Annual Financial Report 2007

According to § 82 Para 4 Stock Exchange Act

TELEKOM AUSTRIA GROUP

Annual Financial Report 2007

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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.

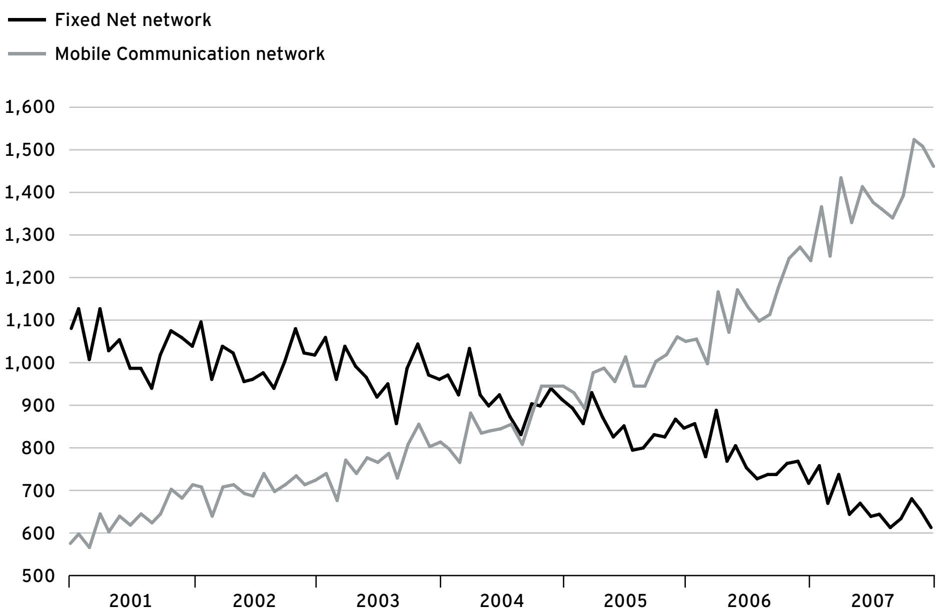
The Mobile Communication segment has also developed very dynamically. All Telekom Austria Group companies operating in this business area have been able to increase their subscriber bases, despite penetration rates which are sometimes in excess of 100%. Steps to strengthen the growth profile of the Telekom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

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%.

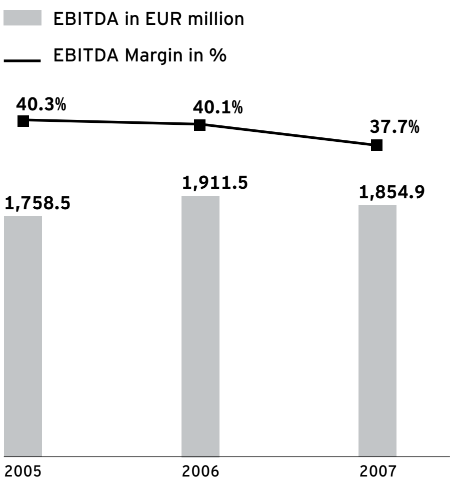
The 5.3% increase in material expenses to EUR 405.7 million was due to higher sales of handsets in the Mobile Communication segment and technologically more sophisticated merchandise in the Fixed Net segment.

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.

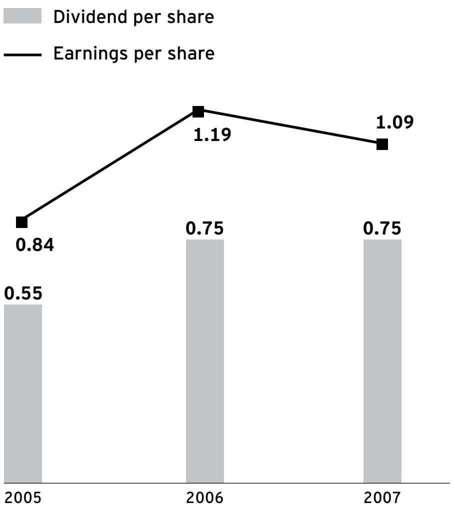
Development of EBITDA and EBITDA Margin



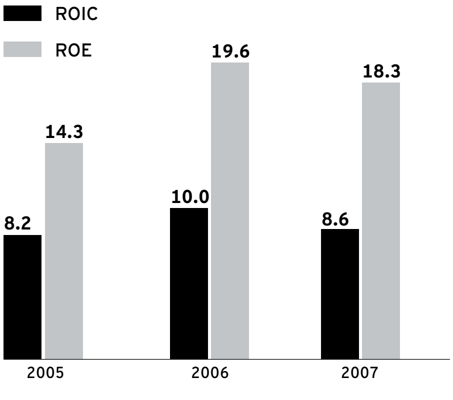
Financial Figures (in EUR million)	2007	2006	Change in %
Revenues	4,919.0	4,759.6	+3.3
EBITDA	1,854.9	1,911.5	-3.0
Operating Income	761.4	777.1	-2.0
Net Income	492.5	561.8	-12.3
Earnings per share in EUR	1.09	1.19	-8.4
Capital Expenditures	851.3	996.7	-14.6
Net Debt	4,407.2	3,169.0	+39.1

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

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%).

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.

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.

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**

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.

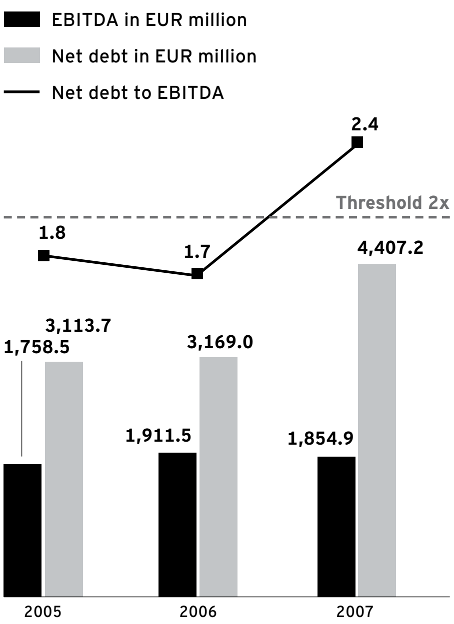
Stockholders' equity declined from EUR 2,823.5 million as of December 31, 2006 to EUR 2,565.3 million as of December 31, 2007. This reduction was due to share buybacks of EUR 369.9 million as well as the distribution of dividends of EUR 343.0 million and was partly offset by the net income of EUR 492.5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

