

### Telekom Austria Group: Full-Year Results 2007 Marked by International Expansion

- Revenues increase by 3.3% from EUR 4,759.6 million to EUR 4,919.0 million driven by both segments
- EBITDA declines from EUR 1,911.5 million to EUR 1,854.9 million
- Competitive Austrian market drives EBITDA decline
- Growth of international operations compensates start-up loss
- Subscriber base rises by 50.9% to 15.4 million customers, 650.100 subscribers in start-up operations
- Proposed dividend of EUR 0.75 per share
- Revenues expected to grow by approximately 5.0% and EBITDA by approximately 3.0% in 2008

Vienna, February 27, 2008 - Telekom Austria Group (VSE: TKA, OTC US: TKAGY) today announced its results for the Financial Year 2007 and the fourth quarter ending December 31, 2007.

#### Year-to-date comparison:

During 2007, revenues increased by 3.3% to EUR 4,919.0 million due to higher revenues from the Mobile Communication and the Fixed Net segment.

EBITDA declined from EUR 1,911.5 million by 3.0% to EUR 1,854.9 million due to a lower contribution from the domestic businesses. EBITDA growth in the inter-national operations in the Mobile Communication segment more than offset cost associated to the launch of operations in the Republic of Serbia and the Republic of Macedonia.

Operating income decreased from EUR 777.1 million to EUR 761.4 million. Net income declined by 12.3% to EUR 492.5 million due to higher interest expenses as a result of the acquisition of MDC in Belarus and higher shareholder remuneration as well as higher tax expenses.

The year 2006 included a one-off tax benefit in the amount of EUR 43.6 million compared to a one-off tax benefit of EUR 16.6 million in 2007. As a result of the acquisition of treasury shares during 2007 the decline of earnings per share was limited to 8.4% to EUR 1.09.

Capital expenditures for tangible and intangible assets decreased by 14.6% to EUR 851.3 million as 2006 included the acquisition of a licence for the Republic of Serbia for EUR 320.0 million.

Net debt increased by 39.1% to EUR 4,407.2 million at the end of December 2007 mainly due to the acquisition of MDC.

The Management Board will propose a dividend of EUR 0.75 in line with the dividend paid for 2006.

## Quarterly comparison:

Revenues increased by 7.4% to EUR 1,288.1 million in 4Q 07 driven by the consolidation of MDC and eTel and the well performing international operations in the Mobile Communication segment.

EBITDA grew by 4.1% to EUR 391.3 million as revenue growth offset higher operating expenses in both segments.

Operating income increased by 20.5% to EUR 93.4 million as a result of higher EBITDA and stable depreciation & amortization.

Net income decreased by 35.2% to EUR 41.0 million during 4Q 07 mainly due to higher interest expenses following the acquisition of MDC and higher shareholder returns in 2007. As a consequence earnings per share decreased by 35.7% to EUR 0.09.

Capital expenditures for tangible and intangible assets decreased by 45.0% to EUR 316.5 as 4Q 06 included the acquisition of a licence for the Republic of Serbia for EUR 320.0 million.

Boris Nemsic, CEO of the Telekom Austria Group, said: "The 2007 financial year showed a further increase in revenues mainly driven by growth in our international mobile communications companies. This growth largely compensated the effect that fierce domestic competition had on domestic market EBITDA. The 2007 business year was most of all marked by international expansion: The Mobile Communications segment benefited from the strong performance of the international companies, an impressive customer growth of 50.9% as well as the consolidation of MDC in Belarus. The domestic mobile communications market was characterized by an increase in market share and a successful mobile data business. However, a changed regulatory framework did impact mobile results. Net income was affected by higher interest expenses, mainly due to the entry into the Belarusian market, as well as by higher shareholder remuneration. This year we will propose a dividend of EUR 0.75 at the Annual General Meeting. For 2008, we expect a further strong contribution from the international companies, which should result in a revenue growth of approximately 5% and an increase in EBITDA of roughly 3% for the Telekom Austria Group."

