 million was mainly due to the acquisition of MDC.

Stockholders' equity declined from EUR 2,823.5 million as of December 31, 2006 to EUR 2,565.3 million as of December 31, 2007. This reduction was due to share buybacks of EUR 369.9 million as well as the distribution of dividends of EUR 343.0 million and was partly offset by the net income of EUR 492.5 million generated during the reporting year.

Net debt at the Telekom Austria Group increased from EUR 3,169.0 million to EUR 4,407.2 million during the year under review mainly due to the acquisition of MDC, a higher dividend and additional financial resources used for share buybacks. Net debt to EBITDA increased to 2.4 times at the end of 2007 compared to 1.7 times at the end of 2006.

Since 2003 the financial strength of the Telekom Austria Group and its corporate bonds have been subjected to regular evaluations by the two largest and most renowned rating agencies, Moody's Investor Service and Standard & Poor's. In May 2007 Moody's Investor Service affirmed the Telekom Austria Group's "A3" rating, but changed the outlook from positive to stable, explaining that its decision was based on the updated cash use policy announced at the Capital Market Day in April 2007.

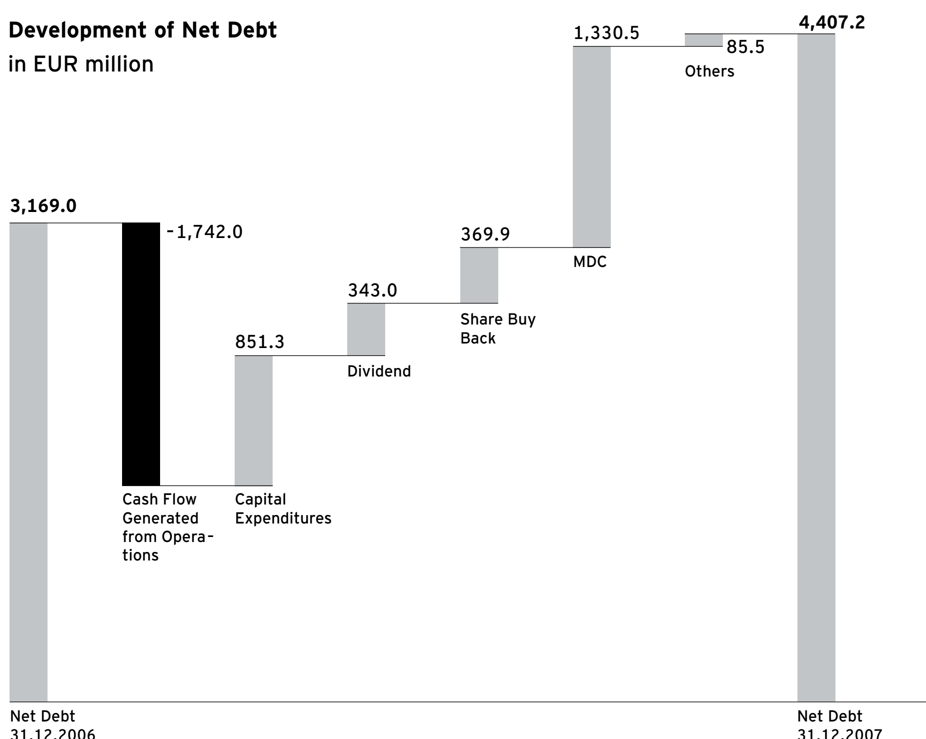
Balance Sheet Structure (in EUR million)	**Dec. 31 2007**	**As % of the Balance Sheet Total**	**Dec. 31 2006**	**As % of the Balance Sheet Total**
Current assets	1,326.2	14.7	1,160.2	15.3
Property, plant and equipment	3,186.5	35.4	3,216.0	42.6
Goodwill	1,939.6	21.6	1,188.6	15.7
Other intangible assets	2,433.0	27.0	1,855.1	24.6
Other assets	118.4	1.3	139.8	1.8
ASSETS	**9,003.7**	**100**	**7,559.7**	**100**
Current liabilities	2,557.2	28.4	1,657.3	21.9
Long-term debt, net of current portion	2,793.8	31.0	2,750.1	36.4
Lease obligations, net of current portion	49.7	0.6	57.4	0.8
Employee benefits	113.0	1.2	111.6	1.5
Other long-term liabilities	924.7	10.3	159.8	2.1
Stockholders' equity	2,565.3	28.5	2,823.5	37.3
LIABILITIES AND STOCKHOLDERS' EQUITY	**9,003.7**	**100**	**7,559.7**	**100**



Net Debt (in EUR million)	Dec. 31, 2007	Dec. 31, 2006
Long-term debt, net of current portion	3,389.3	2,750.1
Short-term borrowings	1,236.1	562.1
- Short-term portion of capital and cross-border leasing	-8.7	-9.4
+ Capital lease obligations (short-term and long-term)	1.0	0.1
Cash and cash equivalents, short-term and long-term investments	-230.4	-148.3
Financial instruments, included in other assets	19.9	14.4
Net debt of Telekom Austria Group	**4,407.2**	**3,169.0**
Net debt/EBITDA	2.4	1.7

Cash flow (in EUR million)	2007	2006	Change in %
Cash flow generated from operations	1,742.0	1,589.9	+9.6
Cash used in investing activities	-1,669.9	-971.6	-71.9
Cash generated from (used in) financing activities	9.9	-608.8	
Effect of exchange rate changes	2.0	-1.1	
Increase in cash and cash equivalents	84.0	8.4	

In early June 2007 Standard & Poor's revised its outlook from positive to stable for the same reason, but confirmed the long-term rating and the short-term rating of "BBB+" and "A-2" respectively.



Development of Cash Flow

In a year-on-year comparison cash flow generated from operations increased by 9.6% to EUR 1,742.0 million, mainly due to an increase in accounts receivable as well as in other liabilities and prepaid expenses. Cash outflows for investing activities increased from EUR 971.6 million to EUR 1,669.9 million as a result of the acquisition of MDC. Cash used in financing activities recorded an inflow of EUR 9.9 million in the reporting year mainly due to the raising of short-term loans compared to an outflow of EUR 608.8 million in the previous year.

Capital Expenditures

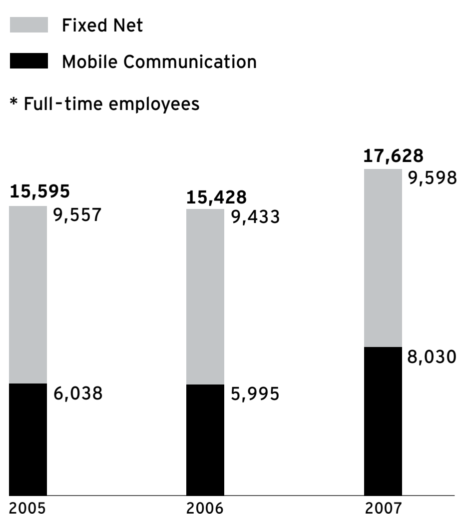
Total capital expenditures for tangible and intangible assets declined by 14.6% to EUR 851.3 million compared to the previous year; investments in property, plant and equipment accounted for EUR 637.5 million of this, an increase of 13.7% compared to the previous year.

The Fixed Net segment increased its investments by 14.3% to EUR 324.5 million in order to upgrade infrastructure and deploy management systems which facilitate the provision of bundled products of fixed line and mobile communications services. In 2007 total investments in the Mobile Communication segment decreased by 26.1% to EUR 526.8 million. EUR 320.0 million was booked for the purchase of the third mobile communication license in the Republic of Serbia in the previous year. The consolidation of MDC as of Q4 2007 and investments in the newly established companies in the Republic of Serbia and the Republic of Macedonia partly compensated for the decline in total investments in the segment.

Workforce

The number of Telekom Austria Group employees rose by 2,200 to 17,628 in 2007. Of these new employees 1,446 are employed at MDC in Belarus, 445 at the newly established company in the Republic of Serbia and 150 at the start-up in the Republic of Macedonia, while 317 work at eTel. In terms of segments, this means an increase in the headcount for Mobile Communication by 33.9% to 8,030 employees. The Fixed Net segment including eTel registered an increase of 1.7% to 9,598 employees, and without eTel a decline of 1.6%. As of December 31, 2007, 37.9% of the workforce had civil service status (2006: 43.8%).

Employees at Year-End*



Innovation and Technology

Innovation activities at the Telekom Austria Group focus on the identification of technologies with strong growth potential as well as on current and future customer needs with a view to opening up new areas of business. In the 2007 financial year investments in innovation projects totaled EUR 47.3 million.

The Fixed Net segment continuously invests in the further development of cutting-edge All-IP-based infrastructure. Furthermore, backbone and access technologies as well as open media platforms should also safeguard free and unhindered user access to information and content. The television service launched in the previous year, aonTV, remained a key focus of innovation in the financial year 2007 and is central to the segment's multimedia activities.

In the Mobile Communication segment the main emphasis is on safeguarding network quality. 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 and efficient coordination of new products and harmonized launches.

Capital Expenditures (in EUR million)	2007	2006	Change in %
Tangible Fixed Net	272.6	260.4	+4.7
Tangible Mobile Communication	364.9	300.3	+21.5
Tangible	**637.5**	**560.7**	**+13.7**
Intangible Fixed Net	51.9	23.5	+120.9
Intangible Mobile Communication	161.9	412.5	-60.8
Intangible	**213.8**	**436.0**	**-51.0**
Total	**851.3**	**996.7**	**-14.6**

Growth Puzzle – Example #11

Thanks to Einstein we know that time is relative. Relatively important, namely, when we calculate the time it will take for our investments to pay off. And we do that before we make the investment.

Sustainable Corporate Management

The prime strategic objective of the Telekom Austria Group is to increase shareholder value in the long term through sustainable corporate management. This includes the careful use of resources as well as the minimization of negative impacts on the environment.

Share Buybacks and Shareholders

If no value-enhancing investments are possible the Telekom Austria Group purchases treasury shares within the scope of its cash use policy. In the year under review 19.6 million shares were bought back for an average price of EUR 18.90; in the previous year 21.3 million shares for an average of EUR 19.09 per share. In accordance with the resolution of the Annual General Meeting, treasury shares may be used to service stock options and convertible bonds, issued to employees or used as consideration for acquisitions, or for resale or retirement. In accordance with this mandate, 86,742 shares were distributed within the framework of the Employee Participation Program in December 2007. The voting rights attached to Telekom Austria shares held by employees have been transferred to a notary public who exercises them in accordance with the instructions of a Trust Board comprising three members representing the employees and three members representing the employer.

On the basis of the authorization granted by the Annual General Meeting on May 23, 2006, the Management Board decided to retire 40 million treasury shares or 8% of the common stock of Telekom Austria AG on March 19, 2007. As a result, the share capital of Telekom Austria AG decreased from EUR 1,090,500,000 to EUR 1,003,260,000 and is now divided into 460,000,000 bearer shares. This retirement led to an increase of 8.7% in the stakes of the remaining shareholders. The Republic of Austria holds 27.4% of Telekom Austria shares through the ÖIAG, the remainder is free float. As of December 31, 2007 Capital Research and Management Company held a 5.02% interest. 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. There are no voting restrictions or syndicate agreements among the shareholders known to Telekom Austria AG.

Changes in the Management Bodies of the Telekom Austria Group

The year 2007 saw several changes at the top management level of Telekom Austria AG. Stefan Colombo did not seek an extension of his mandate as Chief Financial Officer and left the company at the end of March 2007. Hans Tschuden succeeded him as Chief Financial Officer of the Telekom Austria Group in April 2007. On August 3, 2007 Walter Hotz and Franz Kusin retired from the Supervisory Board; on the same date, Werner Luksch became a member. Hans Jörg Schelling had already retired from the Supervisory Board on February 6, 2007.

On May 30, 2007 the Annual General Meeting voted to revise the Articles of Association in order to update, adjust and amend them.

Change of Control clauses, which can ultimately lead to termination of contract, are contained in a financing agreement with the European Investment Bank and in a committed line of credit not currently utilized by the Telekom Austria Group. 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 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. 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.

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 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.

Growth Puzzle – Example #12

In pursuit of our strategy of internationalization we deliberately choose between the shoe of acquisition and the shoe of start-up.
Depending on which one we can grow into faster.

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 this price decline. 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 prices 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.

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. 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 the results of the Telekom Austria Group.

The Telekom Austria Group is party to 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 take measures to counteract them.

Financial Risks

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

Personnel

The Telekom Austria Group has implemented several personnel downsizing programs in the past. Between 2000 and 2007 the headcount at the Fixed Net segment was reduced from approximately 16,000 to fewer than 10,000 employees. Industrial law and collective bargaining agreements mean that further reductions either cannot be carried out at all or are only possible in a limited form.

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 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.

The Telekom Austria Groups intends to continue its expansion. In eastern and southeast Europe interest focuses on the Republic of Bosnia and Herzegovina. A selective broadening of this interest to encompass other countries is also possible provided that it will result in increased shareholder value. The realization chances and the future value of past and planned expansions will, however, also depend on political, economic and legal developments in these countries.

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 will adapt it to meet the requirements of expected EU standards.

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 is a risk and control matrix which 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 assessment of the companies under scrutiny is carried out in consultation with the business departments. Based on the results of this assessment and the defined criteria, management confirmed the effectiveness of the internal control system as of December 31, 2007.

Major Subsequent Events

The earnings-per-share target value was reached for the fourth tranche of the stock option program started in 2004. Holders may exercise the options once the annual results for 2007 have been published. A provision amounting to EUR 6.4 million has been included in the financial statements for the year 2007 for this purpose.

On January 7, 2008 roughly 4.4 million options with an exercise period ending in May 2012 were granted to the eligible employees within the framework of the fifth tranche of the stock option program. As with previous tranches, the Supervisory Board has defined the earnings per share target for the 2008 financial year. The exercise price of EUR 19.39 corresponds to the average closing price during the 20 trading days before the grant date.

Outlook for 2008

Accelerated by the consolidation of recently acquired MDC in Belarus, international operations will continue to drive operating results of Telekom Austria Group in 2008.

The Telekom Austria Group expects revenues in 2008 to increase by approximately 5% compared to the previous year. EBITDA is expected to grow by about 3%, with growth from international operations overcompensating for a lower contribution from the Fixed Net segment. Operating income is expected to remain stable. Net debt increased in 2007 due to the acquisition of MDC in Belarus and higher shareholder remuneration. This will lead to higher interest expenses and a decline in net income of approximately 12% in 2008.

Higher EBITDA and a reduction of approximately 5% in capital expenditures will allow an increase in operating free cash flow of about 10%.

In 2008 the Fixed Net segment is expected to continue to operate in a challenging environment characterized by fixed-to-mobile substitution for voice and broadband Internet services. Primarily as a result of the loss of access lines incurred in 2007, a continuing reduction in the access line base in 2008 as well as a lower broadband ARPU, revenues are expected to decrease by approximately 3%, while EBITDA will show a decline of about 12%.

In the Mobile Communication segment revenues and EBITDA are expected to grow by about 10% due to strong international operations, primarily driven by the consolidation of MDC in Belarus as well as improving results from the start-up operations in the Republic of Serbia and the Republic of Macedonia.

Vienna, February 19, 2008

The Management Board

Boris Nemsic
Rudolf Fischer
Hans Tschuden

Actually, the original idea was that you grow a lot of small ones

Fixed Net Segment

Revenues Stabilize, Results Increase

The Fixed Net segment encompasses all the Telekom Austria Group's fixed line activities, which are carried out mainly in Austria and, to a lesser extent, in central and eastern European countries. In the 2007 financial year the segment reported revenue growth of 0.6% to EUR 2,133.0 million supported by higher revenues in the IT solutions and wholesale business as well as the consolidation effects of the acquisition of eTel and MRS. EBITDA decreased by 6.3% to EUR 705.0 million and the EBITDA margin fell from 35.5% to 33.1%, due to higher employee costs and other operating expenses, whereas lower depreciation and amortization expenses led to an improvement in operating income of 30.1% to EUR 151.2 million.

In the reporting year, the corporate acquisitions made a total contribution to revenues of EUR 78.1 million and to EBITDA of EUR 3.1 million. Revenues from switched voice traffic declined by 4.2% to EUR 349.9 million. The 7.7% decline in voice minutes was partly offset by a higher percentage of voice traffic in zones and networks with higher tariffs and by the consolidation of eTel as of April 26, 2007.

Migration from fixed lines to mobile networks continued unabated in the year under review. The number of fixed access lines fell by 7.9% to 2.4 million, leading to an 8.7% decline in switched voice monthly rentals and other voice telephony revenues to EUR 471.0 million.

Revenues from public payphones and value-added services rose by 4.0% to EUR 46.7 million following the introduction of a new tariff structure for public payphones and due to sales of prepaid cards and value-added services such as those offered for television programs and lottery platforms.

Revenues from data and IT solutions, including wholesale, rose by 5.0% to EUR 446.4 million, driven by growth in IP-based virtual private networks, international networks and solutions in the area of fiber optic technology.

In the business area Internet access and media, revenues grew by 4.4% to EUR 280.7 million, largely as a result of customer growth for Internet products and the first-time consolidation of eTel. The number of XDSL broadband access lines including wholesale grew by 8.2% to 750,700; however, average monthly broadband revenues per residential customer fell from EUR 28.8 to EUR 26.1.

Revenues from wholesale voice telephony and Internet increased by 8.0% to EUR 410.4 million, with higher volumes of international voice traffic more than compensating for a volume-driven decline in the national wholesale business.

Key Data Fixed Net

(financial figures in EUR million)	2007	2006	Change in %
Revenues	2,133.0	2,119.5	+0.6
EBITDA	705.0	752.8	-6.3
Operating income	151.2	116.2	+30.1
Capital expenditures	324.5	283.9	+14.3
Human resources (full-time employees at Dec. 31)	9,598	9,433	+1.7

Revenues Fixed Net (in EUR million)	2007	2006	Change in %
Switched voice traffic revenues	349.9	365.2	-4.2
Switched voice monthly rentals and other voice telephony revenues	471.0	516.0	-8.7
Payphones and value-added services	46.7	44.9	+4.0
Data and IT solutions including wholesale	446.4	425.0	+5.0
Internet access and media	280.7	268.9	+4.4
Wholesale voice and Internet	410.4	380.1	+8.0
Other	127.9	119.4	+7.1
Revenues Fixed Net	**2,133.0**	**2,119.5**	**+0.6**

Other revenues grew by 7.1% to EUR 127.9 million mainly due to the first-time consolidation of MRS, a provider of interactive TV solutions.

Operating expenses in the Fixed Net segment increased by a total of 4.6% to EUR 1,491.5 million mainly due to the consolidation effects. At EUR 79.0 million, material expenses were 2.5% higher than in the previous year as new communications solutions required technologically more sophisticated and thus more expensive merchandise.

In 2007 employee costs including benefits and taxes rose by EUR 20.3 million or 3.8% to EUR 559.4 million due to expenses for severance payments amounting to EUR 13.4 million, wage increases under the collective bargaining agreement and an increase in the size of the workforce following the acquisitions of eTel and MRS.

At EUR 359.3 million, expenses from interconnections were 2.0% higher than in the previous year. Termination charges declined in both national and international traffic, although the latter recorded greater volumes. Some of the increase is due to the consolidation of eTel.

A program to reduce maintenance activities for buildings and technical infrastructure made it possible to cut the level of spending on repairs and maintenance by 6.1% to EUR 111.1 million. In contrast, expenses for services received increased by 52.1% to EUR 73.3 million, partly due to spending on leased lines, IP connectivity and e-commerce solutions. Expenses for other support services rose by 8.6% to EUR 93.5 million.