Development of Net Debt to EBITDA

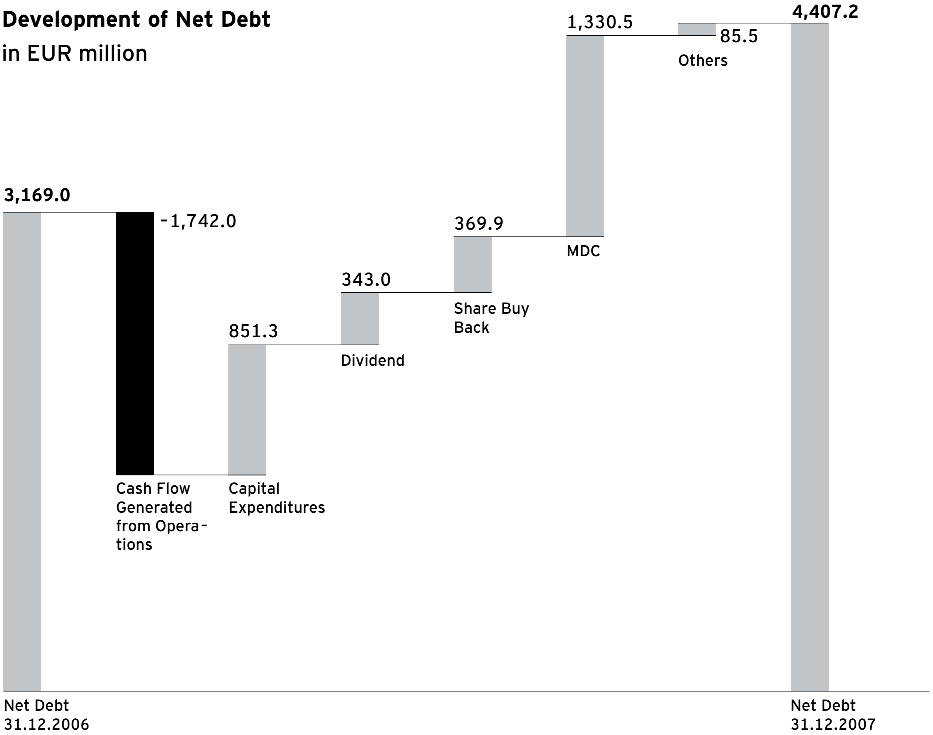


Net Debt (in EUR million)	**Dec. 31, 2007**	**Dec. 31, 2006**
Long-term debt, net of current portion	3,389.3	2,750.1
Short-term borrowings	1,236.1	562.1
- Short-term portion of capital and cross-border leasing	-8.7	-9.4
+ Capital lease obligations (short-term and long-term)	1.0	0.1
Cash and cash equivalents, 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 Net Debt
in EUR million



Development of Cash Flow

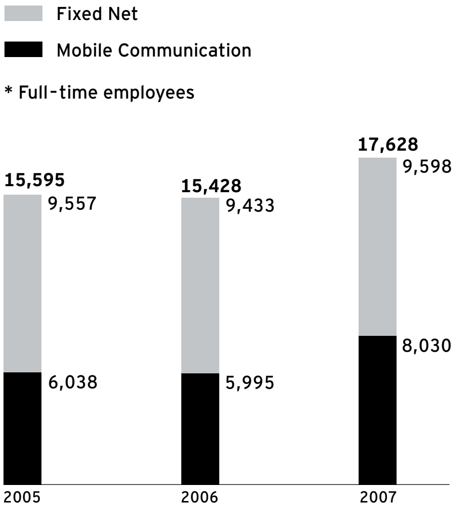
In a year-on-year comparison cash flow generated from operations increased by 9.6% to EUR 1,742.0 million, mainly due to an increase in accounts receivable as well as in other liabilities and prepaid expenses. Cash outflows for investing activities increased from EUR 971.6 million to EUR 1,669.9 million 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.

Employees at Year-End*



* Full-time employees

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%).

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**

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.

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.

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

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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

All amounts in EUR '000s

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	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation adjustment	Total	Minority interest	Total stockholders' equity
Balance January 1, 2006	**500,000,000**	**1,090,500**	**(17,497,106)**	**(256,396)**	**460,128**	**1,624,131**	**375**	**11**	**2,918,749**	**17**	**2,918,766**
Net unrealized gain/loss on securities, net of EUR (2) deferred income tax	-	-	-	-	-	-	15	-	15	-	15
Net realized gain/loss on securities, net of EUR 5 deferred income tax	-	-	-	-	-	-	(15)	-	(15)	-	(15)
Foreign currency translation adjustment net of EUR 6 deferred income tax	-	-	-	-	-	-	-	800	800	-	800
Net income recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**800**	-	**800**
Net income	-	-	-	-	-	561,816	-	-	561,816	24	561,840
Total recognized income for the period	-	-	-	-	-	-	-	-	**562,616**	-	**562,640**
Distribution of dividends	-	-	-	-	-	(261,201)	-	-	(261,201)	-	(261,201)
Purchase of Treasury shares	-	-	(21,310,870)	(406,754)	-	-	-	-	(406,754)	-	(406,754)
Employee Participation Program	-	-	500,503	8,553	1,512	-	-	-	10,065	-	10,065
Balance December 31, 2006	**500,000,000**	**1,090,500**	**(38,307,473)**	**(654,597)**	**461,640**	**1,924,746**	**375**	**811**	**2,823,475**	**41**	**2,823,516**
Net unrealized gain/loss on securities, net of EUR 80 deferred income tax	-	-	-	-	-	-	(223)	-	(223)	-	(223)
Net realized gain/loss on securities net of EUR 17 deferred income tax	-	-	-	-	-	-	(53)	-	(53)	-	(53)
Foreign currency translation adjustment net of EUR 0 deferred income tax	-	-	-	-	-	-	-	(39,131)	(39,131)	-	(39,131)
Net income recognized directly in stockholder's equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(39,407)**	-	**(39,407)**
Net income	-	-	-	-	-	492,484	-	-	492,484	7	492,491
Total recognized income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**453,077**	**-**	**453,084**
Distribution of dividends	-	-	-	-	-	(343,083)	-	-	(343,083)	-	(343,083)
Purchase of Treasury shares	-	-	(19,567,527)	(369,873)	-	-	-	-	(369,873)	-	(369,873)
Retirement of Treasury shares	(40,000,000)	(87,240)	40,000,000	688,490	87,240	(688,490)	-	-	-	-	-
Employee Participation Program	-	-	86,742	1,630	22	-	-	-	1,652	-	1,652
Balance December 31, 2007	**460,000,000**	**1,003,260**	**(17,788,258)**	**(334,350)**	**548,902**	**1,385,657**	**99**	**(38,320)**	**2,565,248**	**48**	**2,565,296**

See accompanying notes to consolidated financial statements

(All amounts in EUR '000s)

(1) THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

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

Telekom Austria AG 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.

All amounts in EUR '000s

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

All amounts in EUR '000s

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.

All amounts in EUR '000s

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:

All amounts in EUR '000s

	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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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**	**-**

All amounts in EUR '000s

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

All amounts in EUR '000s

(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.

All amounts in EUR '000s

(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.

All amounts in EUR '000s

(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).

All amounts in EUR '000s

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.

All amounts in EUR '000s

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**

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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)).

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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	December 31, 2007 Face value	December 31, 2007 Carrying amount	December 31, 2006 Nominal interest rate	December 31, 2006 Face value	December 31, 2006 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.

All amounts in EUR '000s Telekom Austria Group 2007 53

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**

All amounts in EUR '000s

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.

All amounts in EUR '000s

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 Mitarbeitervorsorgekasse 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.

All amounts in EUR '000s

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)

All amounts in EUR '000s

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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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**

All amounts in EUR '000s

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.

All amounts in EUR '000s

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

At December 31,	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.

All amounts in EUR '000s

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).

All amounts in EUR '000s

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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

	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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

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**

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

(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**

All amounts in EUR '000s

(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)**

All amounts in EUR '000s

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.

All amounts in EUR '000s

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.

All amounts in EUR '000s

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

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

	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

All amounts in EUR '000s

	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:

All amounts in EUR '000s

	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.

All amounts in EUR '000s

(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.

All amounts in EUR '000s

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.

