

Financial Statements 2007 of Telekom Austria AG

According to Austrian Commercial Code - UGB

TELEKOM AUSTRIA  GROUP

Financial Statements 2007

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ANNEX I/1

Telekom Austria Aktiengesellschaft, Vienna, Austria

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

ANNEX I/2

Telekom Austria Aktiengesellschaft, Vienna, Austria

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
5. Cost of materials and other production services		
a) Cost of materials	0.00	78,077
b) Cost of services	823.74	-823.74
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
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
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 and similar 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 similar 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

Notes to the Financial Statements for Financial Year 2007

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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.

	Options granted	Options exercised
ESOP 2006+	2006	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, 2007	Accumulated Depreciation	Book Value Dec 31, 2007	Book Value Dec 31, 2006	Depreciation Fiscal Year 2007
	Dec 31, 2006	Demerger Jan 1, 2007	After Demerger Jan 1, 2007	Additions	Disposals					
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	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	1-5 years	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	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	1-5 years	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 anti-trust 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 are 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 occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the financial statements and underlying accounting records predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Vienna, 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.

EXHIBIT V

Telekom Austria Aktiengesellschaft, Vienna, Austria

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								
mobikom 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.

A handwritten signature in blue ink that reads "Peter Michaelis". The signature is written in a cursive, flowing style.

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)