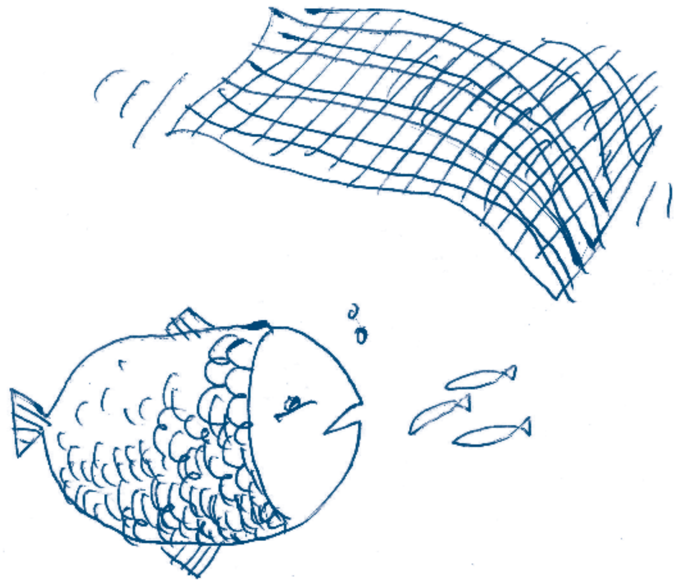
Other operating expenses rose by 5.3% to EUR 215.9 million due to the consolidation of the newly acquired companies as well as higher energy and advertising costs.

Investments in a Flexible High-Capacity Network Infrastructure

In the year under review the Fixed Net segment increased its investment activities in order to improve bandwidth availability and capacities in order to stimulate growth in communication, TV and Internet services. Capital expenditures in the Fixed Net segment were 14.3% higher than in the previous year totaling EUR 324.5 million.

Much of this investment was focused on the further development of the existing network infrastructure into a future-proof All-IP network which enables the efficient provision of voice, and above all, data services on the basis of the latest technologies. Management systems were also put in place to increase the flexibility of the network infrastructure, creating the prerequisites for bundled products.

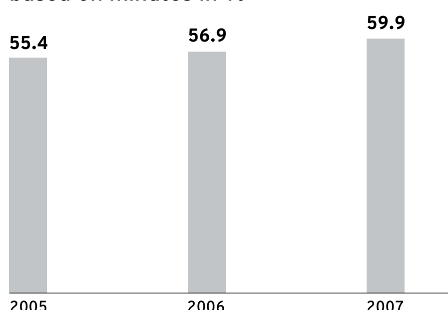
Operating Expenses Fixed Net (in EUR million)	**2007**	**2006**	**Change in %**
Material expenses	79.0	77.1	+2.5
Employee costs including benefits and taxes	559.4	539.1	+3.8
Depreciation, amortization and impairment charges	553.8	636.6	-13.0
Interconnection	359.3	352.4	+2.0
Maintenance and repairs	111.1	118.3	-6.1
Services received	73.3	48.2	+52.1
Other support services	93.5	86.1	+8.6
Other operating expenses	215.9	205.1	+5.3
Operating expenses Fixed Net	**2,045.3**	**2,062.9**	**-0.9**



The net that's supposed to keep us all together is unfortunately only meant for me

We continuously invest in our net infrastructure, and the development of our All-IP network for voice, data and multimedia services is progressing rapidly, allowing us to "fish out" even more innovative customer-focused services.

Voice Telephony Market Share Fixed Net
based on minutes in %



Expansion of Market Position

In 2007 the Fixed Net segment increased its share of the Austrian fixed line voice telephony market to 59.9% from 56.9% in 2006, mainly as a result of the acquisition of eTel. Including Internet dial-up traffic, market share grew by 3.4 percentage points to 60.2%.

Fixed-to-mobile substitution continued in the year under review, leading to a 13.3% decline in fixed line minutes in the overall Austrian market. Although the Fixed Net segment was unable to buck this industry trend, it did on average show a more positive development than its competitors. Due to the more stable customer structure, voice minutes declined by 7.7% to 4.3 million. Average minute tariffs rose by 1.3% due to increased volumes of voice traffic to destinations and in networks with higher tariffs.

Despite huge efforts to enhance the attractiveness of fixed lines, the number of fixed access lines declined by 7.9% to 2.4 million in the year under review. Due to unbundling activities on the part of alternative providers, unbundled lines decreased by 44.9% to 289,300. The number of broadband access lines rose by 8.2% to 750,700 (including 85,500 wholesale lines) despite intensified competition also in the broadband market.

Key Operating Data Fixed Net	2007	2006	Change in %
National traffic (in million minutes)	3,188	3,491	-8.7
Fixed-to-mobile traffic (in million minutes)	746	793	-5.9
International fixed line traffic (in million minutes)	399	412	-3.3
Total voice telephony (in million minutes)	**4,332**	**4,696**	**-7.7**
Internet dial-up traffic (in million minutes)	753	1,425	-47.2
Total fixed line traffic (in million minutes)	**5,085**	**6,121**	**-16.9**
Market share voice telephony in %	59.9	56.9	
Market share incl. Internet dial-up traffic in %	60.2	56.8	
Average tariff voice telephony (EUR/min)	0.077	0.076	+1.3
XDSL average monthly revenues per residential customer in EUR	26.1	28.8	-9.4

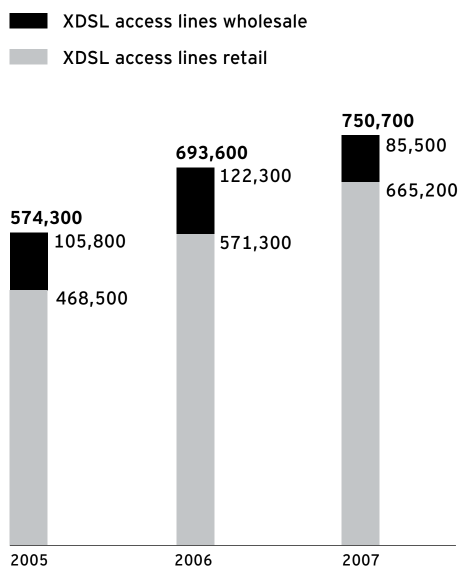
Fixed Lines – Access Channels (in '000s)	2007	2006	Change in %
PSTN access lines	2,028.9	2,244.2	-9.6
Basic ISDN access lines	360.2	391.3	-7.9
Multiple ISDN access lines	6.5	7.1	-8.5
Broadband access lines excl. voice telephony	38.8	-	
Total access lines	**2,434.4**	**2,642.6**	**-7.9**
Total access channels	**2,983.2**	**3,240.7**	**-7.9**
XDSL access lines retail	665.2	571.3	+16.4
XDSL access lines wholesale	85.5	122.3	-30.1
Total XDSL access lines	**750.7**	**693.6**	**+8.2**
Unbundled access lines	289.3	199.6	+44.9

Regulatory Decisions

A regulatory review of the Austrian telecommunications markets resulted in a reduction of the regulatory intensity in the retail voice telephony markets in 2007. Ex-ante regulation of the wholesale market for transit services was completely abolished. At the European level, the European Commission revised its recommendation concerning the relevant telecommunications markets. As a result, 11 of the 18 previously regulated markets will no longer be subject to ex-ante regulation. Implementation of this proposed deregulation measure in mid 2008 will not have much impact in Austria, especially on the wholesale markets, as the markets for leased line trunk segments and transit services are no longer subject to ex-ante regulation.

The current European legal framework for telecommunications dates back to 2002 and in 2007 was subjected to review. The European Commission published its proposals for reform in November 2007. An amendment of the Austrian Telecommunications Act on the basis of the final legal framework is not expected before 2010.

XDSL Access Lines



The acquisition of 100% of the common stock of the operating companies of eTel by the Telekom Austria Group required the approval of the competition authorities. This was granted in April 2007 subject to a number of conditions, which mainly related to the infrastructure of eTel Austria such as the sale of the fiber optic ring and the return of WLL radio licenses.

Attractive Product Portfolio

The Fixed Net segment is acting to counter the sustained migration toward mobile communication by launching innovative products and bundled offers designed to convince customers of the attractiveness of fixed lines. The "KombiPaket", for example, was offered for a limited period before Christmas. As a bundled product it combined fixed line telephony, broadband Internet and mobile communication at a favorable price. The customer also benefits from a single monthly rental and only receives one bill for all three products.

The strong growth of mobile broadband services has slowed the hitherto dynamic growth of fixed line broadband. In response to this trend, the Fixed Net segment has taken several steps: In July 2007 the download limit for business Internet products for small and medium-sized enterprises was abolished. Subsequently, almost the entire aonSpeed portfolio was switched to flat rate tariffs and the data transfer speed increased. These adjustments to the product portfolio have enabled the segment to respond even more specifically to customer needs and market developments in order to safeguard competitiveness.

aonTV and aonAlarmServices represent two successful examples of how the attractiveness of fixed lines has been enhanced, and new areas of business have been developed at the same time. Since October 2007 a basic aonTV package has been offered featuring more than 60 channels at the attractive price of EUR 4.90 for the entire duration of the subscription. In December 2007 aonTV coverage was extended to include all district capitals in addition to Vienna and the provincial capitals. By the end of 2007 20,900 customers had subscribed to the service. Moreover, aonTV is also the only digital cable network operator to offer video-on-demand: customers can choose from among a wide range of current blockbusters, popular television series and classic films whenever they wish. aonAlarmServices is a comprehensive and inexpensive alarm system that connects the property to the aon security center over the fixed access line.

Global Communications Provider for Business Customers

The Fixed Net segment was able to build up a strong market position in the business areas IT and applications. Customers appreciate the standards of security and quality that are offered and the comprehensive expertise that is required for global, tailor-made communications solutions. One excellent example for the successful completion of a complex project is the relocation, redesign of the data network and the setting up of the telecommunications infrastructure for the largest Austrian airline in 2007. The company needed an IT infrastructure for its new headquarters that meets the highest standards. The three most important and mission-critical IT areas, the data network, LAN infrastructure and Voice-over-IP, including the call center, were efficiently and timely relocated and optimized, while maintaining normal daily operations.

Solutions Portfolio for Third-Party Customers of UEFA EURO 2008™

The world's third-largest sporting event of the year, UEFA EURO 2008™, is taking place in Switzerland and Austria between June 7 and 29, 2008. Telekom Austria is not just sponsoring the event, it is also the tournament's official telecommunications provider. The company is providing the broadband infrastructure for the high-quality transmission of television signals and supplying the necessary technologies to the media centers at the four Austrian venues and the international television companies at the broadcasting center. Complex communications concepts have being developed for UEFA and technical infrastructures created for the participating companies for the provision of services such as public viewing, digital advertising surfaces or security solutions. This wide-ranging commitment reinforces the Telekom Austria Group's image as the technology leader and its position as the prime partner for complex communications solutions.

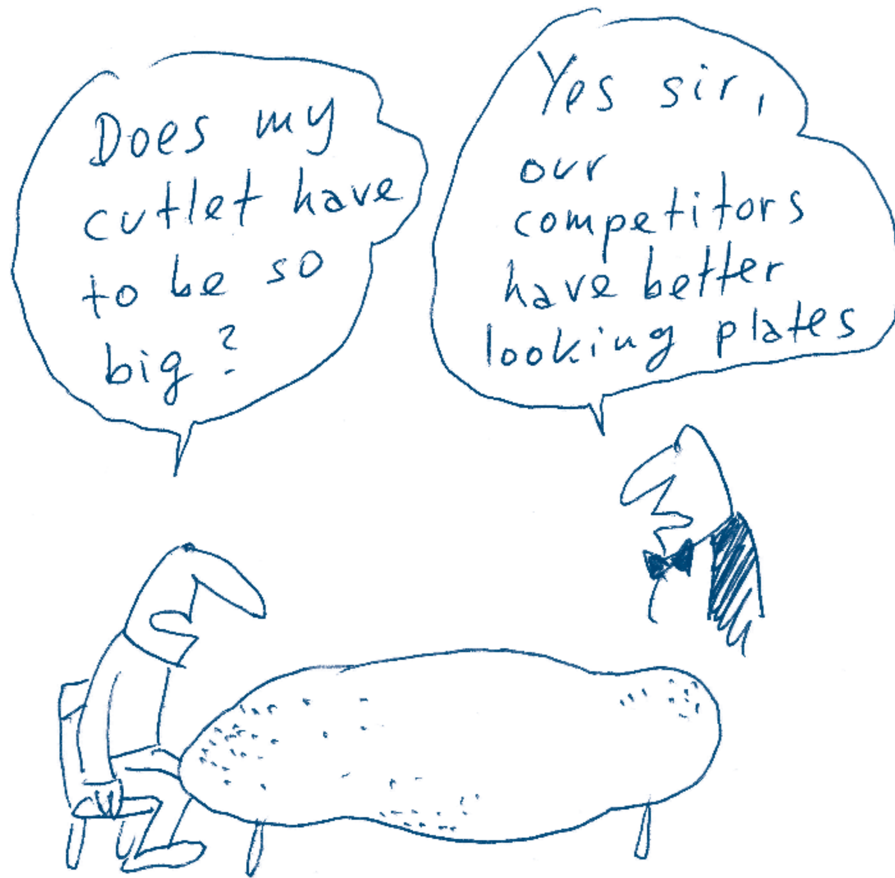
Wholesale

In the wholesale business area, the Fixed Net segment focuses successfully on growth areas such as connections for mobile radio communications stations, the international wholesale voice business and international data networks in central and eastern Europe. The segment's consistent strategy of distinguishing itself from its competitors through quality and innovation leadership is reflected in the product and solution portfolio. Customized solutions for the connection of mobile radio communications stations, risk management and international data roaming were developed for mobile communication operators. In the area of satellite communications, the Aflenz teleport was used to expand the product portfolio to include additional solutions for network reliability and stability.

In order increase the volume of voice and data traffic in eastern and southeastern Europe, the international multi-service network Telekom Austria JetStream was expanded in 2007 to include Bulgaria in addition to existing connections to Germany, the Czech Republic, Hungary, Italy, Slovakia, Romania and Croatia.

Operational Goals for 2008

In order to support the further stabilization of business, the Fixed Net segment pursues diverse goals that can be broken down into a number of concrete measures. The decline in fixed access lines should be stemmed by an attractive price policy and convincing customer relationship management. Attractive innovations and product bundles based on the convergence of different communications platforms are used to counteract the migration trend from fixed access lines to mobile communication networks. Broadband products without data limits support this approach, as do products such as aonTV and aonAlarmServices. Targeted measures such as professional training for employees working at the customer interfaces as well as lean and efficient processes have been put in place to further improve customer satisfaction. A carefully coordinated portfolio of products, encompassing telephony, Internet, data and applications, forms the basis for future success in the business customer area.



Some companies make their customers big promises. But with the fastest and technologically most advanced network we can keep our promises. In every respect!

Mobile Communication Segment

Expansion Safeguards Growth

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

Key Data Mobile Communication

(financial figures in EUR million)	2007	2006	Change in %
Revenues	3,035.1	2,902.6	+4.6
EBITDA	1,177.6	1,177.1	0.0
EBITDA margin (in %)	38.8	40.6	
Operating income	637.5	678.8	-6.1
Capital expenditures	526.8	712.8	-26.1
Number of customers (in '000s)	15,449.0	10,236.4	+50.9
Share of revenues from data services (in %)*	23.2	20.2	
Human resources (full-time employees at Dec. 31)	8,030	5,995	+33.9

* Data revenues as a portion of traffic-related revenues

Revenues Mobile Communication

(in EUR million)	2007	2006	Change in %
Traffic revenues	1,473.0	1,442.3	+2.1
Monthly rentals	613.8	483.1	+27.1
Equipment	278.7	264.4	+5.4
Roaming	240.8	257.9	-6.6
Interconnection	422.9	446.9	-5.4
Other	52.8	46.2	+14.3
Discounts	-46.9	-38.2	+22.8
Revenues Mobile Communication	3,035.1	2,902.6	+4.6

Operating Expenses Mobile Communication

(in EUR million)	2007	2006	Change in %
Material expenses	345.9	331.1	+4.5
Employee costs*	236.5	217.3	+8.8
Depreciation, amortization and impairment charges	540.1	498.3	+8.4
Interconnection	345.6	315.0	+9.7
Maintenance and repairs	73.0	71.8	+1.7
Services received	303.9	303.9	0.0
Other support services	30.0	25.1	+19.5
Other operating expenses	566.2	481.5	+17.6
Operating expenses Mobile Communication	2,441.2	2,244.0	+8.8

* including benefits and taxes

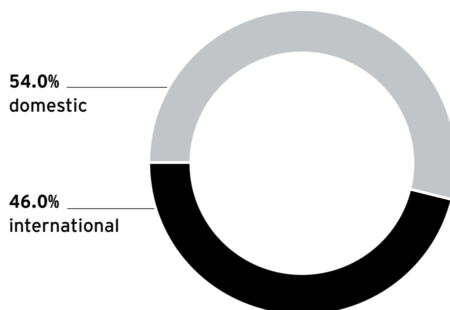
In 2007 the Mobile communication segment increased its subscriber base by 50.9% to roughly 15.4 million. Approximately 60% of this growth is attributable to the first-time consolidation of MDC in Belarus. The newly established companies in the Republic of Serbia and the Republic of Macedonia won 650,100 customers within a few months of starting commercial operations. Similarly, all the other companies in the segment also significantly expanded their subscriber bases despite increased levels of competition.

Supported by this organic growth, the increased share of contract customers and the consolidation of MDC as of Q4 2007, segment revenues rose by 4.6% to EUR 3,035.1 million. Traffic revenues increased by 2.1% to EUR 1,473.0 million and monthly rentals by 27.1% to EUR 613.8 million. Due to regulatory decisions roaming revenues at the segment level declined by 6.6% to EUR 240.8 million and interconnection revenues by 5.4% to EUR 422.9 million.

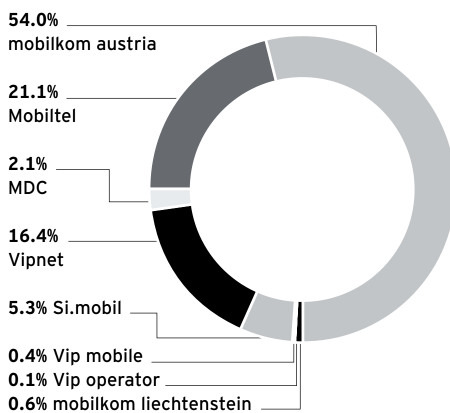
Due to the sustained competition, the regulation of roaming charges and the reduction of interconnection charges mandated by the regulatory authority, revenues in Austria were lower than in the previous year. However, the international companies were able to overcompensate for this decline, increasing their contribution to total segment revenues to 46% from 41% in the previous year.

Operating expenses at the Mobile Communication segment rose by 8.8% to EUR 2,441.2 million due to the consolidation of MDC, increased expenses for customer acquisition and retention, as well as higher material expenses. Part of this increase is attributable to employee costs which rose by 8.8% in a year-on-comparison to EUR 236.5 million. With 8,030 employees at year-end 2007, the segment headcount was 33.9% higher

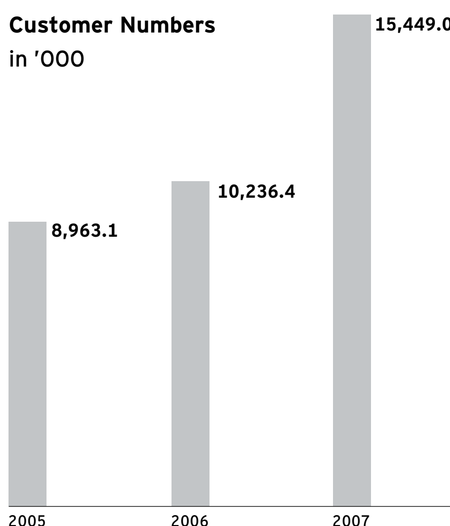
Mobile Communication Revenues
domestic and international



Mobile Communication Revenues 2007
by company



Customer Numbers
in '000



than in the previous year. Due to the consolidation of MDC and the start-up companies in the Republic of Macedonia and the Republic of Serbia, amortization and depreciation charges rose by 8.4% to EUR 540.1 million. Subscriber growth and greater call volumes in third-party networks led to an increase in interconnection expenses of 9.7% to EUR 345.6 million. Expenses for services received remained stable in a year-on-year comparison at EUR 303.9 million; those for other support services rose by 19.5% to EUR 30.0 million. Other operating expenses grew by 17.6% to EUR 566.2 million, mainly because of higher marketing and sales costs.