Financial Statements 2007 of Telekom Austria AG

According to Austrian Commercial Code – UGB

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Balance Sheet as of December 31, 2007

ASSETS	31.12.2007	31.12.2006
	EUR	TEUR
A. Fixed assets		
I. Intangible assets		
1. Licenses, industrial property rights and similar rights	0.00	26,155
2. Goodwill	0.00	424
	0.00	**26,579**
II. Property, plant and equipment		
1. Land, similar rights and buildings including buildings on non-owned land	0.00	318,789
2. Technical plants and machinery	0.00	1,663,795
3. Other plants, furniture and fixtures	0.00	61,416
4. Assets under construction	0.00	58,146
	0.00	**2,102,146**
III. Financial assets		
1. Investments in affiliated companies	4,203,214,168.35	2,756,200
2. Investments	543,341.86	4,157
3. Securities	0.00	4,445
4. Other loans	0.00	66,778
	4,203,757,510.21	**2,831,580**
	4,203,757,510.21	**4,960,305**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	0.00	41,815
2. Merchandise	0.00	7,676
3. Services not yet chargeable	0.00	2,593
	0.00	**52,084**
II. Accounts receivable		
1. Accounts receivable - trade	0.00	371,220
2. Accounts receivable - affiliated companies	806,972,781.14	380,394
3. Accounts receivable - associated companies	0.00	24
4. Other receivables and assets	30,373,220.86	104,763
	837,346,002.00	**856,401**
III. Short-term investments	**334,350,308.94**	**654,597**
IV. Cash and cash equivalents	11.31	459
	1,171,696,322.25	**1,563,541**
C. Prepaid expenses	**6,853,665.72**	**20,218**
	5,382,307,498.18	**6,544,064**

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2007	31.12.2006
	EUR	TEUR
A. Shareholders' equity		
I. Common stock	**1,003,260,000.00**	**1,090,500**
II. Additional paid-in capital		
Appropriated	**1,015,240,856.33**	**928,001**
III. Taxed reserves		
1. Reserve for treasury stock	334,350,308.94	654,597
2. Other reserves (unrestricted reserves)	576,500,000.00	540,000
	910,850,308.94	**1,194,597**
IV. Net profit	**331,690,229.63**	**402,115**
thereof profit carryforward: EUR 59,031,145.76; prior year: TEUR 18,594		
	3,261,041,394.90	**3,615,213**
B. Untaxed reserves		
Reserves from special depreciation	**0.00**	**2,319**
C. Accruals		
1. Accrued severance payments	1,165,920.00	28,507
2. Accrued taxes	188,760,776.56	169,759
3. Other accruals	4,881,977.34	170,309
	194,808,673.90	**368,575**
D. Liabilities		
1. Bank loans and overdrafts	0.00	355,845
2. Payments received in advance	0.00	1,133
3. Accounts payable - trade	407,599.03	181,500
4. Accounts payable - affiliated companies	1,925,716,931.49	1,600,925
5. Accounts payable - associated companies	0.00	1,908
6. Other liabilities	332,898.86	327,152
thereof due to taxes: EUR 0.00; prior year: TEUR 15,436		
thereof due to social security: EUR 10,702.81; prior year: TEUR 3,470		
	1,926,457,429.38	**2,468,463**
E. Deferred income	**0.00**	**89,494**
	5,382,307,498.18	**6,544,064**
Contingent liabilities	4,078,144,000.00	4,165,481

ANNEX II

Telekom Austria Aktiengesellschaft, Vienna, Austria

Profit and Loss Accounts for the Business Year 2007

		2007		2006
		EUR		TEUR
1. Net sales		0.00		2,088,116
2. Change in services not yet chargeable		0.00		728
3. Own work capitalized		0.00		27,281
4. Other operating income				
a) Income from disposal of fixed assets excluding financial assets	0.00		12,021	
b) Income from reversal of accruals	51.92		9,502	
c) Sundry	7,603,807.81	7,603,859.73	37,523	59,046
5. Cost of materials and other production services				
a) Cost of materials	0.00		78,077	
b) Cost of services	823.74	-823.74	504,284	-582,361
6. Personnel expenses				
a) Salaries	3,902,459.03		131,041	
b) Severance expense and contributions to respective funds	507,229.95		14,667	
c) Pension expense	125,107.62		5,819	
d) Expenses for statutory social security and payroll related taxes and contributions	367,843.56			33,858
e) Other social benefits	0.00	-4,902,640.16	6,017	-191,402
7. Depreciation of intangible assets, property, plant and equipment		0.00		-617,019
thereof: extraordinary depreciation of fixed assets according to § 204 (2) UGB: EUR 0.00; prior year: TEUR 7,938				
8. Other operating expenses				
a) Taxes	188,473.25		4,645	
b) Sundry	20,142,994.81	-20,331,468.06	640,178	-644,823
9. Subtotal from line 1 to 8 (EBIT)		**-17,631,072.23**		**139,566**
10. Income from investments		746,094,500.00		301,102
thereof from affiliated companies: EUR 746,000,000.00; prior year: TEUR 300,342				
11. Income from other long-term securities of financial assets		0.00		150
12. Other interest amd similiar income		1,549,938.75		12,907
thereof from affiliated companies: EUR 1,507,394.03; prior year: TEUR 159				
13. Income from disposal and revaluation of financial assets and short-term securities		22,022.11		0
14. Expenses for financial assets and short-term securities		-1,350.00		-17,785
thereof a) Depreciation: EUR 0.00; prior year: TEUR 1,136				
b) Expenses for affiliated companies: EUR 1,350.00; prior year: TEUR 16,649				
15. Interest and similiar expense		-78,692,746.84		-89,317
thereof for affiliated companies: EUR 77,777,653.36; prior year: TEUR 61,542				
16. Subtotal from line 10 to 15 (Financial result)		**668,972,364.02**		**207,057**
17. Ordinary business result		**651,341,291.79**		**346,623**
18. Extraordinary income		0.00		760,000
19. Extraordinary result		**0.00**		**760,000**
20. Taxes on income		26,060,410.60		-150,760
21. Net profit for the year		**677,401,702.39**		**955,863**
22. Reversal of untaxed reserves		0.00		324
23. Allocation to taxed reserves		-404,742,618.52		-572,666
24. Profit carried forward from prior year		59,031,145.76		18,594
25. Net result		**331,690,229.63**		**402,115**

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1. Fundamental Details

1.1. Measures under company law

On May 29, 2007, a split and takeover agreement relating to the transfer of the entire fixed network operation of Telekom Austria Aktiengesellschaft was established between Telekom Austria Aktiengesellschaft, as the transferring company, and Telekom Austria FixNet Aktiengesellschaft, as the assimilating company. The entire fixed network operation, with all actual and legal components and the associated company shares, was transferred, by means of a split for the purposes of assimilation, in accordance with Section 17 in conjunction with Section 1 Paragraph 2 No. 2 of the Austrian Demerger Act, making use of the preferential treatment permitted under Article VI of the Austrian Law on the Taxation of Corporate Restructurings by way of universal succession.

At the ordinary Annual General Meeting of Telekom Austria Aktiengesellschaft on May 30, 2007, the transfer of the entire fixed network operation of Telekom Austria Aktiengesellschaft to Telekom Austria FixNet Aktiengesellschaft, by way of split for the purposes of assimilation, was resolved and the split and takeover agreement of May 29, 2007 was approved.

At the Annual General Meeting of Telekom Austria FixNet Aktiengesellschaft on May 29, 2007, the takeover of the entire fixed network operation of Telekom Austria Aktiengesellschaft from the latter, by way of split for the purposes of assimilation, was approved.

At the same time as the split, the name of the assimilating company was changed to Telekom Austria TA Aktiengesellschaft, while the transferring company has retained its name unchanged.