EBITDA remained stable at EUR 1,177.6 million, the same level as in the previous year. Higher contributions from Slovenia, Bulgaria and Croatia, together with the consolidation of MDC, fully compensated for the decline in Austria and the start-up costs in the Republic of Serbia and the Republic of Macedonia. In combination with revenue growth of 4.6%, this development led to a decline in the EBITDA margin from 40.6% to 38.8%. Higher depreciation and amortization charges related to higher-than-average investments in the previous year led to a 6.1% decline in operating income to EUR 637.5 million.

The consolidation of MDC and the new companies in the Republic of Serbia and the Republic of Macedonia contributed a total of EUR 80.1 million to revenues and reduced EBITDA by EUR 36.0 million.

Lower Capital Expenditures

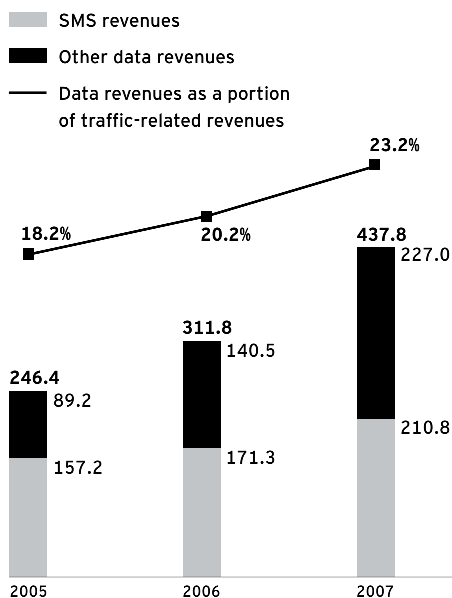
In the year under review, total investments in the Mobile Communication segment decreased by 26.1% to EUR 526.8 million. The figure for the previous year had included EUR 320.0 million for the acquisition of the third mobile communication license in the Republic of Serbia. The consolidation of MDC, which took place in Q4 2007, had an impact of EUR 19.4 million. Investments made by the newly established companies in the Republic of Serbia and the Republic of Macedonia totaled EUR 138.5 million, EUR 10.0 million of which were used for the purchase of the license for Macedonia.

Growth Area Mobile Data

Demand for the Mobile Communication segment's data products remained strong in 2007; their contribution to total revenues increased by 3 percentage points to 23.2%. However, usage patterns vary strongly from country to country and also depend on the maturity of the respective market. While mobilkom austria already generates 27.9% of its revenues with data products, the figure for Bulgaria or Belarus is well below the segment average.

This trend was driven above all by mobile broadband and Vodafone live!, which is the largest mobile portal in Austria with more than 1.7 million users. In order to ensure profit from this growing business area also in the future, the segment continuously invests in the expansion of network capacities and the upgrade of network infrastructure.

Data Revenues
in EUR million



A Pioneering Spirit for a Competitive Edge

As in previous years, the Mobile Communication segment demonstrated its pioneering spirit again in the 2007 business year. mobilkom austria, for example, underlined its technological superiority when, in February 2007, it became the first operator to launch HSUPA in Austria.

However, the segment's ambitious orientation is also reflected in the strategy of expansion. In the early 1990s – when international willingness to invest in eastern and southeastern Europe was still restrained – the segment used the momentum in Croatia to build up the extremely successful company Vipnet. In the year under review, the basis for further organic growth was established after a lead time of only a few months with Vip mobile in the Republic of Serbia and Vip operator in the Republic of Macedonia.

The acquisition of Si.mobil in Slovenia in 2001 and of the Bulgarian operator Mobiltel in 2005 confirms the success of the value-oriented expansion strategy as illustrated by the growth rates in these markets. A new milestone was set in the year under review with the purchase of MDC in Belarus, as, even allowing for all the risks, Belarus also offers considerable growth potential.

mobilkom austria

(financial figures in EUR million)	2007	2006	Change in %
Revenues	1,660.2	1,726.6	-3.8
EBITDA	580.7	609.8	-4.8
EBITDA margin (in %)	35.0	35.3	-0.8
Operating income	329.0	355.7	-7.5
Mobile penetration in Austria (in %)	118.3	114.2	
Market share (in %)	40.3	38.7	
Competitors	7	7	
Customers (in '000s)	3,959.3	3,630.5	+9.1
Share of contract customers (in %)	66.3	60.8	
Revenues per customer (ARPU, in EUR)	30.9	34.4	-10.2
Share of revenues from data services (in %)*	27.9	21.8	

* Data revenues as a portion of traffic-related revenues

mobilkom austria – Austria

With a penetration rate of 118.3% the Austrian mobile communication market is one of the most competitive in Europe. Despite this, mobilkom austria increased its subscriber base by 9.1% in 2007 to roughly 4 million customers, and remains the market leader with a 40.3% share of the market. In Austria, which has roughly 8.3 million inhabitants, mobilkom austria competes against three other operators, one MVNO and several service providers. In 2007 mobilkom austria agreed to acquire the mobile operations of Tele2, subject to the approval of the Austrian antitrust authority.

In 2007 mobilkom austria successfully reduced its churn rate from 16.8% to 14.7%. The company also expanded its lead in the data traffic business area. Products such as the enhanced Vodafone live! portal or mobile broadband, which by the end of 2007 accounted for approximately 290,000 customers, support this strong market position and the company's role as the service and technology leader. Further information is available in the chapter Innovation and Technology on page 37.

At the end of June 2007 an EU regulation concerning roaming charges within the EU member states came into force. It imposes considerable restrictions on the ability of mobile communication operators to set prices for voice roaming. A price ceiling of 30 cents per minute was set on wholesale prices and retail prices for dialing out were capped at a maximum of 49 cents per minute. Charges for receiving a call were limited to 24 cents. In order to comply with these regulations mobilkom austria introduced new tariff options in 2007. Concepts for capping

data roaming charges will be presented in 2008. mobilkom austria introduced new data tariff options already in 2007 as a direct reaction to this regulatory intervention.

After completion of the regulatory review in mid October 2007, the Austrian regulator announced its decision regarding the gliding path model implemented in 2005. As expected, the model was retained, but the uniform termination charge will be lowered to 5.72 cents instead of 6.79 cents. The gradual lowering of the termination charges will be completed by early 2009.

Due to these regulatory decisions and other competition-driven price reductions revenues declined from EUR 1,726.6 million to EUR 1,660.2 million. EBITDA amounted to EUR 580.7 million, 4.8% lower than in the previous year; the EBITDA margin remained virtually stable at 35.0%. Due to lower EBITDA, operating income declined by 7.5% to EUR 329.0 million. Total capital expenditures for tangible and intangible assets amounted to EUR 184.0 million, 7.3% lower than in the previous year. Investments focused on expanding the UMTS network for HSUPA and on improving UMTS coverage from 75% to approximately 85% of the Austrian population.

The sustained pressure on voice telephony prices and the reductions in interconnection charges mandated by the regulator will again be counteracted by efforts to strengthen the data business in 2008. The prerequisites for this are a high-capacity network infrastructure and an attractive portfolio of products and services.

Mobiltel – Bulgaria

Competition in Bulgaria became even more intense in the financial year 2007. The country has roughly 8 million inhabitants and a penetration rate which rose from 105.9% to 132.8% due to the increased number of second SIM cards. As the market leader, Mobiltel was able to successfully assert its position in this dynamic environment, maintaining its 50.3% share of the overall market. At the end of December 2007 Mobiltel welcomed its fifth million customer, thus reporting a 19.5% increase in customer numbers. Average revenues per customer decreased from EUR 11.0 to EUR 10.2. The proportion of contract customers improved from 36.8% to 42.1%.

Mobiltel

(financial figures in EUR million)	2007	2006	Change in %
Revenues	642.7	583.8	+10.1
EBITDA	357.1	340.2	+5.0
EBITDA margin (in %)	55.6	58.3	
Operating income	206.6	198.9	+3.9
Mobile penetration in Bulgaria (in %)	132.8	105.9	
Market share (in %)	50.3	52.5	
Competitors	2	2	
Customers (in '000s)	5,098.6	4,267.9	+19.5
Share of contract customers (in %)	42.1	36.8	
Revenues per customer (ARPU, in EUR)	10.2	11.0	-7.3
Share of revenues from data services (in %)*	12.1	10.4	

* Data revenues as a portion of traffic-related revenues

Mobiltel increased total revenues by 10.1% to EUR 642.7 million. EBITDA rose by 5.0% to EUR 357.1 million, with the EBITDA margin declining from 58.3% to 55.6%. In the year under review Mobiltel invested EUR 98.8 million in capital expenditures for tangible and intangible assets, with most of these investments focusing on expanding the network infrastructure and the service portfolio.

In 2007 the Electronic Communications Act passed by the Bulgarian parliament came into force implementing the regulatory framework required by the European

Union. Agreement was also reached between the regulatory authority and the Bulgarian mobile communication operators regarding the conditions for number portability; implementation is scheduled to take place by mid 2008.

Mobiltel was also very successful with the introduction of new products and services in 2007. The Vodafone live! portal was expanded and the first mobile quick-pay-services were developed. Moreover, Mobiltel was the first Bulgarian operator to introduce a WiMAX network which permits the transfer of data via broadband even in regions with weaker coverage. The company also strengthened its leading position in the market by expanding HSDPA/HSUPA technology.

In 2008 Mobiltel plans to consolidate its lead in the contract customer segment by strengthening its brand positioning and customer services. The objective is to continue the dynamic development of revenues and safeguard profitability.

MDC (financial figures in EUR million)	**2007** consolidated amount
Revenues	64.0
EBITDA	30.9
EBITDA margin (in %)	48.3
Operating income	12.6
(key figures)	**2007**
Mobile penetration in Belarus (in %)	71.5
Market share (in %)	43.4
Competitors	3
Customers (in '000s)	3,058.7
Share of contract customers (in %)	84.0
Revenues per customer (ARPU, in EUR)	7.7
Share of revenues from data services (in %)*	13.5

* Data revenues as a portion of traffic-related revenues

MDC – Belarus

In October 2007 the Telekom Austria Group agreed to purchase a 70% stake in the Cypriot company SB Telecom Limited for a corresponding enterprise value of EUR 724.2 million. SB Telecom Limited is the sole owner of the Belarusian mobile operator MDC. The company also entered into a call and put option agreement relating to the remaining 30% stake, exercisable in the fourth quarter of 2010 for approximately EUR 313.9 million. A performance-based deferred consideration was also agreed. This will be payable in Q4 2010 and will be directly linked to the future financial performance of MDC. Since the beginning of October 2007 MDC has been fully consolidated in the Mobile Communication segment.

MDC's contribution to revenues in Q4 2007 amounted to EUR 64.0 million. In the same period, the company generated EBITDA of EUR 30.9 million and an EBITDA margin of 48.3%.

MDC is the second largest operator in Belarus with a market share of approximately 43.4% and markets its services under the brand names "Velcom" for postpaid customers and "Privet" for prepaid customers. In a country with a total population of almost 10 million inhabitants, MDC had roughly 3.1 million customers at the end of 2007. At year-end 2007 the penetration rate in Belarus stood at 71.5%. MDC's customer base includes 84% contract customers and 16% prepaid customers. In order to minimize the risk of nonpayment, contract customers (with the exception of business customers) must always have a positive call credit.

Uncomfortable?
The trees are
already at
full throttle

When we made our greenfield investments in the Republic of Serbia and the Republic of Macedonia we did not waste time lying around, instead we launched operations within only a few months. Things might now be getting uncomfortable for the others.

MDC's well-developed GSM network covers approximately 96% of the population. As the innovation leader MDC became the first operator to introduce GPRS (May 2003), EDGE (December 2005) and pre-paid roaming (September 2007) in Belarus.

In 2008 the main operational focus will be upon the integration into the Telekom Austria Group. The aim is to further improve process efficiency and to fully leverage synergies with other companies of the Telekom Austria Group.

Vipnet – Croatia

In 2007 the Croatian mobile communication market registered a massive 13.9% increase in the penetration rate to 114.9%. Vipnet consolidated its market share at 43.0%, further closing the gap to the market leader. Thanks to an improved product portfolio, the share of contract customers rose by 3.2 percentage points to 20.5%. In a market with a total population of roughly 4.4 million, Vipnet had approximately 2.2 million customers at year-end 2007, 14.0% more than in the previous year.

On the basis of this market success Vipnet increased revenues in 2007 by 8.3% to EUR 514.2 million, while EBITDA improved even more substantially, rising by 10.3% in a year-on-year comparison to EUR 210.2 million. Investments reached EUR 64.7 million, the same level as in the previous year.

In 2007 Vipnet reported substantial increases in sales of its Homebox and Officebox products which are based on GSM and UMTS technology and allow fixed-to-mobile substitution. As the innovation leader, Vipnet also became the first Croatian operator to offer mobile broadband services on the basis of HSDPA 7.2 for both contract and prepaid customers. First movers were also the products "Vip over IP", which combines mobile and Internet telephony, and the Vip Navigator, a mobile navigation system with GPS support. In order to target different customer segments Vipnet also introduced a two-brand strategy, becoming the price leader with "tomato."

The main strategic objective in 2008 will be to defend the company's innovation leadership in order to safeguard growth potential despite the rising pressure on prices.

Vipnet

(financial figures in EUR million)	2007	2006	Change in %
Revenues	514.2	474.8	+8.3
EBITDA	210.2	190.5	+10.3
EBITDA margin (in %)	40.9	40.1	
Operating income	136.7	112.2	+21.8
Mobile penetration in Croatia (in %)	114.9	101.1	
Market share (in %)	43.0	42.9	
Competitors	2	2	
Customers (in '000s)	2,179.6	1,912.3	+14.0
Share of contract customers (in %)	20.5	17.3	
Revenues per customer (ARPU, in EUR)	15.4	15.7	-3.8
Share of revenues from data services (in %)*	26.3	26.9	

* Data revenues as a portion of traffic-related revenues

Si.mobil – Slovenia

In 2007 the mobile penetration rate in Slovenia, which has approximately 2 million inhabitants, increased from 85.4% to 92.2%. With a market share of 26.9% (2006: 24.9%), Si.mobil is the second largest operator in the country. In addition to Si.mobil there are two other mobile communication operators and two service providers in the market. At the end of 2007, a UMTS license was awarded to a further operator. At year-end 2007 Si.mobil had approximately 497,300 customers, 18.2% more than in the previous year.

Total revenues in 2007 rose by 29.8% to EUR 170.3 million due to increased customer numbers and higher average revenues per user. Thanks to effective cost management EBITDA rose by 58.3% to EUR 53.2 million; the EBITDA margin by 5.6 percentage points to 31.2%.

Within less than a year of being awarded the UMTS license Si.mobil started operating the UMTS network and now reaches some 25% of the Slovenian population. The company also implemented HSDPA technology in 2007. Si.mobil offers the lowest SMS tariffs on the Slovenian prepaid market and has also successfully positioned itself as the price leader in the postpaid segment. In the year under review, the user-friendliness of the Vodafone live! portal was optimized, as was Internet access via the mobile web browser Si.web. September saw the introduction of another innovative product, the Si.asistent, which supports payment transactions and provides access to the customer account.

In 2008 Si.mobil will continue to focus on its growth strategy on the basis of the tariff model introduced in the year under review and the successful launch of HSDPA and UMTS technologies.

Si.mobil

(financial figures in EUR million)	2007	2006	Change in %
Revenues	170.3	131.2	+29.8
EBITDA	53.2	33.6	+58.3
EBITDA margin (in %)	31.2	25.6	
Operating income	29.7	10.5	+182.9
Mobile penetration in Slovenia (in %)	92.2	85.4	
Market share (in %)	26.9	24.9	
Competitors	4	3	
Customers (in '000s)	497.3	420.9	+18.2
Share of contract customers (in %)	62.6	57.5	
Revenues per customer (ARPU, in EUR)	23.2	20.4	+13.7
Share of revenues from data services (in %)*	23.0	20.2	

* Data revenues as a portion of traffic-related revenues

Vip mobile – Republic of Serbia

In November 2006 the Telekom Austria Group was awarded a ten-year GSM 900/1800 and UMTS license in the Republic of Serbia which will be automatically extended for a further ten years. Commercial operations were launched only a few months later in July 2007. Offers for contract customers became available in fall 2007 followed by products for business customers in December 2007. This successful launch was the result of a strong customer focus combined with rapid availability of network infrastructure on the basis of a national roaming agreement.

Following Vip mobile's entry into the market, there are now three mobile communication operators in the Republic of Serbia, which has approximately 7.5 million inhabitants. The communication of a high number of customers by the market leader led to an inflationary penetration rate of 117.2% per year-end 2007. With 508,900 customers, Vip mobile already holds a 5.8% share of the market. The Serbian telecommunications market has not yet been fully deregulated and therefore has almost no mechanisms to protect newcomers to the market. However, the recently established Ministry for Telecommunications and Information Technology indicated in the reporting year that complete implementation of the EU regulatory framework and thus stronger regulation of competition could be expected in the near future.

Vip mobile* (financial figures in EUR million)	2007
Revenues	13.7
EBITDA	-52.2
EBITDA margin (in %)	-
Operating income	-72.6
Mobile penetration in the Republic of Serbia (in %)	117.2
Market share (in %)	5.8
Competitors	2
Customers (in '000s)	508.9

* Short fiscal year; start of operations in July 2007

Vip operator* (financial figures in EUR million)	2007
Revenues	2.4
EBITDA	-14.7
EBITDA margin (in %)	-
Operating income	-15.6
Mobile penetration in the Republic of Macedonia (in %)	87.4
Market share (in %)	7.9
Competitors	2
Customers (in '000s)	141.2

* Short fiscal year; start of operations in September 2007

After only six months of commercial operation, the new company had generated revenues totaling EUR 13.7 million. The start-up losses of EUR 52.2 million were mainly due to marketing and sales activities. Investments in a proprietary network and IT infrastructure amounted to EUR 99.4 million.

In the first few months of operation Vip mobile showed an impressive performance in a number of respects; it became the first mobile communication operator in the country to offer flat-rate tariffs for prepaid customers and to introduce BlackBerry for mobile e-mail traffic.

In 2008 Vip mobile will focus on expanding its market position and its own network infrastructure. The product portfolio will be continuously expanded in close consultation and with the support of the other companies in the Mobile Communication segment.

Vip operator – Republic of Macedonia

At the end of March 2007 the Telekom Austria Group acquired the third mobile communication license for the Republic of Macedonia for EUR 10 million. This GSM 900/1800 license is valid for ten years and includes an option for another ten year extension.

Vip operator launched commercial operations in September 2007, only six months after having been awarded the license. The first products were targeted at prepaid customers, offers for contract customers followed a few weeks later. This rapid market entry was made possible by a national roaming agreement and cross-border cooperation within the Mobile

Communication segment. Vip operator has an efficient organizational structure and by the end of 2007 had already won 141,200 customers. The company holds a 7.9% market share in the Republic of Macedonia which has approximately 2.5 million inhabitants.

In the year under review, Vip operator generated revenues totaling EUR 2.4 million. Start-up losses amounted to EUR 14.7 million. A total of EUR 39.1 million was invested in developing the network and in the market launch.

In 2007 the penetration rate on the mobile communications market in the Republic of Macedonia was 87.4%. The Macedonian Agency for Telecommunications has established that the two providers that are active in the Macedonian market in addition to Vip operator, have significant market power, thus obliging them to draw up a reference offer for interconnection charges based on actual costs.

In 2008 Vip operator will continue to develop its own network infrastructure.

mobilkom liechtenstein

(financial figures in EUR million)	2007	2006	Change in %
Revenues	19.9	25.9	-23.2
EBITDA	3.0	3.7	-18.9
EBITDA Margin (in %)	15.1	14.3	
Operating income	2.1	2.9	-27.6
Mobile penetration in Liechtenstein (in %)	84.1	82.1	
Market share (in %)	18.4	16.8	
Competitors	4	4	
Customers (in '000s)	5.4	4.8	+12.5
Share of contract customers (in %)	100.0	100.0	
Revenues per customer (ARPU, in EUR)	72.1	78.4	-8.0
Share of revenues from data services (in %)*	9.4	7.8	

* Data revenues as a portion of traffic-related revenues

mobilkom liechtenstein – Liechtenstein

At year-end 2007 mobilkom liechtenstein held an 18.4% share of a highly competitive market, up from 16.6% in the previous year. The penetration rate rose from 82.1% in the previous year to 84.1%. Following the spinning-off of the value-added service business and due to exchange rate differences revenues declined from EUR 25.9 million to EUR 19.9 million in 2007. While the number of customers increased, average revenues per user declined by 8.0%, although at EUR 72.1 they are still well above the European average. EBITDA in the year under review amounted to EUR 3.0 million compared to 3.7 million in the previous year. Business customers account for 44% of the 5,400 subscribers; no prepaid products are offered.

Operations in 2008 will focus on the launch of additional UMTS data and other services and on building up new international partnerships in the area of Mobile Virtual Network Operators (MVNO).

Growth Puzzle – Example #17

Thanks to our convincing data products we are growing where others only see close shaves: in the tough Austrian mobile communications market.
No reason for us to pull our hair out.

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TELEKOM AUSTRIA AG – Consolidated balance sheets

(in EUR '000s, except share information)

	Notes	December 31, 2007	December 31, 2006
ASSETS			
Current assets			
Cash and cash equivalents		209,126	125,147
Short-term investments	(3)	19,459	14,530
Accounts receivable - trade, net of allowances	(4)	751,159	712,434
Receivables due from related parties	(5)	3,294	3,291
Inventories	(6)	128,297	111,299
Prepaid expenses	(7)	124,755	137,061
Income taxes receivable		30,856	22,216
Non-current assets held for sale	(8)	254	-
Other current assets	(9)	59,031	34,172
Total current assets		**1,326,231**	**1,160,150**
Long-term assets			
Investments in associates	(10)	5,694	4,399
Financial assets long-term	(11)	60,024	77,060
Goodwill	(13)	1,939,614	1,188,614
Other intangible assets, net	(14)	2,432,963	1,855,094
Property, plant and equipment, net	(15)	3,186,462	3,215,957
Other assets long-term	(16)	8,518	4,942
Deferred tax assets	(26)	44,138	53,373
Receivable due from related parties, long-term finance	(5)	100	100
Total long-term assets		**7,677,513**	**6,399,539**
TOTAL ASSETS		**9,003,744**	**7,559,689**
LIABILITIES AND STOCKHOLDER´S EQUITY			
Current liabilities			
Short-term borrowings	(17)	(1,236,070)	(562,093)
Accounts payable - trade		(637,083)	(508,357)
Provisions and accrued liabilities	(18)	(229,276)	(202,057)
Payables to related parties	(5)	(17,299)	(11,830)
Income taxes payable		(21,766)	(22,076)
Other current liabilities	(19)	(237,962)	(167,837)
Deferred income	(20)	(177,766)	(183,010)
Total current liabilities		**(2,557,222)**	**(1,657,260)**
Long-term liabilities			
Long-term debt	(21)	(2,793,833)	(2,750,135)
Lease obligations and Cross Border Lease	(22)	(49,739)	(57,365)
Employee benefit obligation	(23)	(112,998)	(111,572)
Provisions long-term	(18)	(89,630)	(72,705)
Deferred tax liabilities	(26)	(195,408)	(44,248)
Other liabilities and deferred income	(25)	(639,618)	(42,888)
Total long-term liabilities		**(3,881,226)**	**(3,078,913)**
Stockholders' equity			
Common stock	(28)	(1,003,260)	(1,090,500)
Treasury shares		334,350	654,597
Additional paid-in capital		(548,902)	(461,640)
Retained earnings		(1,385,657)	(1,924,746)
Revaluation reserve		(99)	(375)
Translation adjustments		38,320	(811)
Equity attributable to equity holders of the parent		(2,565,248)	(2,823,475)
Minority interests		(48)	(41)
Total stockholders' equity		**(2,565,296)**	**(2,823,516)**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		**(9,003,744)**	**(7,559,689)**

See accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG
Consolidated statements of operations

(in EUR '000s, except share information)

	Notes	2007	2006
Operating revenues	(29)	4,918,964	4,759,560
Other operating income	(30)	85,134	59,412
Operating expenses			
Materials		(405,689)	(385,217)
Employee costs, including benefits and taxes		(797,836)	(763,098)
Depreciation and amortization	(14, 15)	(1,092,980)	(1,123,931)
Impairment charges	(14, 15)	(498)	(10,480)
Other operating expenses	(31)	(1,945,676)	(1,759,133)
Operating income		**761,419**	**777,113**
Financial result			
Interest income	(32)	22,020	20,078
Interest expense	(32)	(174,237)	(138,230)
Foreign exchange differences	(32)	(1,885)	(405)
(Loss) income from investments	(32)	328	(675)
Equity in earnings of affiliates	(32)	185	20
Income before income taxes		**607,830**	**657,901**
Income tax expense	(26)	(115,339)	(96,061)
Net income		**492,491**	**561,840**
Attributable to:			
Equity holders of the parent		492,484	561,816
Minority interests		7	24
Basic and fully diluted earnings per share	(28)	1.09	1.19

See accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG – Consolidated statements of cash flows

(in EUR '000s)

	2007	2006
Cash generated from operations		
Net income	492,491	561,840
Adjustments to reconcile net income to cash generated form operations		
Depreciation, amortization and impairment charges	1,093,478	1,134,411
Write-offs from and appreciation to investments, net	-	1,136
Employee benefit obligation - non-cash	10,881	(372)
Allowance for doubtful accounts	33,463	34,323
Change in deferred taxes	36,246	8,349
Equity in earnings of affiliates less than dividends received	394	664
Stock compensation	5,584	13,015
Employee participation program	1,652	10,065
Asset retirement obligation - accretion expense	4,062	3,380
Gain on sale of investments	(229)	(437)
Loss on disposal/retirement of equipment	2,294	1,430
Other	1,218	(56)
	1,681,534	**1,767,748**
Changes in assets and liabilities, net of effect of business acquired		
Accounts receivable - trade	(47,243)	(32,634)
Due from related parties	(58)	(3,624)
Inventories	(13,485)	(20,406)
Prepaid expenses and other assets	6,909	(33,809)
Accounts payable - trade	76,855	(35,486)
Employee benefit obligation	(25,282)	(3,812)
Accrued liabilities	30,092	26,584
Due to related parties	4,206	576
Other liabilities and deferred income	28,427	(75,208)
	60,421	**(177,819)**
Cash generated from operations	**1,741,955**	**1,589,929**

	2007	2006
Cash from investing activities		
Capital expenditures, including interest capitalized	(851,319)	(996,726)
Acquisitions of subsidiaries, net of cash acquired	(838,072)	0
Sale of subsidiaries, net of cash	275	(445)
Proceeds from sale of equipment	15,486	28,121
Purchase of investments	(7,987)	(11,481)
Proceeds from sale of investments	11,746	8,921
Cash used in investing activities	**(1,669,871)**	**(971,610)**
Cash from financing activities		
Proceeds from issuance of bonds and long-term debt	470,000	300,000
Principal payments on long-term debt	(99,129)	(244,478)
Change in short-term borrowings	351,996	3,672
Purchase of treasury stock	(369,873)	(406,754)
Dividends paid	(343,083)	(261,201)
Cash from (used in) financing activities	**9,911**	**(608,761)**
Effect of exchange rate changes	1,984	(1,167)
Net increase in cash and cash equivalents	**83,979**	**8,391**
Cash and cash equivalents at beginning of period	125,147	116,756
Cash and cash equivalents at end of period	209,126	125,147

See accompanying notes to consolidated financial statements

TELEKOM AUSTRIA AG – Consolidated statements of changes in stockholder's equity

(in EUR '000s, except share information)

	Common stock		Treasury Shares	
	Number of shares	Par value	Number of shares	at cost
Balance January 1, 2006	**500,000,000**	**1,090,500**	**(17,497,106)**	**(256,396)**
Net unrealized gain/loss on securities, net of EUR (2) deferred income tax	-	-	-	-
Net realized gain/loss on securities, net of EUR 5 deferred income tax	-	-	-	-
Foreign currency translation adjustment net of EUR 6 deferred income tax	-	-	-	-
Net income recognized directly in equity	-	-	-	-
Net income	-	-	-	-
Total recognized income for the period	-	-	-	-
Distribution of dividends	-	-	-	-
Purchase of Treasury shares	-	-	(21,310,870)	(406,754)
Employee Participation Program	-	-	500,503	8,553
Balance December 31, 2006	**500,000,000**	**1,090,500**	**(38,307,473)**	**(654,597)**
Net unrealized gain/loss on securities, net of EUR 80 deferred income tax	-	-	-	-
Net realized gain/loss on securities net of EUR 17 deferred income tax	-	-	-	-
Foreign currency translation adjustment net of EUR 0 deferred income tax	-	-	-	-
Net income recognized directly in stockholder's equity	-	-	-	-
Net income	-	-	-	-
Total recognized income for the period	-	-	-	-
Distribution of dividends	-	-	-	-
Purchase of Treasury shares	-	-	(19,567,527)	(369,873)
Retirement of Treasury shares	(40,000,000)	(87,240)	40,000,000	688,490
Employee Participation Program	-	-	86,742	1,630
Balance December 31, 2007	**460,000,000**	**1,003,260**	**(17,788,258)**	**(334,350)**

See accompanying notes to consolidated financial statements

Additional paid-in capital	Retained earnings	Revaluation reserve	Translation adjustment	Total	Minority interest	Total stockholders' equity
460,128	**1,624,131**	**375**	**11**	**2,918,749**	**17**	**2,918,766**
-	-	15	-	15	-	15
-	-	(15)	-	(15)	-	(15)
-	-	-	800	800	-	800
-	**-**	**-**	**-**	**800**	**-**	**800**
-	561,816	-	-	561,816	24	561,840
-	-	-	-	**562,616**	-	**562,640**
-	(261,201)	-	-	(261,201)	-	(261,201)
-	-	-	-	(406,754)	-	(406,754)
1,512	-	-	-	10,065	-	10,065
461,640	**1,924,746**	**375**	**811**	**2,823,475**	**41**	**2,823,516**
-	-	(223)	-	(223)	-	(223)
-	-	(53)	-	(53)	-	(53)
-	-	-	(39,131)	(39,131)	-	(39,131)
-	**-**	**-**	**-**	**(39,407)**	**-**	**(39,407)**
-	492,484	-	-	492,484	7	492,491
-	**-**	**-**	**-**	**453,077**	**-**	**453,084**
-	(343,083)	-	-	(343,083)	-	(343,083)
-	-	-	-	(369,873)	-	(369,873)
87,240	(688,490)	-	-	-	-	-
22	-	-	-	1,652	-	1,652
548,902	**1,385,657**	**99**	**(38,320)**	**2,565,248**	**48**	**2,565,296**

All amounts in EUR '000s

(All amounts in EUR '000s)

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

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

Telekom Austria AG 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 "The Company") are engaged as full service telecommunications providers of long distance, local and mobile communication services, corporate data communications services as well as internet services and television broadcasting (aonTV). The Company also provides services through pay phones and supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Croatia, Slovenia, Bulgaria and Serbia, Macedonia and Belarus.

The Federal Republic of Austria, through Österreichische Industrie-Holding AG ("ÖIAG"), is a significant shareholder of the Company. ÖIAG's stake in the Company has increased from approximately 25.2% at the end of December 2006 to approximately 27.4% at the end of December 31, 2007 as a consequence of share repurchases and the retirement of stock.

In addition to the related party transactions described in note (5), 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 the Company and has the right to impose taxes such as income and value added taxes.

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, 2007 and as endorsed by the European Union.

In August 2005, the IASB issued IFRS 7 "Financial Instruments: Disclosures", which requires entities to provide disclosures in financial statements regarding the significance of financial instruments and the nature and extent of risks arising from financial instruments and how these risks are managed. IFRS 7 supersedes IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". IFRS 7 is effective for annual periods beginning on or after January 1, 2007. The Company adopted IFRS 7 as of January 1, 2007 and provides comparative information for the financial year 2006.

In August 2005, the IASB also issued an amendment to IAS 1, "Presentation of Financial Instruments – Capital Disclosures". The amendment requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007. The Company has adopted the regulations of the amendment to IAS 1 as of January 1, 2007.

The following standards and interpretations were issued, but were not effective for the financial year 2007. 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 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programs	July 1, 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset	January 1, 2008
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.

In June 2007, the IFRIC issued IFRIC 13, "Customer Loyalty Programs". IFRIC 13 is effective for annual periods beginning on or after July 1, 2008 and addresses the accounting of customer loyalty programs that are operated either by a manufacturer or service provider itself or where the entity participates in a program operated by a third party. According to IFRIC 13, the portion of revenue allocated to the award credit shall be deferred until the customer has redeemed his awards or until the date the award credit expires. The Company is currently evaluating the impact on its consolidated financial statements and disclosures.

The Company records obligations under its customer loyalty programs at the time the customer acquires a title. Related revenues are deferred.

Principles of consolidation

The consolidated financial statements of the Company include 24 (2006: 15) subsidiaries in Austria and 29 (2006: 16) 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. Under the equity method, only the Company's investments in and net amounts due to and due from the equity investee are included in the consolidated balance sheet. The Company's share of the investee's earnings is included in the consolidated operating results and only dividends, cash distributions, loans or other cash received from or paid to the investee are included in consolidated cash flows.

All significant intercompany balances and transactions have been eliminated in consolidation. The subsidiaries included in the consolidated financial statements are listed in note (39).

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, that 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 balance sheet 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, trade accounts payable, 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.

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 balance sheet.

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 are recorded in equity (revaluation reserve), net of applicable deferred tax.

The Company's policy for determining if an impairment of a security exists is based on a two-step approach which takes into consideration the significance of the difference between the fair value and carrying value 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.

If there is an indication that the consideration which led to the impairment of the 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 prohibited.

Financial Liabilities

All financial liabilities are classified as other liabilities in accordance with IAS 39 and are recognized at the time of obtainment 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.

Derivative financial instruments

In accordance with IAS 39, the Company recognizes all derivative financial instruments as assets or liabilities in the balance sheet and measures all at fair value, regardless of the Company's intent. Changes in the fair value of derivative instruments are recognized in income or shareholders' equity (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 equity (revaluation reserve) until the hedged item is recognized in the 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.

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

Fair value of financial instruments

The carrying amounts of cash, accounts receivable, accounts payable, receivables due from and payables due to related parties and accrued liabilities approximate their fair value 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 swap agreements is determined based on the cash flows from such financial instruments discounted at the Company's estimated current interest rate to enter into similar financial instruments. The basis for determining fair values is summarized in Note (27).

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.

Receivables

Trade accounts receivable and other receivables are classified as loans and receivables and are measured at amortized cost or the lower recoverable amount.

An impairment of loans, trade accounts receivable and other receivables is recorded 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. Specific allowances are recognized for individual doubtful accounts if circumstances indicate that the receivable is not fully recoverable.

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.

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 reflected 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 reevaluate 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 carrying amounts represent impairment losses on individual assets.

Amortizable intangible assets are stated at cost and are amortized using the straight-line method over their estimated useful lives, as shown below:

	Years
Mobile communication and fixed net licenses	4-20
Patents and proprietary rights	4-20
Subscriber base	3-9
Software	2-8
Other	10-30

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

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

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 considerations which led to impairment no longer exist, the Company shall reverse all or a portion of the impairment charge.

Changes in existing decommissioning, restoration and similar liabilities

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

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 value and fair value less costs to sell, are no longer depreciated and are classified separately on the face of the balance sheet 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.

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.

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 47,331 and EUR 41,320 for the years ended December 31, 2007 and 2006, respectively, and are classified based on their origination as employee costs, depreciation or operating expenses in the consolidated statement of operations.

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.

Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding for the year. Due to its past experience and Management's intention to settle employee stock options in cash, no related dilutive effect has been considered in 2007 and 2006 for the Stock Option Plan 2004.

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 valued at their net present value.

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. 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.

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 perfect 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 circumstance has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including 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.

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. Adjustments for foreign currency translation fluctuations are excluded from net income and are reported as a separate component of shareholders' equity. The foreign currency translation adjustment, classified in equity, is not recognized in profit or loss until the disposal of the respective operation.

The Slovenian subsidiaries, Si.mobil and TA Mreža, changed their functional currencies from the Slovenian Tolar to the Euro as a result of the adoption of the Euro as the national currency in Slovenia as of January 1, 2007. Exchange rate differences resulting from the inclusion of these subsidiaries in the consolidated financial statements of the Company up 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:

	Balance sheet rates for 1 Euro at December 31,		Average exchange rates for 1 Euro for the period ended December 31,	
	2007	**2006**	**2007**	**2006**
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.3308	7.3504	7.3381	7.3254
Czech Koruna (CZK)	26.6280	27.4850	27.700	28.3460
Hungarian Forint (HUF)	253.7300	251.7700	251.2915	264.2746
Serbian Dinar (CSD)	79.2362	79.0000	79.9844	78.8852
Slovak Koruna (SKK)	33.5830	34.4350	33.7753	37.2354
Slovenian Tolar (SIT) *	-	239.6400	-	239.5956
Rumanian LEU (RON)	3.6077	-	3.3232	-
Macedonian Denar (MKD)	61.2016	-	61.1826	-
Belarusian Rubel (BYR) **	3,149.3200	-	3,114.0378	-
US Dollar (USD)	1.4721	1.3170	1.3698	1.2548

* Converted to Euro at a rate of 239.640 as of January 1, 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 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 January 1, 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 communication services to individuals and commercial and non-commercial organizations. These services comprise digital mobile communication 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 communication 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 expense when a service contract exists.

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

Certain arrangements that the Company enters into provide for the delivery of multiple deliverables by the Company. These multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. In general, the Company determines that such arrangements are separated 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.

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.

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 required service period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, the Company records an increase in equity or a liability.
Due to its past experience and Management's intention to settle employee stock options granted in the stock option program 2004 in cash, the options granted are recorded as a liability. Until the 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.

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 (23)).

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 reevaluations. For more information on the carrying value of goodwill, other intangible assets and tangible assets see notes (13), (14) and (15).

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 (15).

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 (24)).

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 (25)).

(2) BUSINESS COMBINATIONS

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 values 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 the business combination
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 eTel	**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.

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

Since the effect of the acquired entities prior to the acquisitions 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 and 2006 is presented.

In December 2007, the Company sold its stake in eTel Hungaria for a sales price of EUR 950, of which EUR 550 are still outstanding.

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 communication provider Mobile Digital Communications (MDC), the second largest provider of mobile communication services in Belarus. The purchase price was paid in cash.

The Company also concluded a call and put option agreement to purchase the remaining 30% at a present value of EUR 313,916. These options will become exercisable in the fourth quarter of 2010. In accordance with IAS 32, the Company fully includes SB Telecom Limited in the consolidated financial statements without recording minority interest, 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 values according to IFRS as determined prior to the acquisition.

	Fair values on acquisition	Fair value adjustments	Carrying amounts before the business combination
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 purchase price allocation with respect to the allocation of fair values to property, plant and equipment has not been finalized and should therefore be regarded as preliminary.

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 MDC. All assets acquired and liabilities assumed of MDC and SBT are reported in the Mobile communication segment.

Since the acquisition, MDC has reported a net income of EUR 8,520.

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/MDC had been acquired at the beginning of 2007 and 2006, are estimated to be:

	Unaudited Pro forma Dec. 31, 2007	Unaudited Pro forma Dec. 31, 2006
Operating revenues and other operating income	5,206,509	5,091,568
Net income	467,882	551,325
Weighted average number of common shares outstanding	451,673,637	472,668,763
Basic and fully diluted earnings per share	Euro 1.04	Euro 1.17

(3) SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

At December 31,	2007	2006
Marketable securities short-term – available for sale	5,866	8,003
Deposits under cross border lease (note (22))	12,445	6,527
Other short-term investments	1,148	-
Total	**19,459**	**14,530**

Short-term marketable securities – available for sale are classified as short-term financial assets based on Management's intent not to hold these securities for a period longer than twelve months.