Following the split and transfer of the fixed network operation to Telekom Austria FixNet Aktiengesellschaft, the present annual financial statements of Telekom Austria Aktiengesellschaft show the previous year's figures from the 2006 annual financial statements of Telekom Austria Aktiengesellschaft before the split and, for this reason, the figures cannot be compared.

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

2. Accounting and Valuation Methods

2.1. General principles

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

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

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

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

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

2.2. Long-lived assets

Shares in affiliated companies and investments are generally valued at acquisition cost. Impairment charges are recorded if the fair value on the reporting date is lower than the carrying value and the impairment is expected to be permanent. No impairments (2006: TEUR 1,136) were recorded in financial year 2007.

2.3. Current assets

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

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

2.4. Accruals

Accruals for severance payments are recorded for the legal and contractual obligations to members of the Management Board. The calculation is based on the principles of financial mathematics using the partial value method and applying an interest rate of 3.5% (previous year: 4%).

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

2.5. Liabilities

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

3. Notes to the Balance Sheet

3.1. Long-lived assets

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

Name and corporate seat	Share in capital as of Dec. 31, 2007 %	Book value of equity as of Dec. 31, 2007 TEUR	Net income 2007 TEUR
Affiliated companies			
mobilkom austria AG, Vienna	100.0	2,245,455	642,386
Telekom Austria TA AG, Vienna	100.0	1,580,986	155,808
Telekom Projektentwicklungs GmbH, Vienna	99.0	4,613	1,813

In accordance with the split agreement dated May 29, 2007, the following investments were spun off to Telekom Austria TA AG:

Österreichische Fernmeldetechnische Entwicklungs- und Förderungsgesellschaft mbH, Vienna; Telekom Austria Personalmanagement GmbH, Vienna; World-Direct eBusiness solutions GmbH, Vienna; Jet2Web Slovakia s.r.o, Bratislava; Jet2Web Hungary Kft., Budapest; and TA Mreza d.o.o., Ljubljana

eTel Austria AG was acquired on April 26, 2007 and was sold to Telekom Austria TA AG on June 28, 2007 at a carrying value of EUR 45,786,279.57 and then converted into eTel Austria GmbH & Co KG.

3.2. Receivables and other assets

The structure of accounts receivable is shown in the schedule of accounts receivable (Annex 2).

Other receivables include earnings of TEUR 29,916 (December 31, 2006: TEUR 23,196), which will not be received until after the reporting date and which largely arise from claims to the tax office as a result of Group taxation.

3.3. Prepaid expenses

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

3.4. Shareholders' equity

The common stock of Telekom Austria Aktiengesellschaft amounts to TEUR 1,003,260 and is divided into 460,000,000 bearer shares (unit shares). ÖIAG holds 27.37%, 68.76% of the shares represent a free float while the remaining 3.87% are held as treasury stock by the Company.

Dividend payment

The Management Board will ask the Annual General Meeting on May 20, 2008 to approve the payment of a dividend of EUR 0.75 per unit share that is entitled to a dividend. The remaining retained earnings will be carried forward.

Authorized capital

On December 6, 2005, the Management Board approved a further conditional capital increase of up to EUR 9,487,350 to service stock options granted in January 2006 as part of ESOP 2006+. The conditional capital increase will only be carried out to the extent that the exercise of any options is serviced by issuing new shares. The Management Board approved a cash settlement as an alternative form of servicing the options issued as part of ESOP 2006+. As a result, no use was made of the conditional capital increase approved on December 6, 2005.

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

On December 5, 2006, the Management Board also decided to make use of the authorization granted by the Annual General Meeting on May 23, 2006 and increase Telekom Austria's shareholders' equity conditionally by up to EUR 9,814,500 by issuing up to 4.5 million new bearer shares with no par value to service stock options, which will be issued to employees, top-level management and members of the Management Board of the Company or an affiliated company in 2007 (ESOP 2007+).

At the Annual General Meeting on May 30, 2007, the Management Board was authorized to reduce the Company's shareholders' equity by up to EUR 100,326,000 by calling in up to 46 million bearer or registered treasury shares with no par value, in accordance with Section 65 Paragraph 1 No. 8 last sentence in conjunction with Section 192 of the Austrian Stock Corporation Act, without any additional resolution by the Annual General Meeting.

3.5. Accruals

Accrued tax liabilities as of December 31, 2007 relate to a deferred tax liability of TEUR 188,761 (December 31, 2006: TEUR 169,759).

Account was taken of the obligation to create an accrued liability for deferred taxes on earnings on temporary differences between the profit calculated in accordance with the Austrian Commercial Code and the profit calculated in accordance with the Austrian Fiscal Code. All accrued deferred tax assets and liabilities resulting from recording all temporary differences in profits were netted, resulting in a figure of TEUR 188,761 to be transferred to accrued deferred tax liabilities.

Other accruals include provisions for outstanding purchase invoices amounting to TEUR 2,227 (December 31, 2006: TEUR 63,174); stock options amounting to TEUR 833 (December 31, 2006: TEUR 6,938); unused vacation amounting to TEUR 562 (December 31, 2006: TEUR 5,650) and miscellaneous accruals amounting to TEUR 1,260 (December 31, 2006: TEUR 94,547).

3.6. Liabilities

The maturity and structure of liabilities are shown in the schedule of liabilities (Annex 3). Other liabilities contain expenditure of TEUR 333 (December 31, 2006: TEUR 0) that is not payable until after the reporting date.

3.7. Other financial obligations

Commitments and contingencies

	31.12.2007 TEUR	31.12.2006 TEUR
Guarantee in connection with the EMTN program	1,750,000	1,750,000
Obligations arising from cross-border leases	0	573,022
Bank guarantees	2,328,144	1,842,459
	4,078,144	**4,165,481**
thereof pertaining to affiliated companies	1,750,000	3,592,459

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

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

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

4. Notes to the Statement of Operations

4.1. Revenues

There are no revenues from operating activities. (2006: TEUR 2,088,116)

4.2. Other operating income

In essence, other operating income is made up of income from passing on expenditure within the Group of TEUR 7,575 and the reimbursement of other costs of TEUR 28. (2006: TEUR 59,046)

4.3. Expenses for materials and other purchased manufacturing services

There were no expenses for materials and purchased services (2006: cost of materials TEUR 78,077 and cost of purchased services TEUR 504,284).

4.4. Personnel expenses

Expenses for severance payments and pensions for members of the Management Board amounted to TEUR 632 (2006: members of the Management Board TEUR 964; top management TEUR 1,029; and other employees TEUR 18,493).

In 2007, expenses for severance payments amounted to TEUR 507 (2006: TEUR 14,434), for payments to staff contribution plans TEUR 0 (2006: TEUR 233).

In 2007, the Management Board had three members.

The average number of full-time employees was 2,675 in 2006; on average 153 apprentices were also employed by the Company.

4.5. Other operating expenses

	2007 TEUR	2006 TEUR
Other operating taxes	188	4,645
Miscellaneous	20,143	640,178
	20,331	**644,823**

In essence, other operating expenses contain payments to TA TA and mobilkom austria AG amounting to TEUR 13,947.

4.6. Income from investments

Income from investments contains dividend payments from the Vienna Stock Exchange amounting to TEUR 94 (2006: TEUR 4,180).

It also includes dividend payments from mobilkom austria AG of TEUR 601,000 and Telekom Austria TA AG of TEUR 145,000.

4.7. Income taxes

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

	2007 TEUR	2006 TEUR
Corporate income tax for the group	31,843	61,637
Apportionment group members	-67,353	-75,788
Corporate income tax top-tier corporation	-35,510	-14,151
Corporate income tax, prior periods	0	184
	-35,510	**-13,967**
Deferred tax liabilities	9,450	164,727
Total tax expenses	-26,060	150,760

There was no reversal of untaxed reserves leading to an income tax charge in 2007.