(4) TRADE ACCOUNTS RECEIVABLE

At December 31,	2007	2006
Trade accounts receivable	882,177	847,139
Allowances	(131,018)	(134,705)
Trade accounts receivable, net	**751,159**	**712,434**

As of December 31, 2007 and 2006, accounts receivable contained receivables sold to a special purpose entity under the assets backed security program as described in note (17) amounting to EUR 433,160 and EUR 483,769 respectively. In accordance with SIC 12, the special purpose entity was consolidated, which resulted in the recognition of the accounts receivable in the Company's consolidated financial statements despite their prior sale.

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

	2007	2006
Allowance at beginning of the year	134,705	148,624
Foreign currency adjustment	55	121
Change in reporting entities	6,047	(175)
Released	(6,207)	(2,971)
Impairment recognized	39,670	37,294
Amounts written-off	(43,252)	(48,188)
Allowance at the end of the year	**131,018**	**134,705**
Thereof		
specific allowance	33,306	31,262
general allowance	97,712	103,443

In the period ended December 31, 2006, the rate for calculating the general allowance for accounts receivable in the Fixed Net segment was reduced from 3.0% to 1.8% based on historic experience. This change in estimate resulted in a reduction of expenses amounting to EUR 2,264.

Trade accounts receivable are classified as short-term and non interest bearing.

The aging of trade receivables as of December 31, 2007 and 2006 was as follows:

	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not yet due	647,771	9,206	630,576	15,662
Past due 0–90 days	93,715	9,318	69,475	9,070
Past due 91–180 days	19,793	9,678	21,860	10,445
Past due 181–360 days	27,000	19,028	27,419	19,343
More than one year	93,898	89,788	97,809	80,185
Total	**882,177**	**131,018**	**847,139**	**134,705**

The Company has grouped accounts receivable 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 of each category as impaired.

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

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

(5) RELATED PARTY TRANSACTIONS

Related parties consist of the majority shareholder ÖIAG, associated companies, key management personnel including the members of the board of directors and supervisory board and 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 33,026 and EUR 40,468 in 2007 and 2006 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 2007 and 2006 respectively, the Company was charged EUR 1.060 and EUR 526 for legal services by that law firm.

For the years ended December 31, 2007 and 2006 respectively, of the total accounts receivable EUR 3,275 and EUR 3,272 related to paybox and originate from prepaid cards sold to paybox for resale.

For the years ended December 31, 2007 and 2006, of the total accounts payable EUR 16,356 and EUR 11,095 respectively, related to Omnimedia and originated from advertising and marketing services provided to the Company.

All amounts in EUR '000s

For the year ended December 31, 2007 and 2006, of total revenues, EUR 14,200 and EUR 5,201 respectively related to paybox and originated from prepaid cards sold to paybox.

For the years ended December 31, 2007 and 2006 respectively, EUR 52,523 and EUR 47,119 of other expenses mainly relate to advertising and marketing services provided by Omnimedia.

Concurrently to the sale of 16.667% of its stake in paybox austria GmbH in March 2006 (also see note (10)), the Company also granted a loan of EUR 100 to paybox austria GmbH which was outstanding as of December 31, 2007 and classified as a long-term receivable due from related parties.

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

Year ended December 31,	2007	2006
Revenues	14,332	5,349
Other operating income	391	-
Expenses	56,395	49,931
Interest income	6	5
Interest expenses	1	4

The following table shows compensation of executives as follows:

	2007	2006
Remuneration, short-term	11,151	8,261
Remuneration, long-term	150	2
Pensions	211	326
Severance	676	829
Share-based compensation	1,515	3,193
Total	**13,703**	**12,611**

Expenses for pensions and severance for other employees amounted to EUR 37,430 and EUR 42,441 in 2007 and 2006, respectively. Expenses consist of service cost, voluntary severance payments, contributions to pension plans and other pension payments.

The definition of "executive" was changed in 2007 due to the new holding structure and as a result, comparative figures for 2006 have been adjusted.

(6) INVENTORIES

Inventories consist of:

At December 31,	2007	2006
Spare parts, cables and supplies	55,018	51,199
Merchandise	73,196	59,946
Prepayments	83	154
Total	**128,297**	**111,299**

As of December 31, 2007 and 2006, the carrying amount of inventories representing fair value less cost to sell amounted to EUR 61,297 and EUR 65,595 respectively. The Company recognized an expense of EUR 21,451 and EUR 16,806 resulting from a write-down of inventories in 2007 and 2006 respectively.

(7) PREPAID EXPENSES

Prepaid expenses include the following items:

At December 31,	2007	2006
Advances to employees	14,249	13,993
Rent	10,392	12,741
Prepaid marketing expenses	71,625	75,075
Other	28,489	35,252
Total	**124,755**	**137,061**

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

(8) NON-CURRENT ASSETS HELD FOR SALE

In 2007, non-current assets held for sale related to an investment in a kolkhoz in Belarus, which was acquired in course of the acquisition of SBT and which is reported in the Mobile communication segment.

The Company recognized a net gain from assets held for sale of EUR 175 for the year ended December 31, 2006. The entire net gain of 2006 related to the Fixed Net segment and resulted from the sale of a building.

(9) OTHER CURRENT ASSETS

Other current assets consist of the following items:

At December 31,	2007	2006
Financial assets	24,940	13,340
Other non-financial assets	36,155	22,152
Other current assets, gross	61,095	35,492
Less allowance for financial assets	(1,129)	-
Less allowance for non-financial assets	(935)	(1,320)
Total	**59,031**	**34,172**

As of December 31, 2007 and 2006 respectively, 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 (5)), 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:

	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not yet due	22,323	-	12,858	-
Past due 0-90 days	2,021	967	290	-
Past due 91-180 days	18	3	11	-
Past due 181-360 days	131	7	181	-
More than one year	447	152	-	-
Total	**24,940**	**1,129**	**13,440**	**-**

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

	2007	2006
Allowance at beginning of the year	-	-
Charged to expenses	1,129	-
Allowance at the end of the year	**1,129**	**-**

(10) INVESTMENTS IN ASSOCIATES

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 is recorded in the Fixed Net segment.

On March 1, 2006 the Company sold 16.667% of its stake in paybox austria GmbH to One GmbH. As a consequence of significant participation rights given to the buyer, The Company can no longer exercise control, but continues to maintain significant influence and, consequently, accounts for paybox using the equity method of accounting.

As of December 31, 2007 and 2006, the investments in associates included 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 reporting date of Omnimedia and Dr. Maté GmbH is June 30. The Company's share of income as of December 31, 2007 and 2006, was based on interim financial statements of both companies.

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

	2007	2006
Carrying value at January 1,	4,399	3,642
Dividends received	(579)	(684)
Recognized income	185	20
Additions	1,689	1,059
Change in reporting entities (paybox)	-	362
December 31,	**5,694**	**4,399**

The following is a summary of aggregated financial information as reported by equity investees:

Income statement	2007	2006
Revenues	32,874	14,844
Operating income	3,348	2,799
Net income	1,764	1,371

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. In 2006, for paybox, the aggregate financial information presented above includes revenues, operating expenses and net income for the period March 1 to December 31, 2006 and, in 2007, January 1 to December 31, 2007.

Balance sheet at December 31,	2007	2006
Total assets	36,878	44,352
Total liabilities	34,459	41,689
Total stockholders' equity	2,419	2,662

(11) LONG-TERM FINANCIAL ASSETS

Long-term financial assets consist of the following:

At December 31,	2007	2006
Other investments carried at cost	773	748
Other long-term financial assets	24	995
Marketable securities – available for sale, long-term	14,243	15,132
Deposits cross border lease (note (22))	44,984	60,185
Total	**60,024**	**77,060**

Other investments carried at cost include investments in unquoted equity instruments and one unconsolidated affiliated company (see note (39)). 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, 2007, the Company has no intentions to dispose any of the investments that it holds.

As of December 31, 2007 and 2006, 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 intent not to sell these marketable securities within the next twelve months, these are classified as long-term financial assets.

(12) MARKETABLE SECURITIES

Unrealized gains and losses are summarized in the following table:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
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	14,429
At December 31, 2006				
Available-for-sale				
debt securities	5,467	27	76	5,419
equity securities	119	-	6	114
mutual funds	17,057	550	5	17,602

The specific identification method was used to determine amortized cost and realized gains and losses.

The unrealized losses on the investment in mutual funds, debt securities and equity securities were caused by fluctuations in the capital markets. The Company considers the fluctuation of the fair value of these investments to be temporary and therefore did not record any impairment.

(13) GOODWILL

The following table illustrates the changes in the carrying value of goodwill by segment for the periods ended December 31, 2007 and 2006:

	Fixed Net	Mobile Communication	Total
Goodwill at January 1, 2006	16,347	1,172,009	1,188,356
Impairment	-	(8)	(8)
Translation adjustment	-	266	266
Goodwill at December 31, 2006	**16,347**	**1,172,267**	**1,188,614**
Acquisitions	44,282	727,471	771,753
Translation adjustment	604	(21,357)	(20,753)
Goodwill at December 31, 2007	**61,233**	**1,878,381**	**1,939,614**

For details on acquisitions, see note (2) Business Combinations.

As of December 31, 2007 and 2006, the accumulated impairment charges totaled EUR 176,919.

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 because it is expected that this reporting unit will benefit from the synergies of the business combination.

December 31,	2007	2006
Goodwill Mobile Communication		
mobilkom austria	364,000	364,000
Si.mobil telekomunikacijske storitve d.d.	136,259	136,259
Vipnet d.o.o.	66,744	66,565
Mobile Digital Communications	705,935	-
Mobiltel EAD	605,443	605,443
Total	**1,878,381**	**1,172,267**
Goodwill Fixed Net		
Telekom Austria TA AG	48,270	15,107
Mass Response Service	11,723	-
World-Direct	1,240	1,240
Total	**61,233**	**16,347**

The following parameters were applied for calculating the value in use in 2007: growth rates: Fixed Net -1.0% to 2.0%, Mobile communication 1.0% to 3.0%; interest rates: Fixed Net 7.6%, Mobile Communication: 7.4% to 10.0%. In 2006, the applied growth rates ranged from -1.0% to 2.0% in the Fixed Net segment and from 2.0% to 3.0% in the Mobile communication segment; the interest rates used were 9.0% in the Fixed Net segment and ranged from 8.5% to 9.6% in the Mobile communication segment. The resulting value in use was compared with the carrying value of the cash generating unit including goodwill. Impairment charges were recorded if the carrying value of the cash generating unit was in excess of the value in use.

In the third quarter of 2006, the Company finalized the purchase price allocation in respect of the acquisition of Mobiltel, which resulted in an increase in goodwill, deferred tax liabilities and income tax liabilities. Goodwill increased by EUR 39,450 to EUR 605,413 as of the acquisition date, July 12, 2005.

(14) OTHER INTANGIBLE ASSETS

	Licenses	Brand names	Software	Customer base	Advances/ Construction in Progress	Other	Total
Cost							
Balance at January 1, 2006	691,186	437,894	519,308	731,401	40,436	103,647	2,523,872
Additions	7,614	-	72,217	-	346,352	9,850	436,033
Disposals	(3)	-	(65,941)	-	-	(3,830)	(69,774)
Transfers	202	-	36,671	-	(29,998)	2,031	8,906
Translation adjustments	160	140	275	234	2	103	914
Changes in reporting entities	-	-	(462)	-	-	-	(462)
Balance at December 31, 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**
Accumulated amortization							
Balance at January 1, 2006	(269,748)	-	(333,947)	(198,246)	-	(57,911)	(859,852)
Additions	(48,735)	-	(96,747)	(95,970)	-	(11,259)	(252,711)
Impairments	-	-	-	-	-	(1,048)	(1,048)
Disposals	1	-	65,730	-	-	3,740	69,471
Transfers	-	-	-	-	-	-	-
Translation adjustments	(58)	-	(145)	(53)	-	(32)	(288)
Changes in reporting entities	-	-	32	-	-	-	32
Balance at December 31, 2006	**(318,540)**	-	**(365,077)**	**(294,269)**	-	**(66,510)**	**(1,044,396)**
Additions	(59,340)	-	(107,802)	(107,177)	-	(18,078)	(292,397)
Impairments	-	-	-	-	-	-	-
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)**
Carrying amount at							
December 31, 2007	729,071	545,071	336,838	699,100	52,954	69,929	2,432,963
December 31, 2006	380,619	438,034	196,991	437,366	356,792	45,291	1,855,093

As of December 31, 2007 and 2006, EUR 15,009 and EUR 9,726 respectively of the total carrying value of software and EUR 4,689 and EUR 2,374 respectively of additions to software related to internally developed software.

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. As of December 31, 2006, the carrying value of the software reclassified was EUR 44,054, with initial costs of EUR 82,335.

Interest capitalized for the years ended December 31, 2007 and 2006, totaled EUR 7,596 and EUR 1,405 respectively. For information on the interest rate used to calculate interest capitalized see note (15).

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
Term	2009–2017	2020–2025
License cost	834,631	259,975

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.

In the fourth quarter of 2006, the Company acquired the third license (GSM and UMTS) in Serbia for a purchase price of EUR 320,000. As the license was not in use in 2006 it was shown in advances/constructions in progress/other and was reclassified to licenses in 2007. The license has a term of ten years with the option of automatic renewal for another ten years. The terms of the license agreement include the requirement to launch operations within six months and to provide specified coverage levels of the population as well as of the three major highways within specified time periods after the grant date.

Additionally, in the fourth quarter 2006, Si.mobil, the Slovenian Mobile communication subsidiary, acquired UMTS frequencies for Slovenia for a purchase price of EUR 6,500. The usage of frequencies is valid for 15 years, with an option to extend the term.

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

In the period ended December 31, 2007, no impairment charges were recorded. In the period ended December 31, 2006, an impairment charge amounting to EUR 1,048 was recognized due to lack of capacity usage of indefeasible rights of use (IRUs) of sea cables. This impairment charge was recorded in the Fixed Net segment.

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

2008	325,289
2009	298,900
2010	274,070
2011	230,575
2012	153,284
Thereafter	605,774

In 2007, additions to intangible assets with indefinite useful lives mainly relate to the acquisition of SBT (see note (2)). In 2006, the slight increase in the total carrying value was caused by foreign exchange differences. 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 of December 31, 2007 and 2006, brand names were allocated to the following cash generating units:

December 31,	2007	2006
Mobile communication segment		
mobilkom austria	145,860	145,860
Si.mobil telekomunikacijske storitve d.d.	3,148	3,148
Vipnet d.o.o	26,091	26,021
Mobiltel EAD	263,005	263,005
Mobile Digital Communications	100,666	-
	538,770	**438,034**
Fixed Net segment		
eTel	4,800	-
Mass Response	1,501	-
	6,301	**-**
Total	**545,071**	**438,034**

As of December 31, 2007 and 2006, purchase commitments for intangible assets amounted to EUR 11,739 and EUR 15,348 respectively.

(15) PROPERTY, PLANT AND EQUIPMENT

	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leasing	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2006	804,565	9,981,366	8,753	167,365	10,962,049
Additions	15,987	369,893	14	179,007	564,901
Disposals	(30,418)	(429,614)	(6,715)	(410)	(467,157)
Transfers	13,660	167,819	-	(190,386)	(8,907)
Translation adjustments	109	2,056	112	139	2,416
Changes in reporting entities	-	(23)	-	-	(23)
Balance at December 31, 2006	**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**

Accumulated depreciation					
Balance at January 1, 2006	(355,392)	(7,016,014)	(7,613)	-	(7,379,019)
Additions	(46,298)	(824,181)	(741)	-	(871,220)
Impairments	(5,932)	(3,492)	-	-	(9,424)
Disposals	18,952	398,294	6,409	-	423,655
Transfers	6	(6)	-	-	-
Translation adjustments	(3)	(1,217)	(104)	-	(1,324)
Changes in reporting entities	-	10	-	-	10
Balance at December 31, 2006	**(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)**
Carrying amount at					
December 31, 2007	398,703	2,518,108	1,132	268,519	3,186,462
December 31, 2006	415,236	2,644,891	115	155,715	3,215,957

Interest capitalized totaled EUR 1,552 and EUR 988 respectively. Calculation of capitalized interest was based on interest rates of 4.9% and 4.2% for the years ended December 31, 2007 and 2006 respectively.

In 2007 and 2006, the carrying value of land amounted to EUR 57,213 and EUR 55,489 respectively.

In the year ended December 31, 2007, impairment charges of EUR 498 were made, due to the results of an impairment test related to land and buildings in the Fixed Net segment. In the year ended December 31, 2006, impairment charges of EUR 9,424 primarily related to buildings in the amount of EUR 4,942 and land and buildings in the amount of EUR 990 in the Fixed Net segment and technical facilities in the amount of EUR 2,534 in the Mobile Communication segment due to the results of impairment tests and to technological obsolescence in the Fixed Net segment of EUR 958.

In 2007 and 2006, 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 1,515 in 2007 and EUR 12,001 in 2006.

Government grants totaling EUR 5,158 and EUR 2,471 were deducted from acquisition cost in 2007 and 2006 respectively.

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

As of December 31, 2007 and 2006, communication network and other equipment, with a carrying value of EUR 115,720 and EUR 174,029 respectively, were pledged as collateral for the cross border lease transactions described in note (22).

As of December 31, 2007 and 2006, purchase commitments for property, plant and equipment amounted to EUR 77,815 and EUR 70,162 respectively.

The estimated useful lives of property, plant and equipment subject to depreciation and of intangible assets subject to amortization represents 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 199,582. A reduction of the useful lives by one year would lead to an increase in depreciation and amortization expense of EUR 322,830.

(16) OTHER NON-CURRENT ASSETS

Other non-current assets include the following items:

At December 31,	2007	2006
Financial assets	6,196	3,302
Other non financial assets	2,406	1,640
Other non-current assets	8,602	4,942
Less allowance	(84)	-
Total	**8,518**	**4,942**

As of December 31, 2007 and 2006, non-current financial assets mainly consist of trade accounts receivable and loans to employees and, as of December 31, 2007, the fair value of a foreign exchange forward contract.

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

	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not yet due	6,196	84	3,302	-
Total	**6,196**	**84**	**3,302**	**-**

(17) SHORT-TERM BORROWINGS

The Company's short-term borrowings include:

At December 31,	2007	2006
Current portion of long-term debt (note (21))	469,660	142,725
Short-term debt	458,056	242,560
Asset backed security debt (ABS)	279,089	150,541
Bank overdrafts	10,515	16,839
Multi-currency notes program	9,647	-
Current portion of lease obligations	9,103	9,428
Total	**1,236,070**	**562,093**

The increase in short-term borrowings is mainly due to the acquisitions of eTel and MDC. Due to the current situation on the capital markets, the purchase price of SBT/MDC was financed through interim funding (see also note (21)).

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

In December 2003, the securitization program was extended to increase the maximum financing limit from EUR 290,000 to EUR 350,000. Additionally, the required discount on the trade receivables held in trust for short-term debt received was reduced.

All amounts in EUR '000s

At December 31, 2007 and 2006, the Company recorded short-term debt totaling EUR 278,000 and EUR 150,000 respectively, secured by accounts receivable held in trust and recorded accumulated fees and interest of EUR 1,089 and EUR 541 respectively.

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 4,927 and EUR 3,580, and service and liquidity fees of EUR 596 and EUR 722 in other operating expense for the periods ended December 31, 2007 and 2006 respectively. Additionally, service fees amounting to EUR 210 and EUR 239 are included in other operating income for 2007 and 2006 respectively.

(18) PROVISIONS AND ACCRUED LIABILITIES

Provisions and accrued liabilities consist of the following:

	Non income tax	Employee	Customer allowances	Customer retention	Asset retirement obligation	Legal	Intercon-nection/ Roaming	Other	Total
Balance at January 1, 2007	6,137	77,309	56,085	27,578	72,705	8,014	8,081	18,853	274,762
Additions	887	33,976	49,504	4,707	4,873	5,887	22,617	26,517	148,968
Changes in estimate	-	-	-	-	969	-	-	-	969
Used	(467)	(45,955)	(42,643)	(6,495)	(986)	(2,161)	(1,877)	(7,994)	(108,578)
Released	(5,026)	(3,801)	(4,183)	(153)	(235)	(1,603)	(415)	(3,326)	(18,742)
Accretion expense	-	-	-	-	4,062	-	-	-	4,062
Short term portion of employee benefit obligation	-	6,924	-	-	-	-	-	-	6,924
Reclassifications	-	-	(771)	-	-	6	(5,215)	(2,812)	(8,792)
Translation adjustments	-	(4)	32	16	(210)	(74)	47	31	(162)
Changes in reporting entities	172	2,906	493	-	8,452	2,266	2,267	2,939	19,495
Balance at December 31, 2007	**1,703**	**71,355**	**58,517**	**25,653**	**89,630**	**12,335**	**25,505**	**34,208**	**318,906**
Thereof long-term									
December 31, 2007	-	-	-	-	89,630	-	-	-	89,630
December 31, 2006	-	-	-	-	72,705	-	-	-	72,705

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, will be utilized during 2008. 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.

Non-income tax

The non-income tax accrual contains amounts for land tax, chamber of commerce contributions and other fees. The release mainly relates to accrued payroll cost which was released following a notification from the tax authorities.

Employees

The accruals for employees contained unused vacation days, bonuses, overtime and the short-term portion of employee benefit obligations for severance payments, service awards, pensions and voluntary termination benefits (see also note (23)).

In December 2006, the Company introduced a voluntary termination incentive program ("VTIP") to civil servants who cannot be terminated involuntarily and a voluntary termination incentive program to regular employees who meet specified criteria, and recorded a liability of EUR 13,027. The accrual was utilized in 2007.

Additionally, in December 2006, the Company also introduced a voluntary option incentive program to civil servants and recorded an accrued liability of EUR 3,393 for this program. The accrual was utilized in 2007.

Customer allowances and customer retention

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

The interest rate of 5.00% used in 2006 remained the same for 2007. In 2006, the interest rate was increased from 3.82% to 5.00% based on general interest market development. This change in estimate resulted in a reduction of the asset retirement obligation, which was partially offset by changes from the estimated amount of the outflow of resources to settle the obligation.

Litigation

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

Roaming and interconnection

The increase in the accrual for roaming and interconnection is mainly due to the reduction of termination charges between mobile communication providers in Austria, which was enacted by the RTR (Rundfunk und Telekom Regulierungs – GmbH) in the third quarter of 2007.

Other accruals

Other accruals mainly related to audit fees, public fees and consulting and value added services.

(19) OTHER CURRENT LIABILITIES

Other current liabilities consist of the following items:

At December 31,	2007	2006
Fiscal authorities	74,977	67,548
Employees	26,089	25,794
Stock option plans (see note (23))	15,449	13,774
Social security	11,142	8,230
Prepayments from customers	7,944	1,326
Government	544	540
Other non-financial liabilities	3,839	4,537
Other current non-financial liabilities	**139,984**	**121,749**
Other current financial liabilities	97,978	46,088
Total	**237,962**	**167,837**

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), liabilities from one-time termination benefits and liabilities from service awards.

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

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

(20) DEFERRED INCOME

At December 31,	2007	2006
Unearned income	170,898	175,898
Unamortized balance on sale of tax benefits (see note (22))	23,125	30,237
	194,023	**206,135**
Less non-current portion	(16,257)	(23,125)
Deferred income, current portion	**177,766**	**183,010**

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 straight line over the period the service is provided.

(21) LONG-TERM DEBT

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

Currency	Year of maturity	December 31, 2007 Nominal interest rate		Face value	Carrying amount	December 31, 2006 Nominal interest rate		Face value	Carrying amount
Bonds under EMTN Program									
EUR	2013	fixed	5.00%	750,000	739,018	fixed	5.00%	750,000	744,400
EUR	2010	fixed	3.375%	500,000	485,012	fixed	3.375%	500,000	483,495
EUR	2017	fixed	4.25%	500,000	494,182	fixed	4.25%	500,000	493,541
				1,750,000	**1,718,212**			**1,750,000**	**1,721,437**
Bank debt guaranteed by federal government									
EUR	2007		-	-	-	fixed	7.00%	7,267	7,267
EUR	2007		-	-	-	variable	2.09%	36,336	36,336
EUR	2007		-	-	-	variable	2.14%	21,802	21,802
EUR	2008-2011	variable	4.38%	17,441	17,441	variable	3.75%	21,802	21,802
EUR	2008-2011	variable	4.77%	1,453	1,453	variable	4.06%	1,817	1,817
				18,895	**18,895**			**89,024**	**89,024**
Bank debt without guarantee by federal government									
EUR	2007					variable	2.10%	29,000	29,000
EUR	2008	variable	5.68%	46,511	46,511	variable	4.53%	46,511	46,511
EUR	2008	fixed	5.33%	186,042	186,042	fixed	5.33%	186,042	186,042
EUR	2008	variable	5.35%	90,000	90,000	variable	4.20%	90,000	90,000
EUR	2008	variable	5.35%	96,000	96,000		-	-	-
EUR	2009	variable	4.81%	180,000	180,000	variable	4.72%	180,000	180,000
EUR	2009	fixed	4.94%	236,128	236,777	fixed	4.94%	236,128	236,777
EUR	2009	variable	5.94%	59,032	59,194	variable	5.09%	59,032	59,194
EUR	2009	fixed	4.58%	150,000	150,000		-	-	-
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		-	-	-
				1,477,713	**1,478,524**			**1,036,713**	**1,037,524**
Total interest bearing debt				**3,246,608**	**3,215,631**			**2,875,738**	**2,847,985**
Accrued interest				47,862	47,862			44,875	44,875
Financial debt				**3,294,471**	**3,263,493**			**2,920,612**	**2,892,860**
Current portion of long-term debt				(469,660)	(469,660)			(142,725)	(142,725)
Long term debt				**2,824,811**	**2,793,833**			**2,777,887**	**2,750,135**

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, which provided borrowing facilities of up to EUR 2,500,000 which was increased to EUR 5,000,000 in December 2005. 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.

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.

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. Under the terms of the various loan agreements, the Company must observe covenants requiring it to meet certain financial ratios. As of December 31, 2007, no events had occurred which would require the Company to repay the loans prior to maturity.

The terms of the loan agreement for EUR 232,553 to finance the acquisition of Telekom Austria Czech Republic, maturing in 2008, additionally require the Company to maintain a certain interest in the company, otherwise the loan becomes due.

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.

(22) 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 expire on various dates through 2016.

Future minimum lease payments for non-cancelable operating leases, finance leases and cross border leases as of December 31, 2007 are:

	Cross Border Leasing	Other finance leases	Operating Leasing
2008	8,730	411	26,145
2009	24,929	249	21,861
2010	9,083	244	19,015
2011	9,067	234	14,813
2012	1,987	274	12,883
after 2012	12,059	-	24,380
Total minimum lease payments	**65,855**	**1,412**	**119,097**
Less amount representing interest	(8,425)	-	
Present value of lease payments	**57,430**	**1,412**	
Less current portion	(8,730)	(373)	
Non-current lease obligations	**48,700**	**1,039**	

Total rent expense amounted to EUR 103,356 and EUR 88,762 in 2007 and 2006 respectively.

The Company will receive future 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 straight line over the terms of the contracts. As of December 31, 2007 and 2006, the cost of this equipment amounted to EUR 28,768 and EUR 30,949, accumulated depreciation to EUR 22,647 and EUR 23,965 and the carrying value to EUR 6,120 and EUR 6,984 respectively.

The following table sets forth the future minimum lease payments to be received as of December 31, 2007:

	Operating Leasing
2008	12,715
2009	10,461
2010	7,551
2011	3,380
2012	2,450
after 2012	4,365
Total minimum lease payments	**40,922**

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 balance sheet 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 is amortizing 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 balance sheet. 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 have 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 balance sheets. Accordingly, interest income and expenses in the same amount totaling EUR 4,758 and EUR 5,754 were recognized in 2007 and 2006 respectively.

The amortization of the benefit in 2007 and 2006 of EUR 7,004 and EUR 6,962 respectively, is recorded in interest income.

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

At December 31,	2007	2006
Deposits long-term	44,984	60,185
Deposits short-term	12,446	6,528
Total assets in connection with cross border leases	**57,430**	**66,713**
Cross border lease obligations	57,430	66,713
Of which current	8,730	9,385

(23) EMPLOYEE BENEFIT OBLIGATIONS

Long-term employee benefit obligations consist of the following:

At December 31,	2007	2006
Contractual termination benefits	346	5,031
Service awards	50,095	48,258
Severance	53,039	49,435
Pensions	7,756	8,043
Other	1,762	805
Total	**112,998**	**111,572**

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 2007 and 2006 and a discount rate of 5.0% in 2007 and of 4.5% in 2006. VRIPs are not funded. As of December 31, 2007, the accrual for the VRIPs related to 55 employees. In connection with VRIPs, the Company made payments of EUR 2,694 and EUR 3,170 during 2007 and 2006 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 2007, an amount of EUR 1,307 was recorded in short-term accrued liabilities (see note (18)).

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,	2007	2006
Actuarial assumptions:		
Discount rate	5.0%	4.5%
Rate of compensation increase – civil servants	5.4%	5.0%
Rate of compensation increase – other employees	3.1%	4.0%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–7.0%	0.0%–8.0%

* 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, 2007 and 2006:

	2007	2006
Accrual at the beginning of the year	50,759	49,385
Service cost	2,048	2,138
Interest cost	2,333	2,033
Recognized actuarial gains	(33)	(338)
Past service cost	(8)	-
Benefits paid	(2,500)	(2,459)
Accrual at the end of the year	**52,599**	**50,759**
Less short-term portion (see note (18))	(2,504)	(2,501)
Accrual at the end of the year, long-term	**50,095**	**48,258**

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2007 and 2006 respectively. The experience adjustments amounted to EUR 343 and EUR 2,604 in 2007 and 2006 respectively.

Severance

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans as described below. Following a legal change, obligations for employees starting to work for the Company after January 1, 2003 are covered by a defined contribution plan. The Company paid EUR 838 and EUR 644 to this defined contribution plan (BAWAG Allianz Mitarbeitervorsorge-kasse AG) in 2007 and 2006 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 tables provide the components of the net periodic benefit cost and a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2007 and 2006:

All amounts in EUR '000s

	2007	2006
Service cost	5,027	5,215
Interest cost	2,877	2,513
Amortization of actuarial losses	188	411
Net periodic benefit cost	**8,092**	**8,139**

	2007	2006
Defined benefit obligation at the beginning of the year	59,680	58,930
Change in reporting entities	926	(31)
Service cost	5,027	5,215
Interest cost	2,877	2,513
Benefits paid	(5,415)	(3,118)
Past service cost	770	-
Actuarial losses (gains)	(11,440)	(3,829)
Defined benefit obligation at the end of the year	**52,425**	**59,680**
Unrecognized past service cost	(654)	-
Unrecognized actuarial gain (loss)	3,582	(8,046)
Accrued liability at the end of the year	**55,353**	**51,634**
Voluntary severance payments	-	262
Total accrued severance liabilities at the end of the year	**55,353**	**51,896**
Less short-term portion (see note (18))	(2,314)	(2,461)
Accrued severance liability at the end of the year, long-term	**53,039**	**49,435**

Of the defined benefit obligations for severance, approximately 2% related to foreign subsidiaries as of December 31, 2007 and 2006 respectively. The experience adjustments amounted to EUR 20,714 and EUR 5,883 in 2007 and 2006 respectively.

As of December 31, 2006, the accrual for voluntary severance payments was reported as short-term accrued liability and related to individuals who are generally not entitled to severance payments but who have accepted a special offer by the Company to receive severance payments for voluntary termination of employment. The government offered to civil servants of a certain age early retirement at reduced future pension payments. The Company offered these eligible employees additional severance payments to further encourage the acceptance of the government offer.

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 2006, 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 41,743 and EUR 39,861 in 2007 and 2006 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 approximately EUR 11,248 and EUR 11,057 in 2007 and 2006 respectively.

Defined benefit pension plan

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 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 2007 and 2006 are set out in the following table:

	2007	2006
Interest cost	367	261
Amortization of actuarial gain	(2)	(14)
Net periodic pension cost	**365**	**247**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2007 and 2006:

	2007	2006
Defined benefit obligation at the beginning of the year	8,040	6,397
Interest cost	367	261
Benefits paid	(824)	(847)
Past service cost	151	2,329
Actuarial gain	(245)	(100)
Defined benefit obligation at the end of the year	**7,489**	**8,040**
Unrecognized actuarial gain	1,065	822
Accrued pension liability at the end of the year	**8,554**	**8,862**
Less short-term portion (see note (18))	(798)	(819)
Accrued pension liability at the end of the year, long-term	**7,756**	**8,043**

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 amounted to EUR 303 and EUR (168) in 2007 and 2006 respectively.

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 interest expense. A change in the discount rate of one percentage point would lead to the following amounts of defined benefit obligations:

December 31, 2007	4%	6%
Service awards	57,893	47,985
Severance	62,296	44,624
Pensions	8,120	6,947

(24) 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. 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. 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 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. 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 April 19, 2004, the first tranche (ESOP 2004+) was offered to the eligible employees. The exercise price of the first tranche is Euro 11.92 and for every 15 options awarded an eligible employee must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 2,392,925 options were granted to the eligible employees, of which 384,000 options were granted to the members of the Management Board. The first tranche had a vesting period of twelve months from the grant day and an exercise period of three years after becoming exercisable. The fair value of the options as of the grant date amounted to EUR 6,340. The fair value calculation was based on an expected forfeiture rate of 2.95% per year. The performance condition set for the first tranche was met as of December 31, 2004.

On January 19, 2005, the second tranche (ESOP 2005+) was offered to the eligible employees. The exercise price of the second tranche is Euro 13.98 and for every 20 (15) options awarded an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 2,874,100 options were granted to the eligible employees, of which 396,400 options were granted to the members of the Management Board. The second tranche had a vesting period of twelve months from the grant day and an exercise period of three years after becoming exercisable. The fair value of the options as of 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 based on the relevant approval by the Supervisory Board. The exercise price was set at Euro 18.91. For every 28 (24) options awarded an eligible employee (Member of Management Board) must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 3,908,468 options were granted to the eligible employees, of which 360,000 options were granted to the members of the Management Board. The options have a vesting period of about twelve months from the grant date and an exercise period of three years after becoming exercisable. The fair value of the options as of 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. The exercise price of this tranche is Euro 20.34 and for every 30 (25) options awarded an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Subsequent to the fulfillment of this holding condition, 4,047,472 options were granted to the eligible employees, of which 240,000 options were granted to the members of the Management Board. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The options have a vesting period of 12 months from the grant date and an exercise period until May 31, 2011. The fair value of the options as of grant date amounted to EUR 10,523. The performance condition set for the third tranche was met as of December 31, 2007.

The following table sets forth the results in respect of stock based compensation recorded by the Company. The results are exclusive of related payroll taxes and social security contributions.

	2007	2006
First tranche 2004	(50)	1,128
Second tranche 2005	(444)	4,095
Third tranche 2006	(301)	7,793
Fourth tranche 2007	6,379	-
Total	**5,584**	**13,016**

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:

	2007	2006
Expected average dividend per share	Euro 0.75–1.00	Euro 0.76–0.88
Expected volatility	27%	23%
Risk-free interest rate range	3.618%–4.585%	3.690%–4.134%
Stock price at December 31,	Euro 19.03	Euro 20.30
Fair value per option – first tranche	Euro 7.34	Euro 8.59
Fair value per option – second tranche	Euro 5.61	Euro 6.71
Fair value per option – third tranche	Euro 2.17	Euro 2.59
Fair value per option – fourth tranche	Euro 1.98	-

Changes to the major parameters used in the calculations could have a material effect on the fair value per option and on the obligation recognized. A change in the expected volatility of one percentage point would result in the following fair values per option:

Expected volatility	26%	28%
Fair value per option – first tranche	Euro 7.34	Euro 7.34
Fair value per option – second tranche	Euro 5.57	Euro 5.65
Fair value per option – third tranche	Euro 2.14	Euro 2.19
Fair value per option – fourth tranche	Euro 1.95	Euro 2.00

The first exercise dates and expected expiry dates of the options granted are as follows:

	Fourth tranche 2007	Third tranche 2006	Second tranche 2005	First tranche 2004
First exercise date	February 27, 2008	March 8, 2007	March 16, 2006	April 20, 2005
Expected expiry date	May 31, 2011	March 31, 2010	May 29, 2009	May 30, 2008
Options outstanding	3,838,882	2,928,944	402,000	61,800

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 price under the 2004 plan:

Number of Options	2007	2006
Outstanding as of January 1	4,424,693	3,482,480
Granted	4,047,472	3,908,468
Forfeited	(227,990)	(411,625)
Exercised	(1,012,549)	(2,554,630)
Outstanding as of December 31	**7,231,626**	**4,424,693**
Of which exercisable as of December 31	3,392,744	854,345

Weighted-average exercise price	2007	2006
Outstanding as of January 1	17.90	13.59
Granted	20.34	18.91
Forfeited	20.12	18.02
Exercised	16.88	13.55
Outstanding as of December 31	**19.34**	**17.90**
Of which exercisable as of December 31	18.20	13.66

Remaining contractual term and total intrinsic value for outstanding and exercisable options developed as follows:

At December 31,	2007	2006
Outstanding Options		
Weighted average remaining contractual term (in years)	2.8	3.1
Exercisable Options		
Total intrinsic value (in 000 EUR)	2,821	5,675

The weighted average share price at the exercise date was Euro 19.93 in 2007 and Euro 19.31 in 2006.

The fourth tranche will be settled in cash like the preceding three tranches and the Company therefore recorded a liability in accordance with IFRS 2.41.

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 programs. On December 12, 2006, the Supervisory Board authorized the first tranche. 500,503 shares in the amount of Euro 900 per full time employee were granted to 11,383 employees (part-time and full time employees). 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. A compensation expense of EUR 10,065 was recorded in 2006 based on a price per share of Euro 20.11. The Company used treasury shares to serve this program leading to a corresponding increase in shares outstanding and an increase in equity.

On December 20, 2007, the Supervisory Board authorized the second tranche. 86,742 shares in the amount of Euro 150 per full time employee were granted to 11,120 employees (part-time and full-time employees). 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. A compensation expense of EUR 1,652 was recorded in 2007 based on a price per share of Euro 19.05. The Company used treasury shares to serve this program leading to a corresponding increase in shares outstanding and an increase in equity

As of the next tranche (EPP 2008/2009), the number of shares granted per employee will more largely depend on the Company's performance and on the achievement of certain targets set by the Supervisory Board.

(25) OTHER LONG-TERM LIABILITIES AND DEFERRED INCOME

The Company's other liabilities and deferred income includes:

At December 31,	2007	2006
Long-term trade accounts payable	1,048	1,448
Interest rate swaps – fair value hedges	19,935	14,441
Other long-term financial liabilities	599,244	1,032
Long-term financial liabilities	**620,227**	**16,921**
Unamortized balance on sale of tax benefits (cross border lease)	16,257	23,125
Other liabilities	1,761	1,903
Deferred income other	1,373	939
Long-term non-financial liabilities	**19,391**	**25,967**
Other long-term financial liabilities and deferred income	**639,618**	**42,888**

Long-term trade accounts payable have a maturity beyond one year. The fair value hedges are interest rate swap agreements and relate to the bonds under the EMTN program.

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.