Of the figure for income taxes, TEUR -35,510 relates to the results of the top-tier corporation and TEUR 9,450 to the change in deferred taxes.

5. Other Information

Management Board remuneration

	2007 TEUR	2006 TEUR
Remuneration paid to members of the Management Board	2,993	3,004
Remuneration paid to members of the Supervisory Board	183	188
	3,176	**3,192**

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

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

Stock Option Program 2005 (ESOP 2005+)

In the course of the second tranche of the ongoing Stock Option Program ESOP 2005+, 1,653,360 options in Telekom Austria Aktiengesellschaft were issued on January 19, 2005. Each option entitles the holder either (at the Company's option) to purchase a stock at the exercise price of EUR 13.98 or to receive a cash payment equal to the difference between the exercise price and the closing price of TA stock on the date the option is exercised.

The exercise price of EUR 13.98 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 19, 2005).

The second tranche of ESOP 2005+, allocated on January 19, 2005, can be converted up to the end of May 2009 (maturity) if the EPS target value is reached. The options are subject to a 14-month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from March 2006. The options are not transferable.

Because the hurdle was reached in March 2006 and in line with the Company's decision, participants are solely entitled to exercise their options in the form of a cash payment. The average value of the options at the time they were exercised in 2007 amounted to EUR 7.00 (2006: EUR 6.02).

The stock option program led to employee costs of TEUR 28 (2006: TEUR 2,595) and ancillary wage costs of TEUR 79 (2006: TEUR 383) in the financial year.

ESOP 2005+	Options granted 2005	Options exercised 2006	Options exercised 2007
Management Board members			
Heinz Sundt	99,100	99,100	0
Boris Nemsic	99,100	49,455	49,645
Stefano Colombo	99,100	99,100	0
Rudolf Fischer	99,100	51,000	48,100
Total Telekom Austria AG	**396,400**	**298,655**	**97,745**
Executive bodies and top management in subsidiaries	2,477,700	1,727,900	216,580

Stock Option Program 2006 (ESOP 2006+)

In the course of the third tranche of the ongoing Stock Option Program ESOP 2006+, 1,924,920 options in Telekom Austria Aktiengesellschaft were issued on January 12, 2006. Each option entitles the holder either (at the Company's option) to purchase a stock at the exercise price of EUR 18.91 or to receive a cash payment equal to the difference between the exercise price and the closing price of TA stock on the date the option is exercised.

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

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

Because the hurdle was reached in March 2007 and in line with the Company's decision, participants are solely entitled to exercise their options in the form of a cash payment. The average value of the options at the time they were exercised in 2007 amounted to EUR 1.56.

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

In the financial year, the stock option program led to employee income of TEUR 27 (2006: employee costs TEUR 3,659) and ancillary wage costs of TEUR 5.

ESOP 2006+	Options granted 2006	Options exercised 2007
Management Board members		
Boris Nemsic	120,000	0
Stefano Colombo	120,000	0
Rudolf Fischer	120,000	40,000
Total Telekom Austria AG	**360,000**	**40,000**
Executive bodies and top management in subsidiaries	3,548,468	586,424

Stock Option Program 2007-2009 (ESOP 2007+)

In the course of the first tranche of the Stock Option Program ESOP 2007-2009 (ESOP 2007+), 4,047,472 options in the Telekom Austria Group were issued on January 8, 2007, of which 240,000 were in Telekom Austria AG. Each option entitles the holder either (at the Company's option) to purchase a stock at the exercise price of EUR 20.34 or to receive a cash payment equal to the difference between the exercise price and the closing price of TA stock on the date the option is exercised.

The exercise price of EUR 20.34 is the average closing price on the Vienna Stock Exchange during the 20 trading days preceding the last but one trading day before the allocation date (January 8, 2007).

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

The tranche of ESOP 2007+ allocated on January 8, 2007 can be converted up to the end of May 2011 (maturity) if the EPS target value is reached. The options are subject to a 12-month blocking period from the time the option is allocated (vesting period), which means that the options can be exercised from March 2008. The options are not transferable.

The options were valued using an option valuation model at EUR 1.98 per unit, as of the reporting date December 31, 2007, and form the basis for calculating Telekom Austria AG's obligation to its employees, which is built up pro rata temporis over the vesting period.

In the financial year, employee costs of TEUR 399 were incurred in connection with ESOP 2007+.

The options granted were allocated as follows:

ESOP 2007+	Options granted
Management Board members	
Boris Nemsic	120,000
Rudolf Fischer	120,000
Total Telekom Austria AG	**240,000**
Executive bodies and top management in subsidiaries	3,807,472

Employee Participation Program

The Employee Participation Program (EPP) was agreed between the Management Board and the employees' representatives and is planned to last until 2010 for the time being, with each tranche being approved separately by the Supervisory Board. The second tranche (EPP 2007/2008) was approved by the Supervisory Board of Telekom Austria AG on December 19, 2007. As part of the second tranche, a total of 86,742 shares, worth a total of 1,652,435.10, were allocated to Group staff gratuitously in December 2007. (2006: allocation of the first tranche of 500,503 shares worth EUR 10,065,115.33)

In financial year 2007, income of EUR 22,021.68 accrued to the Company (2006: expenses of EUR 775,607.08).

Share Buyback Program

In accordance with Section 65 Paragraph 1 No. 8 of the Austrian Stock Corporation Act, the Annual General Meeting of May 30, 2007 authorized the Management Board to acquire up to a total of 46 million bearer or registered unit shares, which represented up to 10% of the common stock at the time the resolution was passed. The acquisition must take place within a period of 18 months from the date of the resolution at a price ranging between EUR 9.00 and EUR 30.00 per share.

The authorization by the Annual General Meeting of May 30, 2007 restricts use of the repurchased shares to the following:

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

At the reporting date, Telekom Austria AG held a total of 17,788,258 treasury shares worth EUR 334,350,308.94 (2006: 38,307,473 shares worth EUR 654,597,426.55).

Redemption of shares

The 40 million bearer unit shares bought back in accordance with the authorizations by the Annual General Meetings equate to 8% of the common stock and a nominal share of shareholders' equity of EUR 87,240,000.00. These were redeemed in full, in accordance with Section 225 Paragraph 5 Clause 2 of the Austrian Commercial Code, and the reserve was debited with a figure of EUR 688,489,736.13 and these bought back shares as well as the resulting rights to reduce the modifiable global certificate for a total of 500,000,000 shares to a total of 460,000,000 bearer unit shares.

The capital reduction was carried out. The common stock therefore amounts to EUR 1,003,260,000.00 and is divided into 460,000,000 unit shares.

Credit risks

The Company monitored its exposure to credit risk continuously in financial year 2007; it does not have any significant exposure to any individual customer or counterparty or any individual financial instrument.