(26) INCOME TAXES

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2007 and 2006 consist of the following:

	2007	2006
Current income tax	74,411	87,691
Deferred income tax	40,928	8,370
Total	**115,339**	**96,061**

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

	2007	2006
Continuing operations	115,339	96,061
Unrealized gains on securities (charged to equity)	(97)	(3)
Unrealized gain on translation adjustments (charged to equity)	-	(6)
Total	**115,242**	**96,052**

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 2007 and 2006:

	2007	2006
Income tax expense at statutory rate	151,957	164,475
Foreign tax rate differential	(22,377)	(23,698)
Non-deductible expenses	3,165	2,808
Tax incentives and tax exempted income	(7,542)	(2,515)
Tax-free income from investments	(70)	(190)
Change in tax rate	-	(18,684)
Tax benefit previous years	(7,977)	(344)
Deferred tax assets not recognized (in prior periods)	1,888	(16,405)
Release of provision for tax uncertainties	-	(8,690)
Write down of investments in subsidiaries	(4,213)	-
Other	508	(696)
Income tax expense	**115,339**	**96,061**
Effective income tax rate	19.0%	14.6%

Non-deductible expenses mainly consist of interest expenses on shareholder loans and representation expenses. Tax incentives in 2007 and 2006 essentially consist of research, education and investment incentives as well as other government grants. In 2007, tax incentives also included tax-exempted income related to investments in associated companies.

In October 2006, the national assembly of the Republic of Bulgaria enacted a tax reform, which became effective as of January 1, 2007. The reform reduced the corporate income tax rate from 15% to 10%, which resulted in a tax benefit of EUR 21,240 from the revaluation of the estimated deferred tax assets and liabilities in 2006. Additionally, in accordance with the tax reform, the amortization of goodwill is no longer deductible for tax purposes beginning January 1, 2007. This will result in higher tax payments in the future.

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 effective tax rate is expected to decrease accordingly. The change in the corporate income tax rate resulted in an overall tax expense of EUR 2,556.

The tax benefit from previous years recorded in 2007 mainly results from the reversal of deferred tax liabilities following the completion of a tax audit in one of the foreign subsidiaries.

In 2006, deferred tax assets totaling EUR 16,405 were recognized which previously had not been recognized. This benefit resulted mainly from the recognition of a deferred tax asset in the amount of EUR 16,260 (before the effect of the change in tax rate) due to further changes in Slovenian tax law and improved business prospects for Si.mobil.

In 2003, the Company recognized an intra-group loss on the sale of 100% of the shares of one of its subsidiaries. Effective January 1, 2004, the corporate income tax law in Austria was changed to allow companies an election such that all capital gains/losses arising from future transactions in the shares (sales) of a foreign subsidiary will not be taxable for income tax purposes. Due to the uncertainty related to the Company's tax position in prior years, an income tax liability was recorded and the recognition of the tax benefit was deferred in the consolidated financial statements until such uncertainties become resolved. Based on the election discussed above, which had been filed in 2006 and upon resolution of any tax uncertainties on completion of a tax audit, the related provision for tax uncertainties of EUR 8,690 was released into income in 2006.

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,	2007	2006
Deferred tax assets		
Goodwill	37,207	48,449
Deferred deduction for write-downs of investments in subsidiaries	7,668	14,728
Loss carry-forwards	22,604	19,642
Trade accounts receivable	3,965	4,030
Deferred income and other liabilities	9,875	6,932
Other current assets and prepaid expenses	1,349	1,001
Accrued liabilities long-term	19,774	16,889
Employee benefit obligations	10,434	7,704
Property, plant and equipment	3,260	2,096
Other	7,431	2,208
Total deferred tax assets	**123,567**	**123,679**
Deferred tax liabilities		
Goodwill	(9,689)	(9,688)
Property, plant and equipment	(23,579)	(19,998)
Other intangible assets	(230,200)	(78,697)
Accrued liabilities	(575)	(1,118)
Long-term financial liabilities	(5,406)	(3,552)
Other	(5,388)	(1,501)
Total deferred tax liabilities	**(274,837)**	**(114,554)**

The Company founded a tax group in Austria, where Telekom Austria AG functions as the parent company for the tax 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, 2007 and 2006, the Company did not recognize deferred tax assets amounting to EUR 25,857 and EUR 20,426 respectively. The unrecognized amounts mainly 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 in 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, 2007, the Company had approximately EUR 253,780 of operating loss carry-forwards. Of these loss carry-forwards, EUR 93,258 will expire in the following years:

Years	Amount
2008	1,802
2009	181
2010	6,670
2011	3,882
2012	6,558
2016	1,190
2017	72,975
Total	**93,258**

The remaining amount of net operating loss carry-forwards mainly relate to companies located in Austria, Slovenia and Germany, 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, 2007 and 2006, the Company did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 220 and EUR 196 respectively.

(27) 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, the objectives, policies and the processes for measuring those 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 balance sheet (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 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 service 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 a detail on outstanding long-term debt as of December 31, 2007, and the description of the different classes of the debt, other than lease obligations, see note (21).

Other funding sources

In order to diversify our short-term funding sources, the Company implemented an asset-backed securitization program with a maximum volume of currently EUR 350 million and a multicurrency short term and medium term treasury notes program (multicurrency notes) with a maximum volume of EUR 300 million.

As of December 31, 2007 and 2006, the Company had total credit lines of EUR 1,050,000 and EUR 1,050,000 respectively. These credit lines were not utilized. The credit line commitments will expire between December 2007 and July 2013.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the fair values of the derivative financial instruments. The variable interest payments related to the financial instruments were calculated based on interest rates effective December 31, 2007. Foreign currencies were translated at the rates at balance sheet date.

	Contractual Cash Flow	6 month or less	6-12 months	1-2 years	2-5 years	more than 5 years
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	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)	-	-
December 31, 2006						
Financial liabilities						
EMTN and Multi-Currency Note Program	2,313,750	38,125	37,500	151,250	1,501,875	585,000
Bank debt without guarantee	1,393,600	304,225	25,466	547,440	516,469	-
Bank debt guarantied	93,618	50,587	22,265	5,607	15,159	-
Accounts payable	509,920	490,072	18,216	844	375	413
Lease obligations	82	-	43	25	14	-
Other financial liabilities	254,060	231,241	22,610	168	41	-
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	9,472	(1,346)	2,559	13,906	(5,647)	-
Forward exchange contract						
Notional amount in EUR	5,984	5,984	-	-	-	-
Notional amount in USD*	(7,640)	(7,640)	-	-	-	-

* Cash inflows are shown in parenthesis

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 our 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 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, how it arises 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 to prior years.

Interest rate risk

The Company regards 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 rates of interest, 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 swaps 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 swaps, 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, 2007 and 2006.

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, reference is made to note (21).

Short-term liabilities with exposure to interest rate risk	**Total 2007**	**Total 2006**
Bank Overdrafts		
Variable rate, carrying value	10,515	16,839
Average interest rate (%)*	3.86%	3.42%
Short-term borrowings		
Fixed rate carrying value	458,056	242,560
Average interest rate (%)*	4.96%	3.74%
Asset backed security loan (ABS)	279,089	150,541
Average interest rate (%)*	5.08%	3,69%

* 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 2.09% in 2007 and 2.64% in 2006. 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 year.

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 based on the modified duration of 2.09% in 2007 and 2.64% in 2006. Amounts in brackets represent decreases in financial liabilities.

		Increase or decrease of financial portfolio	
	Capital amounts	**100 bps increase**	**100 bps decrease**
December 31, 2007			
Fixed and variable rate financial liabilities	3,994,658	-	-
Fair value sensitivity at 2.09%		(83,488)	83,488
December 31, 2006			
Fixed and variable rate financial liabilities	3,275,011	-	-
Fair value sensitivity at 2.64%	-	(86,460)	86,460

Cash flow sensitivity analyses 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.

	Capital amounts	Profit or loss 100 bps increase	Profit or loss 100 bps decrease
December 31, 2007			
Variable rate financial liabilities	500,953		
EMTN bond with interest rate swap (variable leg)	800,000		
Cash flow sensitivity		**13,010**	**(13,010)**
December 31, 2006			
Variable rate financial liabilities	495,573		
EMTN bond with interest rate swap (variable leg)	800,000		
Cash flow sensitivity		**12,956**	**(12,956)**

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 maturity of the hedged item is less than twelve months. Derivative financial instruments which do not qualify for hedge accounting are classified as current financial assets or financial liabilities.

In 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (a fully consolidated financing subsidiary of Telekom Austria AG) initiated a Euro Medium Term Note ("EMTN") Program.

Under this program, the Company issued in total three bonds with a face value of EUR 1,750,000, coupons between 3.375% and 5.00% and maturities between five and twelve years. These bonds are described in note (21) long-term liabilities. For Eurobonds with a face value of EUR 800,000, the Company entered into fixed to floating interest rate swap agreements.

The following table indicates the types of swaps in use at December 31, 2007 and 2006, 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, 2007 and 2006. 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, 2007 and 2006. 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.

Fixed to variable swaps in EUR (fair value hedge)	2007	2006
Notional amount in EUR	800,000	800,000
Average receive rate	3.98%	3.98%
Average pay rate	4.75%	3.41%
Average maturity in years	3.43	4.44

The interest rate swap transactions resulted in an increase of 0.62 percentage points in interest rates in 2007 and a decrease in interest rates of -0.57 percentage points in 2006 for hedged transactions.

Information with respect to fair value hedges
Telekom Finanzmanagement GmbH designates interest rate swaps 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 swap and the bonds are identical. Therefore, the following conditions have been met:

- 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.
- There is no floor or cap on the variable leg of the interest rate swap.
- 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 a 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%. The analysis (hedge effectiveness test) assumes that all other variables remain constant. The values presented refer to the hedged items and hedging instruments respectively.

	Notional Amount	Fair Value at origination	Fair Value at reporting date	Fair Value change	Effectiveness
December 31, 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 %					101.91%
Effectiveness EUR					352
December 31, 2006					
Hedged items	800,000	799,254	785,867	-13,387	
Hedging instrument (interest rate swap)	800,000	1,501	14,385	12,884	
Effectiveness %	-				103.91%
Effectiveness EUR	-				503

Exchange rate risk

As of December 31, 2007, one variable interest rate liability resulting from the acquisition of SBT in the amount of USD 872,587 was subject to foreign exchange rate risk. The liability is due in 2010. As of December 31, 2006, no significant financial liabilities were subject to foreign exchange rate risk.

As of December 31, 2007 and 2006, of all trade accounts receivable and payable, 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)):

	December 31, 2007			December 31, 2006		
	EUR	USD	Other	EUR	USD	Other
Trade accounts receivable	12,440	10,839	5,755	11,275	6,617	9,800
Trade accounts payable	47,669	41,922	9,727	29,022	6,133	9,060

With the exception of forward exchange contracts, the Company has not entered into foreign currency derivative instruments in connection with principal and interest debt payments denominated in foreign currencies.

The assets and the liabilities relating to the cross border lease are denominated in USD; however, the Company is not exposed to exchange rate risk because the deposits under the cross border lease match the lease obligation.

All amounts in EUR '000s

Foreign exchange agreements

Although forward exchange contracts entered into by the Company serve as economic hedges of the Company's transactions in foreign currencies, hedge accounting is not applied and the forward exchange agreements are therefore accounted at fair value through profit or loss.

In November and December 2007, the Company entered into a series of forward exchange contracts covering USD 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 are reported in other operating income or operating expenses.

Additionally, the Company occasionally enters into various forward exchange contracts which serve as economic hedges of the Company's operating exposure to fluctuations in foreign currencies. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of operations under other operating income or operating expenses.

The following table indicates the types of foreign exchange agreements in use at December 31, 2007 and 2006, and, if applicable, their weighted-average remaining terms and the respective exchange rates of the contracts (amounts to be received are stated in brackets):

	2007	2006
Forward exchange contracts – USD		
Notional amount in EUR	635,121	5,984
Notional amount in USD	(915,661)	(7,640)
Forward exchange rate (weighted)	1.44	1.27
Exchange rate as of the balance sheet date	1.47	1.31
Longest term of the contracts	September 2010	January 2007

The changes in the fair value of the forward exchange contracts hedging the purchase price payable for the acquisition of SBT reported in the statement of operation is partly offset by the valuation of the liability denominated in USD.

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, how it arises and the objectives, policies and processes for managing credit risk and 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 Dealer Swap Agreements.

Trade accounts receivable 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, has 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 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, 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 collaterals 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
The Company provides financial guarantees only to wholly owned subsidiaries. As of December 31, 2007, one guarantee amounting to EUR 210 had been provided to a third party. As of December 31, 2006, no guarantees had been provided.

Exposure to Credit Risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

At December 31,	Carrying amount 2007	Carrying amount 2006
Available-for-sale financial assets	21,256	23,135
Financial investments carried at cost	772	747
Loans and receivables	30,477	20,973
Cash and cash equivalents	209,126	125,147
Deposits under cross border lease	57,429	66,712
Interest rate swaps	-	56
Forward exchange contracts	2,864	190
	321,924	**236,690**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region:

At December 31,	Carrying amount 2007	Carrying amount 2006
Domestic	804,030	822,107
Foreign	78,147	25,032
Allowances	(131,018)	(134,705)
	751,159	**712,434**

Trade receivables from the Company's most significant customer amount to EUR 6,092 and EUR 7,923 as of December 31, 2007 and 2006 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 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.

On group level, Management of the Company is committed to a net debt/EBITDA (earnings before interest, taxes depreciation and amortization) ratio of about 2.0 and to keep the current rating stable.

Within these parameters, Management strives to balance growth and return to shareholders by primarily 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 future development of the business. The Management Board monitors both the return on capital, which the Company defines as total shareholder's equity, less minority interest, and the level of dividend to ordinary shares.

There were no changes in the Company's approach to capital management during 2007.

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:

	2007		2006	
Financial Assets	Carrying amount	Fair Value	Carrying amount	Fair Value
Cash and cash equivalents	209,126	209,126	125,147	125,147
Accounts receivable - trade	751,159	751,159	712,434	712,434
Receivables due from related parties	3,394	3,394	3,391	3,391
Other current financial assets	23,811	23,811	13,340	13,340
Other financial assets long-term	6,137	6,137	4,241	4,241
Loans and Receivables	**784,501**	**784,501**	**733,406**	**733,406**
Long-term investments	14,243	14,243	15,132	15,132
Short-term investments	7,014	7,014	8,003	8,003
Available-for-sale financial assets	**21,257**	**21,257**	**23,135**	**23,135**
Investments at cost	773	773	748	748
Deposits cross border lease	57,429	57,429	66,712	66,712
Held to maturity investments	**57,429**	**57,429**	**66,712**	**66,712**
Derivatives - held for trading	2,864	2,864	0	0
Hedging instrument (Fair value hedge)	-	-	56	56
Financial assets carried at fair value	**2,864**	**2,864**	**56**	**56**

Financial Liabilities	2007 Carrying amount	2007 Fair Value	2006 Carrying amount	2006 Fair Value
Liabilities to financial institutions	458,056	458,056	242,560	341,539
Bank overdrafts	10,515	10,515	16,839	16,839
Bonds under EMTN Program	941,164	840,684	939,980	928,612
Assets backed security debt	279,089	279,069	150,541	150,537
Other financial liabilities short-term	156,494	156,494	102,173	102,173
Multi-Currency Note Program	9,647	9,647	-	-
Liabilities to financial institutions long-term	1,498,502	1,481,686	1,128,554	1,031,822
Lease obligations and Cross Border Lease	58,842	58,841	66,793	66,792
Other liabilities long-term	600,292	600,292	2,480	2,480
Accounts payable - trade	637,083	637,083	508,357	508,357
Payable due from related parties	17,299	17,299	11,830	11,830
Other financial liabilities	46,779	46,780	42,869	42,869
Financial liabilities at amortized cost	**4,713,762**	**4,596,446**	**3,212,976**	**3,203,850**
Bonds under EMTN Program - hedged item	777,048	762,974	781,457	789,026
Derivatives - held for trading	5,623	5,623	190	190
Hedging instrument (Fair value hedge)	19,935	19,935	14,441	14,441
Financial liabilities carried at fair value	**25,558**	**25,558**	**14,631**	**14,631**

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 basis points and between 100 basis points for 2007 and 15 basis points and 100 basis points for 2006. The applicable yield curve was in the range of 3.92% Eonia overnight and 4.72% Euro swap rate for 10 years in 2007, and 3.59% and 4.17% in 2006 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 to approximate the carrying values based on the audited financial statements, if available.

(28) SHAREHOLDERS' EQUITY

Share Capital

Convertible bond/authorized capital

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

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

Authorized capital 2003

At the Annual General Meeting on June 4, 2003, the Management Board was authorized to increase the share capital by up to EUR 21,810 for a period of five years, ending in 2008. The authorization to increase the capital was subject to the condition that the Company does not settle the options by means of treasury shares or cash compensation.

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 6,543 (3.0 million shares) and EUR 7,415 (3.4 million shares) on March 23, 2004 and December 13, 2004 respectively in order to settle options granted under the Stock Option Plan 2004 (see note (24)). As the Company elected to settle both programs in cash, the resolution was annulled on March 15, 2005. Based on the authorization at the Annual General Meeting on June 4, 2003, the Management Board decided to increase conditionally the share capital by up to EUR 9,487 (4.35 million shares).

At the Annual General meeting on May 23, 2006, the authorized capital was adjusted. The Management Board was authorized to increase the share capital by EUR 9,487 by issuing 4.35 million new shares in order to settle the stock options granted to employees in January 2006.

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 (24)). As the Company elected to settle both programs in cash, the capital increase was not carried out.

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 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 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, 2007 and 2006 are presented below:

	2007	2006
Shares (zero par value) authorized	520,000,000	560,000,000
Shares (zero par value) issued	460,000,000	500,000,000
Shares (zero par value) in treasury	(17,788,258)	(38,307,473)
Shares (zero par value) outstanding	442,211,742	461,692,527

All shares have a par value of zero.

Dividend Payment

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. At the Annual General Meeting on May 23, 2006, the shareholders approved a dividend distribution of Euro 0.55 per zero par value share. The overall payment on May 30, 2006 amounted to EUR 261,201.

The net income of Telekom Austria AG according to Austrian GAAP amounts to EUR 677,402 and EUR 956,187, in the years 2007 and 2006 respectively. According to Article 126 of the Stock Corporation Act, the Supervisory Board and the Management Board decided to transfer an amount of EUR 404,743 and EUR 572,666, for the years 2007 and 2006 respectively from net income to retained earnings, resulting in unappropriated retained earnings of EUR 331,690 and EUR 402,115 for the years 2007 and 2006 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 30, 2007, 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 2008. The Management Board was empowered (i) to use this treasury stock to satisfy obligations under the stock option programs described in note (24), (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 a maximum of 10% of common stock (EUR 100,326) or (v) to sell it on the stock exchange or through a public offering.

In 2007 and 2006, the Company bought back treasury shares (retirement of stock see share capital)

Treasury shares bought back in	**2007**	**2006**
Number of treasury shares	19,567,527	21,310,870
Average price per share	18.90	19.09

Shares held in treasury as of	**December 31, 2007**	**December 31, 2006**
Number of treasury shares	17,788,258	38,307,473
Average price per share	18.80	17.09
Deduction in equity	334,350	654,597

In the years 2007 and 2006, the Company used 86,742 and 500,503 treasury shares with a total value of EUR 1,630 and EUR 8,553 to serve the employee participation program (see note (24)).

Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2007 and 2006 are calculated as follows:

	2007	**2006**
Net income attributable to shareholders of the parent	492,484	561,816
Weighted average number of common shares outstanding	451,673,637	472,668,763
Basic and diluted earnings per share	Euro 1.09	Euro 1.19

Due to its past experience and Management's intention to settle employee stock options in cash, no related dilutive effect has been considered in 2007 and 2006 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 changes in stockholder's equity. The foreign currency translation adjustment mainly results from the consolidation of MDC.