Market risk

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

6. Members of the Management Board and the Supervisory Board

Management Board	
Boris Nemsic	Chairman of the Management Board
Rudolf Fischer	Vice-Chairman of the Management Board
Johann Tschuden	since April 1, 2007
Stefano Colombo	until March 31, 2007

Supervisory Board	
Peter Michaelis	Chairman of the Supervisory Board
Edith Hlawati	Deputy Chairwoman
Wolfgang C.Berndt	
Wilhelm Eidenberger	
Hans Haider	
Markus Hinker	
Walter Hotz	until August 3, 2007
Michael Kolek	
Stephan Koren	
Franz Kusin	until August 3, 2007
Hans-Jörg Schelling	until February 6, 2007
Werner Luksch	since August 3, 2007
Wilfried Stadler	
Harald Stöber	
Rainer Wieltsch	

Vienna, 19 February 2008

The Management Board

Boris Nemsic
Rudolf Fischer
Hans Tschuden

EXHIBIT 1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Development of Fixed Assets

in TEUR	Cost of acquisition Dec 31, 2006	Demerger Jan 1, 2007	After Demerger Jan 1, 2007	Additions	Disposals	Dec 31, 2007	Accumulated Depreciation	Book Value Dec 31, 2007	Book Value Dec 31, 2006	Depreciation Fiscal Year 2007
I. Intangible assets										
1. Licenses, industrial property rights and similar rights	95,547	-95,547	0	0	0	0	0	0	26,155	0
2. Goodwill	6,889	-6,889	0	0	0	0	0	0	424	0
	102,436	**-102,436**	**0**	**0**	**0**	**0**	**0**	**0**	**26,579**	**0**
II. Property, plant and equipment										
1. Land, similar rights and buildings including buildings on non-owned land	667,048	-667,048	0	0	0	0	0	0	318,789	0
2. Technical plants and machinery	7,436,909	-7,436,909	0	0	0	0	0	0	1,663,796	0
3. Other plants, furniture and fixtures	235,347	-235,347	0	0	0	0	0	0	61,414	0
4. Assets under construction	58,147	-58,147	0	0	0	0	0	0	58,147	0
	8,397,451	**-8,397,451**	**0**	**0**	**0**	**0**	**0**	**0**	**2,102,146**	**0**
III. Financial assets										
1. Investments in affiliated companies	2,759,562	1,387,967	4,147,529	103,713	45,807	4,205,435	2,221	4,203,214	2,756,200	0
2. Investments	4,158	-3,615	543	0	0	543	0	543	4,157	0
3. Securities	4,445	-4,445	0	0	0	0	0	0	4,445	0
4. Other loans	103,544	-103,544	0	0	0	0	0	0	66,778	0
	2,871,709	**1,276,363**	**4,148,072**	**103,713**	**45,807**	**4,205,978**	**2,221**	**4,203,757**	**2,831,580**	**0**
	11,371,596	**-7,223,524**	**4,148,072**	**103,713**	**45,807**	**4,205,978**	**2,221**	**4,203,757**	**4,960,305**	**0**

EXHIBIT 2

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table Dec 31, 2007

amounts in TEUR	balance sheet value	maturity up to 1 year	maturity exceeding 1 year
1. Accounts receivable - trade	0	0	0
2. Accounts receivable - affiliated companies			
- prepayments	0	0	0
- trade	1,376	1,376	0
- financial	26,763	20,090	6,673
- other receivables and assets	778,834	778,834	0
	806,973	**800,300**	**6,673**
3. Accounts receivable - associated companies			
- prepayments	0	0	0
- trade	0	0	0
- financial	0	0	0
- other receivables and assets	0	0	0
	0	**0**	**0**
4. Other receivables and assets			
- financial	0	0	0
- others	30,373	30,373	0
	30,373	**30,373**	**0**
Accounts receivable	**837,346**	**830,673**	**6,673**

EXHIBIT 3

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table Dec 31, 2007

amounts in TEUR	balance sheet value	maturity up to 1 year	maturity 1-5 years	maturity exceeding 5 years
1. Bank loans and overdrafts	0	0	0	0
2. Payments received in advance	0	0	0	0
3. Accounts payable - trade	407	407	0	0
4. Accounts payable - affiliated companies				
- payments received in advance	0	0	0	0
- trade	1,430	1,430	0	0
- financial	1,892,373	716,373	1,176,000	0
- others	31,914	31,914	0	0
	1,925,717	**749,717**	**1,176,000**	**0**
5. Accounts payable - associated companies				
- payments received in advance	0	0	0	0
- trade	0	0	0	0
- others	0	0	0	0
	0	**0**	**0**	**0**
6. Other liabilities				
- financial	0	0	0	0
- others	333	333	0	0
	333	**333**	**0**	**0**
Accounts payable	**1,926,457**	**750,457**	**1,176,000**	**0**

EXHIBIT 4

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table Dec 31, 2006

amounts in TEUR	balance sheet value	maturity up to 1 year	maturity exceeding 1 year
1. Accounts receivable - trade	371,220	371,220	0
2. Accounts receivable - affiliated companies			
- prepayments	0	0	0
- trade	16,230	16,230	0
- financial	58,496	55,995	2,501
- other receivables and assets	305,668	305,668	0
	380,394	**377,893**	**2,501**
3. Accounts receivable - associated companies			
- prepayments	0	0	0
- trade	23	23	0
- financial	0	0	0
- other receivables and assets	0	0	0
	23	**23**	**0**
4. Other receivables and assets			
- financial	82,958	77,903	5,055
- others	21,805	21,786	19
	104,763	**99,689**	**5,074**
Accounts receivable	**856,400**	**848,825**	**7,575**

EXHIBIT 5

Telekom Austria Aktiengesellschaft, Vienna, Austria

Table of liabilities Dec 31, 2006

amounts in TEUR	balance sheet value	maturity up to 1 year	maturity 1-5 years	maturity exceeding 5 years
1. Bank loans and overdrafts	355,845	104,397	251,448	0
2. Payments received in advance	1,133	1,133	0	0
3. Accounts payable - trade	181,500	180,404	955	141
4. Accounts payable - affiliated companies				
- payments received in advance				
- trade	39,996	39,996	0	0
- financial	1,489,203	313,203	146,000	1,030,000
- others	71,726	71,726	0	0
	1,600,925	**424,925**	**146,000**	**1,030,000**
5. Accounts payable - associated companies				
- payments received in advance	0	0	0	0
- trade	1,908	1,908	0	0
- others	0	0	0	0
	1,908	**1,908**	**0**	**0**
6. Other liabilities				
- financial	230,497	230,496	0	0
- others	96,654	36,291	46,452	13,912
	327,151	**266,787**	**46,452**	**13,912**
Accounts payable	**2,468,462**	**979,554**	**444,855**	**1,044,053**

Management Report

of Telekom Austria Aktiengesellschaft for the Period January 1 to December 31, 2007

Economic Upturn

In 2007 the Austrian economy recorded real GDP growth of 3.4%, up from 3.2% in the previous year. Since 2006 the Austrian export industry, the most important driver of economic growth, has profited from the favorable global economic situation, its strong position in the fast-growing markets of eastern and central Europe and its highly competitive prices. However, the economic boom passed its peak in the first half year of 2007, and a deterioration in the international situation led to an economic downturn in the second half of the year. According to Eurstat, unemployment in Austria declined from 4.9% to 4.3%, while inflation rose from 1.7% to 1.9% due to rising energy prices.

The international markets in which the Telekom Austria Group operates also continued to record growth in 2007. Bulgaria posted a real growth rate of 6.2%, Belarus of 7.8%, Croatia of 5.5%, the Czech Republic of 5.9%, Serbia of 6.5%, Slovenia of 5.7% and Macedonia of 5%.

Corporate Restructuring

Customer requirements and also market and competitive conditions have changed dramatically in recent years. In order to cope with these changes effectively and productively, a new organizational structure was put in place, which was approved at the Annual General Meeting on May 30, 2007 and formally implemented through a registration in the Register of Companies on July 10, 2007. Today the two operational segments Fixed Net and Mobile Communications operate under the umbrella of Telekom Austria AG, which
is listed on the Vienna Stock Exchange. The operational segments focus on their respective core businesses and customer needs.