(29) REVENUES

Year ended December 31,	2007	2006
Revenues from services	4,587,132	4,436,849
Revenues from sales of merchandise	331,832	322,711
Total	**4,918,964**	**4,759,560**

(30) OTHER OPERATING INCOME

Year ended December 31,	2007	2006
Rental Income	12,475	10,104
Own work capitalized	31,873	28,813
Foreign exchange gains	20,824	1,004
Other	19,962	19,491
Total	**85,134**	**59,412**

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

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

Year ended December 31,	2007	2006
Foreign exchange gains	31,666	4,463
Foreign exchange losses	(10,842)	(3,459)
Net foreign exchange gains	**20,824**	**1,004**

(31) OTHER OPERATING EXPENSES

Year ended December 31,	2007	2006
Interconnection	588,149	535,791
Repairs and maintenance	180,233	186,522
Services received	288,674	264,135
Advertising and marketing	317,725	271,559
Other support services	120,250	109,132
Rental expenses	103,356	88,762
Commission expenses	79,460	67,413
Bad debt expenses	33,463	34,323
Legal and other consulting	42,855	37,283
Travel expenses	27,450	25,633
Energy	31,157	25,496
Training expenses	14,340	13,245
Other taxes	21,839	8,853
Net loss from retirement of fixed assets	2,294	1,430
Other	94,431	89,556
Total	**1,945,676**	**1,759,133**

(32) FINANCIAL RESULT

Financial income recognized in profit and loss is as follows:

At December 31,	2007	2006
Interest income		
Interest income on loans and receivables	4,089	3,577
Interest income on bank deposits	5,617	3,177
Interest income on held-to maturity investments	4,758	5,754
Interest income on available-for-sale financial assets	552	579
Net gain on hedging transactions	-	28
Interest income from sale of tax benefits	7,004	6,963
Interest income	**22,020**	**20,078**

Year ended December 31,	2007	2006
Interest expense		
Interest expense on financial liabilities	164,274	129,385
Interest expense on employee benefit obligations	5,800	5,185
Interest expense on asset retirement obligations	4,062	3,380
Net loss on hedging transactions	101	280
Interest expense	**174,237**	**138,230**

In accordance with IAS 19.119 and IAS 8.14, the Company recognizes interest expense on employee benefit obligations in interest expense beginning in fiscal year 2007. The reclassification of this interest expense from employee costs allows a more meaningful presentation of the financial result. Moreover, fees incurred in respect of the asset backed securities program are reported in other operating expenses. Comparative figures for 2006 have been adjusted accordingly.

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

Year ended December 31,	2007
Gain on fair value hedge	810
Loss from fair value measurement of EMTN bonds	(838)
Interest expense	**(28)**
Loss on fair value hedge	(6,360)
Gain from fair value measurement of EMTN bonds	6,287
Interest expense	**(73)**
Total	**(101)**

Year ended December 31,	2006
Gain on fair value hedge	56
Loss from fair value measurement of EMTN bonds	(336)
Interest expense	**(280)**
Loss on fair value hedge	(14,441)
Gain from fair value measurement of EMTN bonds	14,469
Interest income	**28**
Total	**(252)**

Year ended December 31,	2007	2006
Foreign exchange differences		
Financial foreign exchange gains	11,545	9,101
Financial foreign exchange losses	(13,430)	(9,506)
Net foreign exchange losses	(1,885)	(405)

Foreign exchange gains and losses relating to financial assets and liabilities are reported in the financial result. Foreign exchange gains and losses relating to trade accounts receivable and trade accounts payable, 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)).

Year ended December 31,	2007	2006
Income (loss) from financial assets		
Dividends received	99	76
Gain on sale of held-to-maturity investments	90	177
Gain on sale of investments valued at cost	84	176
Impairment loss on investments at cost	-	(1,136)
Gain on disposal of available for sale securities transferred from equity	80	32
Loss on disposal of available for sale securities transferred from equity	(25)	-
Income (loss) from investments	**328**	**(675)**

The amounts previously recognized in and subsequently transferred from equity to earnings are shown in the consolidated statement of changes in stockholders' equity.

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

(33) COMMITMENTS AND CONTINGENCIES

As of December 31, 2007 and 2006, the Company has incurred lease obligations totaling EUR 576,905 and EUR 718,997 respectively, in connection with the cross border lease transactions (note (22)) which were not recorded as a liability in accordance with SIC 27 and the framework. 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, 2007 and 2006, these letters of credit totaled EUR 50,149 and EUR 60,885.

As of December 31, 2007, the Company had provided a guarantee amounting to EUR 210 to a third party.

As of December 31, 2006, the Austrian consumer organization brought action against our subsidiary mobilkom austria AG regarding its billing model. Most of mobilkom austria AG's tariffs of voice services are billed 60/30, which means that every first minute and thereafter every half minute of a phone call is billed regardless of the duration of a call which might be shorter than the billed unit. mobilkom austria AG did not recognize a provision because it is not probable that an outflow of resources will be required to settle the obligation. The maximum potential exposure amounts to EUR 5,646. The Company recorded no outflow of funds with respect to this litigation in 2007 and the contingent liability no longer exists as of December 31, 2007.

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, 2007. 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.

(34) CASH FLOW STATEMENT

The following is a summary of supplemental cash flow information:

Year ended December 31,	2007	2006
Cash paid for		
Interest	149,192	150,366
Income taxes	85,518	95,960
Cash received for		
Interest	8,198	4,650
Income taxes	21	157

Cash and cash equivalents acquired in acquisitions totaled EUR 15,447 and cash and cash equivalents sold in the sale of subsidiaries totaled EUR 125 in 2007. No acquisitions or sales took place in 2006.

(35) SEGMENT REPORTING

The following segment information has been prepared in accordance with IAS 14, "Segment Reporting". The accounting policies of the segments are the same as those described in note (1).

The Company operates in three business segments: Fixed Net (corresponds to the former "wireline"), Mobile communication (corresponds to the former "wireless") and Other (former "other activities" and holding activities). These segments are determined based on the nature of services provided and reflect the management structure of the organization. The reporting system reflects the internal financial reporting and the predominant sources of risks and returns in the Company's businesses.

Effective January 1, 2007, the Company implemented a new holding structure. The holding company consolidates the strategy and sets the financial targets for the Company. Telekom Austria TA AG is responsible for the Fixed Net segment in full separation from the holding functions of Telekom Austria AG. In accordance with IAS 14 "Segment Reporting", the segment information of 2006 was adjusted accordingly for comparative purposes. In determining the comparative amounts of segment assets and liabilities for 2006, no consideration was given to balances in respect of the tax group agreement due to and due from affiliated companies and any dividend payments from the segment Fixed Net to the holding company. The changes to the legal structure were approved by the shareholders at the Annual General Meeting on May 30, 2007.

The segment Fixed Net includes fixed line, data communications and internet services, 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 communication services to business and residential customers and the sale of equipment.

The holding company coordinates and supports the segments Fixed Net and Mobile communication and establishes the connection to the capital markets. Other activities include financing and other 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.

	Fixed Net	Mobile Communication	Other	Eliminations	Consolidated
Year ended December 31, 2007					
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**	**0**	**(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					**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

	Fixed Net	Mobile Communication	Other	Eliminations	Consolidated
Year ended December 31, 2006					
External revenues	1,948,928	2,810,662	(30)	-	4,759,560
Intersegmental revenues	170,590	91,924	-	(262,514)	-
Total revenues	**2,119,518**	**2,902,586**	**(30)**	**(262,514)**	**4,759,560**
Other operating income	59,584	20,239	9,000	(29,411)	59,412
Segment expenses	(1,426,336)	(1,745,763)	(29,297)	293,948	(2,907,448)
EBITDA (excl. Impairment charges)	**752,766**	**1,177,062**	**(20,327)**	**2,023**	**1,911,524**
Impairment charges	(7,938)	(2,542)	-	-	(10,480)
EBITDA (incl. Impairment charges)	**744,828**	**1,174,520**	**(20,327)**	**2,023**	**1,901,044**
Depreciation and amortization	(628,635)	(495,717)	-	421	(1,123,931)
Operating income	**116,193**	**678,803**	**(20,327)**	**2,444**	**777,113**
Interest income					20,078
Interest expense					(138,230)
Equity in earnings of affiliates					20
Other income					(1,080)
Tax expense					(96,061)
Net income					**561,840**
Segment assets	2,835,076	5,003,399	4,626,392	(4,905,178)	7,559,689
Segment liabilities	(1,380,061)	(2,336,162)	(2,863,940)	1,843,990	(4,736,173)
Capital expenditures	283,937	712,789	-	-	996,726
Cost to acquire assets	284,315	716,619	-	-	1,000,934
Other non-cash expenses	25,432	37,786	(14)	-	63,204

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, compensation expense for stock option programs, compensation expense for EPP, impairment charges, accretion expense related to the asset retirement obligation and additions to bad debt allowances.

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

The Company provides geographical segment reporting as secondary segment information. External revenues are allocated by geographical location of the Company's customers. Segment assets and capital expenditures are reported by geographical location of assets. The following table presents selected financial information by the main geographical regions:

	Austria	Belarus	Bulgaria	Croatia	Other countries	Eliminations	Consolidated
Year ended December 31, 2007							
External revenues	3,151,575	65,482	582,801	424,155	694,953	-	4,918,964
Segment assets	7,287,972	1,488,636	1,764,591	517,767	2,196,939	(4,252,163)	9,003,742
Capital expenditures	495,824	19,382	104,343	64,970	170,309	(3,509)	851,319
Year ended December 31, 2006							
External revenues	3,243,155	-	570,473	390,258	555,674	-	4,759,560
Segment assets	6,673,404	-	1,828,582	475,553	314,735	(1,732,585)	7,559,689
Capital expenditures	803,234	-	100,046	64,595	28,851	-	996,726

(36) REMUNERATION PAID TO THE MANAGEMENT AND SUPERVISORY BOARD

The following table sets out compensation of members of the Management Board and Supervisory Board:

Year ended December 31,	2007	2006
Compensation Management Board	1,257	1,385
Bonuses paid	1,736	1,619
Share-based payments*	747	3,364
Total	**3,740**	**6,368**
Compensation Supervisory Board	**183**	**188**

* Related to the stock option plans ESOP 2004+, 2005+ and 2006+, offered in 2004, 2005 and 2006.

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.

(37) EMPLOYEES

The average number of employees during the business years 2007 and 2006 was 16,090 and 15,493 respectively. As of December 31, 2007 and 2006, the Company employed 17.628 and 15,428 employees in full-time equivalents respectively.

(38) SUBSEQUENT EVENTS

The Management Board approved the financial statements on February 19, 2008.

Based on the approval by the Supervisory Board, an additional (“fifth” or “ESOP 2008+”) tranche of 4,458,610 options was granted to the eligible employees of the Company under the extension of the Stock Option Plan 2004 (see note (24)) on January 7, 2008. The exercise price for the fifth tranche of Euro 19.39 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 vesting period of twelve months from the grant date and an exercise period of three years after they have vested. In accordance with the authorization by the shareholders, the options can be settled in cash or by means of treasury shares, at the Company’s discretion.

(39) AFFILIATED COMPANIES

Name and company domicile	Share in capital as of Dec. 31, 2007 in %
Fully consolidated subsidiaries	
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
eTel Austria GmbH & Co KG, Eisenstadt	100.00
eTel Austria GmbH, Eisenstadt	100.00
eTel GmbH, Eschborn	100.00
eTel Slovensko s.r.o., Bratislava	100.00
eTel Polska sp. z.o.o., Warsaw	100.00
Mass Response Service GmbH, Vienna	100.00
mobilkom austria AG, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien Beteiligungsverwaltungs GmbH, Vienna	100.00
mobilkom Bulgarien Geschäftsentwicklungs GmbH, 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 Beteiligungsverwaltungs GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom Belarus Beteiligungsverwaltungs GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
Jetstream Hungary Kft, Budapest	100.00
Jetstream Slowakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
JetStream RO s.r.l., Bucharest	100.00
JetStream Bulgaria EOOD, Sofia	100.00
JetStream Croatia Ltd., Zagreb	100.00

Name and company domicile	Share in capital as of Dec. 31, 2007 in %
Telekom Austria Czech Republic a.s., Prague	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
paybox central eastern europe AG, Munich	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., Belgrad	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 OOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria AD, Sofia	100.00
SB Telecom Ltd., Limassol	70.00
FE Mobile Digital Communications, Minsk	100.00
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)	
Affiliated company not consolidated	
Mass response Deutschland GmbH, Cologne	100.00
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

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, Wien,

for the financial year from 1 January to 31 December 2007. Those financial statements comprise the balance sheet as at 31 December 2007, and the statement of operations, statement of cash flows and statement 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 2007 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 19, 2008

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk Yann-Georg Hansa
(Austrian Chartered Accountants)

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

Glossary

ADSL (Asymmetric Digital Subscriber Line): Digital transmission technology that allows asymmetrical data transmission rates to the customer (download) and from the customer (upload) via standard telephone copper lines.

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

ALLmediaNET: Universal network on All-IP basis, in which backbone and access technologies as well as open media platforms converge to form a single standard for interactive multimedia services. Using the ALLmediaNET all forms of media (voice, Internet, television, video-on-demand, unified messaging) can be transported over a single network, providing highly diverse target groups with a wide range of content.

Backbone: Core telecommunications network, comprising broadband high-speed connections between the network nodes which connect the access networks with one another.

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

Competence Networks: EURESCOM, ETSI, ITU, BSF, UMTSForum, OMA, 3GPP Initiative: Cooperations which bundle the various levels of knowledge and experience of companies and institutions in order to achieve progress.

Converging Media: Refers to the convergence of various media such as voice, data (Internet) and television to form innovative multimedia content, i.e. the integration of such content on a joint platform.

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

DVB-H (Digital Video Broadcasting – Handheld): Transmission standard with which digital broadcasts can be received by stationary and/or mobile receivers.

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

Fair Use: Form of invoicing with no volume limit. However, the operator reserves the right to take measures if certain limits are exceeded in order to offer all customers the same quality of service.

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

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

HD Mobile TV (High Definition Mobile Television): uses a higher transmission rate for video streaming than the one used for normal streaming. This produces a higher image resolution which is especially optimized for large mobile phone displays.

HSDPA (High Speed Downlink Packet Access): The latest network technology to follow UMTS. Permits the transmission of data or high-speed multimedia services such as mobile Internet at speeds up to eight times higher than conventional connections.

HSUPA (High Speed Uplink Packet Access): Transmission method belonging to the UMTS mobile communication standard which permits higher upload transfer speeds.

ICNIRP: International Committee on Non Ionising Radiation Protection

ICT: Information and communications technology

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

Internet Dial-up: Gateway to the Internet via fixed line telephone or ISDN modem.

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

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

Live Stream: Real-time video transmission.

Mobile Connect Card: Card for transferring data to notebooks. The SIM card provides mobile access to the Internet, to the corporate network or e-mail client via HSDPA, HSUPA, UMTS, EDGE or GPRS.

Mobile Penetration: Penetration with a product that can be measured in a variety of ways, e.g. as a percentage of households or per capita.

Mobile Virtual Network Operator: A virtual mobile network operator (MVNO) has no infrastructure of its own, i.e. no own mobile communication network. A MVNO buys network capacity (air time) from the competition and offers its mobile communication services under a brand name of its own.

Multimedia Messaging Services (MMS): Multimedia text message service, which allows the transmission of tones and images in addition to text messages.

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

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

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

SDSL (Symmetric Digital Subscriber Line): Technology that allows the same data transmission rate to the customer (download) and from the customer (upload).

Termination Charge: The operator of a subscriber network delivers calls, which are initiated in a third party communications network to a subscriber in ist own network and charges the operator of the network from where the call originated a fee (interconnection fee).

Trunk segments: Parts of the core telecommunications network (see definition of backbone).

UMTS (Universal Mobile Telecommunications System): Mobile communication standard that enables high-performance services on the basis of high data transmission rates; approximately 40 times faster than with a GSM handset.

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

Unbundling: Makes subscriber lines, providing access to the end customer, available to alternative network operators and Internet service providers.

Universal Service: Minimum range of public telecommunications services to which all end users must have access at an affordable price irrespective of their place of residence or business location.

User-generated content: Digital content (e.g. podcasting, blogging and video-blogging) generated by the user and offered over the media platform of a provider.

Value Added Services: Services that extend beyond the usual product range provided by a telecommunications network or enhance existing services

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

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

WiMAX License: Worldwide Interoperability for Microwave Access; international standard for broadband, wireless access networks. Supports high bit rates within a radius of 3 to 10 km and can carry up to 40 Mbit/s per channel. WiMax does not require a direct line-of-sight connection between a fixed/portable terminal device and the base station and is therefore suitable for last mile applications such as Internet connectivity, TDM voice and data traffic or voice over Internet.

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

WLL: Wireless Local Loop technology is used where it is impractical or too expensive to connect subscribers using a fixed line (local loop), e.g. in sparsely populated areas.

XDSL: All types of broadband network based on traditional copper lines. The most important XDSL technologies are ADSL (asymmetric), SDSL (symmetric), HDSL (high data rate) and VDSL (very high) digital subscriber line.

Stock Exchange & Finance

A3 stable, BBB+ stable rating: Credit rating for issuers and bond quality assigned by Standard & Poor's and Moody's.

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

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

Asset Backed Securitization Program: Particular form of certificated payment claims in the form of tradable securities. The relevant securities are created by pooling specific financial assets.

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

Austrian Futures and Options Exchange (ÖTOB): Platform at the Vienna Stock Exchange which organizes the trade in options and futures contracts, carries out the settlement of trades and ensures that the transaction is honored.

Business Code of Conduct: Regulates the acceptance and giving of gifts, condemns all forms of dishonesty and bribery of or by employees of the Telekom Austria Group.

Capital Expenditures: Defined as "capital expenditures for tangible and intangible assets", as included in the "cash flow used for investment activities" in the cash flow statement.

Change of Control Clauses: Rules that apply if there is a change of control at a company.

Code of Ethics: Includes written rules for managers in the financial area and also mandates complete, timely, transparent, exact and comprehensible reporting and announcements, and establishes penalties for violation.

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

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

Cross-Border Leasing: Special cross-border form of leasing designed to arbitrage the difference in tax laws of different jurisdictions, e.g. different rules concerning depreciation.

DAX: German stock index.

Deferred taxes: Balance sheet item to show fiscal valuation differences. In the case of temporary discrepancies between the group balance sheet and the fiscal balance sheet, both deferred tax assets and deferred tax liabilities are recognized in order to report the tax expenses in accordance with the group financial result.

Director's Dealings: The trading of shares in a publicly listed company by the management of that company.

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

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

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

EBITDA Margin: Ratio of EBITDA to revenues in percent.

Effective Tax Rate: Actual tax burden. This is dependent upon how the assessment basis is defined.

Employee Stock Option Program (ESOP): Stock option program for members of the Management Board and other executives who strongly influence the company's business success (see Stock Option Program).

Enterprise Code (UGB): The new Enterprise Code became effective on January 1, 2007 and replaces the Austrian Commercial Code (HGB).

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

Ex-ante Regulation: "In advance": In order to ensure fair competition, lawgivers lay down a legal framework which is implemented by the regulatory authority.

Exchangeable Notes: Debt instruments which give the holders of these notes the right to exchange them under certain conditions for one or more shares of a stock corporation.

EVA (Economic Value Added): Return less cost of capital deployed. Indicator measuring a company's creation of value.

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

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

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

Level1 ADR Program: Allows shares to be traded in the United States outside the stock exchange directly between dealers on the over-the-counter market.

Net Debt: Debt less cash and cash equivalents.

Net Debt to EBITDA: Net debt net of cash and cash equivalents in relation to EBITDA; measure of the payback period for debt on the basis of net debt and EBITDA.

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

Return on Invested Capital (ROIC): This is calculated by dividing operating income after taxes by the average invested capital.

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

Total Shareholder Return (TSR): Total return comprising share price appreciation, share buybacks and dividends.

Whistleblower Directive: Telekom Austria Group's employees may notify their superior or the General Counsel in confidence if they suspect that legally dubious practices are taking place in their working environment. In the case of matters concerning the integrity of the financial reporting, they may contact the Disclosure Committee or the Audit Committee of the Supervisory Board directly.

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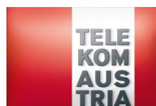

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Online Annual Report
The Annual Report 2007 of the Telekom Austria Group is also available in a user-friendly online version on the Internet. This data base-supported online report provides fast access to information, search functions, a sitemap, a glossary, Excel and pdf downloads, linked content, and direct subject access to compile a report for your special interests under:
http://ar2007.telekomaustria.com

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Forward-looking Statements
This annual report contains forward-looking statements that involve risks and uncertainties. These orward-looking statements are usually accompanied by words such as "believe", "intend", "anticipate", "plan", "expect" and similar expressions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

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

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