Mobile Communications Remains the Key Growth Driver in a Difficult Environment

For the Telekom Austria Group the 2007 business year was characterized by a highly competitive environment in which developments were marked by two conflicting trends. The Telekom Austria Group's international companies developed very positively. In domestic markets both segments came under pressure from sustained competition entailing a fierce price war in the mobile communications market and continuing fixed-to-mobile substitution accompanied by an accelerated decline in demand for fixed access lines.

All mobile communications operators in Austria have introduced flat tariffs for voice telephony. This led to a further 13.3% decline in the volume of voice traffic carried by the Austrian fixed line network to 7.2 billion minutes. Approximately 70% of all calls are already carried over mobile communications networks, well above the comparative figures in other European countries. Furthermore, advances in 3G technology and the related increase in bandwidth in mobile communications led to stronger fixed-to-mobile substitution in the area of broadband Internet access. In the year under review, sales of mobile broadband products far outstripped those of the fixed net XDSL offering. At the end of December 2007 mobilkom austria had approximately 290,000 mobile broadband customers in Austria.

Due to fierce competition and falling growth rates the process of consolidation in the Austrian market continued unabated. In April 2007 the competition authorities approved the Telekom Austria Group's acquisition of the integrated provider eTel, which offers voice telephony, Internet and data services. eTel also acts as a virtual mobile communications provider in Austria and has wholesale operations in central and eastern Europe. In October 2007 the Telekom Austria Group agreed to take over the Austrian mobile communications subsidiary of Tele2 with approximately 130,000, mostly prepaid customers, subject to the approval of the antitrust authority.

The international subsidiaries of the Mobile Communications segment all showed strong performance in 2006, more than compensating for losses in earnings in Austria due to lower prices, the reduction in termination charges and the introduction of comprehensive regulation of roaming tariffs.

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 by the launch in September 2007 of Vip operator in the Republic of Macedonia. Continuing its strategy of expansion the Telekom Austria acquired a 70% stake in SB Telecom Limited, which holds 100% of the Belarusian mobile operator MDC in October 2007. This acquisition enables the Group to enter an attractive mobile communications market with a low penetration rate. With the launch of mobile communications operations in Serbia and Macedonia and entry into the Belarusian market, the Group has created growth potential for the future.

Restructuring under Company Law

In accordance with the resolution adopted by the Annual General Meeting on May 30, 2007 concerning the split for the purposes of assimilation in accordance with Section 17 of the Austrian Demerger Act, the entire fixed network operation was transferred to Telekom Austria FixNet Aktiengesellschaft as of December 31, 2006, making use of the preferential treatment permitted under Article VI of the Austrian Law on the Taxation of Corporate Restructurings. Following approval of the split and takeover agreement concluded between Telekom Austria Aktiengesellschaft and Telekom Austria Fixnet Aktiengesellschaft, the change of name to Telekom Austria TA Aktiengesellschaft was registered on 10 July 2007.

Development of Results and Financial Performance Indicators

Income from investments in 2007 totaled EUR 746 million, of which EUR 601 million was from mobilkom Austria AG and EUR 145 million from Telekom Austria TA AG.

Net income in the 2007 financial year amounted to EUR 677.4 million.

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

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

- The equity to assets ratio pursuant to §23 of the Business Reorganization Act (URG) increased from 55.3% in 2006 to 60.6% in the reporting year 2007. This ratio is calculated from total equity plus untaxed reserves divided by total assets.
- The fictitious debt repayment period in 2007 was 2.6 years (2006: 2.2 years) and indicates how many years it would take to discharge debts using the operating cash flow.

Affiliated Companies

The Telekom Austria Group is successfully positioned in international markets. At year-end 2007 the Mobile Communications 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.

The contraction of the Austrian fixed line market in favor of mobile communications led to a decline in voice minutes and to slower growth in broadband access lines. Voice minutes in the Fixed Net segment declined by 7.8% to 4.3 billion. The number of fixed access lines decreased by 7.9% to 2.4 million. The number of broadband access lines rose by 8.2% to 750,700. Due to the acquisition of the alternative fixed line operator eTel, the Fixed Net segment increased its share of the voice telephony market by 3.0 percentage points to 59.9% at year-end 2007.

In 2007 mobilkom austria won 328,000 new customers in Austria, expanding its subscriber base by 9.1% to just under 4.0 million. Most of this growth was due to strong sales of data cards and USB modems. Despite the highly competitive environment, mobilkom austria was able to increase its share of the market to 40.3 at year-end 2007. The penetration rate in Austria at the end of 2007 stood at 118.3%.

Mobiltel in Bulgaria expanded its customer base to 5.1 million in 2007, an increase of 19.5% compared with the previous year. In the same period, however, Mobiltel saw its share of the market decrease from 52.5% at year-end 2006 to 50.3% at year-end 2007 due to fierce competition. The penetration rate reached 132.8% due to multiple SIM cards per user.

MDC, consolidated since October 3, 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%.

Vipnet in Croatia also had a successful year, increasing its subscriber base by 14.0% to 2.18 million customers in 2007. Vipnet's share of the market increased slightly to 43.0% at year-end 2007. The penetration rate in Croatia stood at 114.9% in 2007.

In Slovenia Si.mobile expanded its customer base by 18.2% to 497.300 at year-end 2007. Due to this strong performance, Si.mobil's market share rose to 26.9%, making Si.mobil the second-largest mobile operator in Slovenia. The penetration rate in Slovenia rose from 85.4% to 92.2%.

In June 2007 Vip mobile launched operations in the Republic of Serbia and in September Vip operator went into service in the Republic of Macedonia. Both companies had a successful start. At year-end 2007 Vip mobile already had 500,000 customers. Due to increased competition the penetrate rate in Serbia rose to 117.2% at year-end 2007, with Vip mobile's share of the market already at 5.8%. Vip operator in the Republic of Macedonia already had 140,000 customers and a market share of 7.9%. At the end of 2007 the penetration rate in the Republic of Macedonia stood at 87.4%.

Research & Development

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. Due to its determined pursuit of research and development work which focuses on specifically enhancing customer convenience, the Telekom Austria Group makes a crucial contribution to technological progress.

The Fixed Net segment continuously invests in the further development of its cutting-edge all-IP network infrastructure, in backbone and access technologies and in open media platforms that offer unhindered access to information and content. The consistent further development of the IPTV offering aonTV introduced in 2006 is a key focus of the innovation strategy and is central to the Fixed Net segment's multimedia activities.

In the Mobile Communications segment the main emphasis is on safeguarding network quality. Moreover, the continuation of the cooperation with Vodafone in the areas of product and technology management allows the Mobile Communications segment to participate in global development projects. This ensures the early and efficient coordination of new products and a harmonized market launch.

Telekom Austria AG - Committed to Sustainability

The prime strategic objective of Telekom Austria AG is to steadily increase shareholder value. Its achievement is based on thoughtful, responsible company management which is focused on the long term.

Telekom Austria AG has, in recent years, implemented diverse control mechanisms designed to ensure economic sustainability. In addition to the Austrian Corporate Governance Code, the Code of Ethics, the internal control system and the Compliance Guidelines, a business code of conduct has been drawn up which is binding for all employees of the Telekom Austria Group.

Environmental policy at Telekom Austria AG is directed toward ensuring the responsible and sustainable use of natural resources. Environmental protection is also a cornerstone of corporate philosophy at mobilkom austria.

Information and communications technologies can make a valuable contribution to the protection of the global environment. Video conferences, teleworking and electronic services such as e-government solutions help eliminate travel and thus indirectly have a positive impact on the environment.

Telekom Austria AG has published information on its sustainability activities since 2001. All reports and the Sustainability Report 2006/2007 are available for downloading at www.telekomaustria.com under the menu item "Responsibility."

Share Buybacks, Shareholders and Management Bodies of Telekom Austria AG

If there no investment opportunities which offer an adequate return, Telekom Austria AG purchases treasury shares within the scope of its cash use policy. In the year under review, 19.6 million shares were bought back at an average price of EUR 18.90; in the previous year 21.3 million shares were purchased at 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, be issued to employees or used as consideration for acquisitions, or for resale and retirement. In accordance with this mandate, 86,742 shares were distributed 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 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 unit shares.

This retirement led to an increase of 8.7% in the stakes of the remaining shareholders. The Republic of Austria thus holds 27.4 % of Telekom Austria shares through the ÖIAG, the remainder is free float. On the most recent disclosure date, December 17, 2007, Capital Research and Management Company held a 5.02% interest and on December 31, 2006 a stake of 7.7% 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.

In 2007 there was a change on the Management Board of the Telekom Austria Group as Chief Financial Officer Stefano Colombo did not seek an extension of his mandate 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.

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 takeover bid or 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 and opportunities. The main focus of risk management activities is upon market and competitive risks, interventions by regulators and uncertain legal situations which could influence the Group'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 analyzed regularly both at the segment and at the group level and activities implemented to reduce or identify them. Possible deviations in the planning period are evaluated using scenario planning covering the scale and probability of an occurrence. The reference figures for scale are based on the group's target figures. The 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 communications) and is also increasingly expanding its operations in countries other than Austria. The Group uses this diversity to reduce the multiple risks with which it is confronted.

The business model of the Fixed Net segment faces a variety of challenges and risks. The instruments for early detection are therefore not centrally steered. The risk management process is carried out by the individual business units and centrally monitored by a 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 Communications segment is steered by a committee comprised of members of the management boards of the individual mobile communications companies. The stated goal is to strengthen the company's ability to assume and cope with risk on the basis of a clearly structured overview of the diverse regional risk categories and those risks which affect all segment units. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. In order to ensure that the measures which have been implemented are subject to control, management receives a regular status report.

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 (Rule 67) on the publication of risks and uncertainties.

Market and Competitive Risks

Due to tougher competition and the rapid pace of technological change, prices in both the Fixed Net and Mobile Communications segments have fallen sharply. As both voice communications and data traffic are affected by this trend, there is a risk that growth in volume will not be able to offset this price decline.

Falling prices in the Austrian mobile communications market are also accelerating the migration of fixed net customers to mobile communications 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.

Austria is not the only competitive market in which we operate. Our international companies also face increasingly fierce competition. The Telekom Austria Group is responding to these competitive risks by optimizing its product portfolio with attractive prices.

Regulatory and Legal Risks

Current regulation of network access and prices applies to telecommunications services offered by network operators with "significant market power." Telekom Austria TA Aktiengesellschaft is categorized as such a company in Austria and is therefore subject to strict regulation. 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 all Telekom Austria Group mobile communications companies that operate in the member states of the European Union. Furthermore, regulatory decisions to reduce termination charges can also impact the result 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. In this situation of conflicting forces the Telekom Austria Group is dedicated to acting with the utmost transparency. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues which could pose a threat to the Group, enable the Telekom Austria Group to identify problems early on and take measures to counteract them.

Financial Risks

Telekom Austria is exposed to financial risks in the form of liquidity, loss, currency and interest rate risks. Medium and short-term financing instruments in a variety of currencies and with different legal frameworks are used to limit the risk. A liquidity reserve is held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility at all times.

Personnel

Several personnel downsizing programs have been carried out 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. The Telekom Austria Group now faces the risk that a further planned reduction 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 the countries of eastern and southeast Europe interest focuses on the Republic of Bosnia and Herzegovina. Entry into Belarus represented another successful step in the implementation of the Telekom Austria Group's expansion strategy. A selective broadening of this focus to include other countries is also possible provided that the criteria for value enhancement are met. The realization chances and the future value of these and past investments will, however, also depend on the political, economic and legal development of these countries.

Internal Control System for Financial Reporting

The Management of the Telekom Austria Group is retaining the internal control system for financial reporting (ICS) even after the delisting from the New York Stock Exchange. Subsequently, the internal control system will be adapted to the European 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 internal control system is built on a risk-based approach. The most important contents and principles apply to all Telekom Austria Group companies. Any important transaction in the financial processes is covered by a risk and control matrix which ensures that financial reporting is correct and complete. The effectiveness of the internal control system is surveyed and analyzed at regular intervals by the ICS organization. At the end of the year, each of the companies of the Telekom Austria Group covered by the internal control system carries out a management assessment in consultation with the business units. 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

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 a further tranche of the stock option program. As was the case with previous tranches, the stock option program is based on the profitability of the Group. The exercise of options presupposes that the earnings per share target set by the Supervisory Board for the financial year 2008 has been met. The exercise price of EUR 19.39 corresponds to the average closing price on the Vienna Stock Exchange during the 20 trading days before the grant. In accordance with the resolution by the Annual General Meeting the options may, at the discretion of the Group, be serviced by repurchased shares of the Telekom Austria Group or by a cash settlement.

Outlook for 2008

In 2008 a balance between profitable growth projects and appropriate shareholder remuneration will remain crucial to ensuring increased corporate value for the Group's shareholders. Growth investments will only be made if they produce a greater increase in corporate value than shareholder remuneration via share buybacks. In order to ensure a stable capital structure and healthy liquidity, the net debt to EBITDA ratio may not exceed 2.0 in the medium term.

Vienna, February 19, 2008

The Management Board

Boris Nemsic
Rudolf Fischer
Hans Tschuden

Unqualified Auditor's Report

We have audited the accompanying financial statements including the underlying accounting records of
Telekom Austria Aktiengesellschaft,
Vienna, Austria

for the **fiscal year from 1 January to December 31, 2007.** The maintenance of the accounting records and the preparation and contents of these financial statements including the management report in accordance with the Austrian Company Code are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is consistent with the financial statements.

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

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

Vienna, February 19, 2008

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed:
Engagement Partner Engagement Partner
Mag. Michael Schlenk Mag. Yann-Georg Hansa
(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid. Publication of the financial statements together with our auditor's opinion may only be made if the financial statements are identical with the audited version attached to this report. § 281 Abs 2 öUGB applies.

Affiliated companies and equity investments as of Dezember 31, 2007

	Currency	Share capital	Capital held	Share in capital	Book value of equity as of Dec. 31, 2007 EUR	Last reporting date	Equity TEUR	Net income TEUR
1. Affiliated companies								
mobilkom austria AG, Wien	EUR	10,000,000	10,000,000	100%	2,718,115,344.8	31.12.2007	2,245,455	642,386
Telekom Austria TA AG (former: Telekom Austria FixNet AG), Wien	EUR	10,000,000	10,000,000	100%	1,482,635,173.6	31.12.2007	1,580,986	155,808
Telekom Projektentwicklungs GmbH, Wien	EUR	35,000	34,650	99%	2,463,650.0	31.12.2007	4,613	1,813 [1]
					4,203,214,168.4			
2. Equity investments								
Wiener Börse AG, Wien	EUR	14,000,000	280,000	2%	543,341.9	31.12.2007	x	x [2]
					543,341.9			
					4,203,757,510.2			

1) Preliminary financial statements
2) Financial statements not available at time of audit

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

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)

Declaration of the Management Board

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

The Management Board

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