## Summary

in EUR million	4Q 07	4Q 06	% change	FY 07	FY 06	% change
Revenues	1,288.1	1,199.3	7.4%	4,919.0	4,759.6	3.3%
EBITDA	391.3	375.9	4.1%	1,854.9	1,911.5	-3.0%
Operating income	93.4	77.5	20.5%	761.4	777.1	-2.0%
Net income	41.0	63.3	-35.2%	492.5	561.8	-12.3%
Earnings per share (in EUR)	0.09	0.14	-35.7%	1.09	1.19	-8.4%
Capital expenditures	316.5	575.3	-45.0%	851.3	996.7	-14.6%
in EUR million				Dec. 31, 07	Dec. 31, 06	% change
Net debt				4,407.2	3,169.0	39.1%

## Group Review

### Reporting Changes

Starting 3Q 07 and in compliance with IAS 8.14 the Telekom Austria Group reports interest expenses related to employee benefit obligations no longer as personnel expenses but as interest expenses in the financial result as the company believes that this provides more accurate information. For the period January 1, 2007 through December 31, 2007 this resulted in additional interest costs of EUR 5.8 million and lower personnel expenses of the equal amount. Comparative figures for 2006 were adjusted accordingly.

### Market Environment

In 2007 the Telekom Austria Group's domestic businesses continued to operate in an environment characterized by fierce competition in both segments. Strong competition in the Austrian mobile communication market led to price declines and propelled fixed-to-mobile substitution resulting in an acceleration of fixed line losses in 2007.

During 2007 the Telekom Austria Group's international operations continued to grow, which helped to offset the development on the Austrian market. In order to strengthen its growth potential the Telekom Austria Group launched mobile communication operations in the Republic of Serbia in July 2007 and in the Republic of Macedonia in September 2007.

In October 2007 the Telekom Austria Group acquired a 70% stake in the SB Telecom Ltd., Cyprus, the 100% owner of MDC in Belarus. The acquisition offers access to an attractive telecommunications market as the mobile penetration in Belarus reached 71.5% at the end of 2007.

In June 2007 the European Parliament and the European Council voted on the introduction of extensive regulation of international voice roaming traffic which introduced in the second half of 2007.

Furthermore, the Austrian regulatory authority adopted the final schedule for the reduction of termination charges between mobile operators in Austria in October 2007. The regulator adheres to the successive abolishment of the asymmetry between Austrian mobile operators by year-end 2008 and has decided to lower termination charges compared to the previous schedule published in 2005.

### Revenues and Operating Income by Segment

#### Fixed Net

Fixed Net in EUR million	4Q 07	4Q 06	% change	FY 07	FY 06	% change
Revenues	547.4	535.5	2.2%	2,133.0	2,119.5	0.6%
EBITDA	136.2	135.7	0.4%	705.0	752.8	-6.3%
Operating income	-6.4	-31.1	-79.4%	151.2	116.2	30.1%

## Year-to-date comparison:

Fixed Net revenues increased slightly by 0.6% to EUR 2,133.0 million during 2007. Higher revenues mainly from Wholesale Voice Telephony & Internet, Data & IT solutions and Internet access & media as well as the consolidation of eTel offset lower revenues from Switched Voice.

EBITDA decreased by 6.3% to EUR 705.0 million during 2007 compared to the previous year's period as a result of higher operating expenses driven by higher costs for services received, higher employee costs and other support services.

Operating income increased by 30.1% to EUR 151.2 million compared 2006 as lower depreciation and amortization expenses more than compensated higher operating expenses.

## Quarterly comparison:

The number of xDSL lines increased by 8.2% to 750,700 xDSL lines including 85,500 wholesale lines by the end of 2007 supported by the promotional offer of a product bundle in 4Q 07 including fixed net, broadband internet and up to three SIM cards for one low monthly fee.

xDSL average revenues per residential user declined by 14.7% to EUR 24.6 in 4Q 07 due to lower prices and lower charges for excess usage as the download volumes included in monthly packages was increased.

At the end of December 2007 the number of access lines was 2.4 million compared to 2.6 million at the end of the previous year. The number of unbundled lines rose to 289,300 compared to 199,600 at the end of December 2006 primarily driven by an strong increase in unbundling activities during 1Q 07.

The number of voice minutes of Telekom Austria declined by 5.2% to 1.1 billion in 4Q 07 due to continuing fixed-to-mobile migration partially offset by the consolidation of eTel. Including Internet dial-up, the number of minutes declined by 13.8% to 1.2 billion due to the migration of dial-up customers to broadband products.

Telekom Austria's voice market share increased to 59.9% in 4Q 07 compared to 54.5% (excluding eTel and the new market share definition) in 4Q 06 due to the consolidation of eTel.

Revenue growth from Wholesale Voice Telephony & Internet and Data & IT-solutions offsetting lower revenues from Switched Voice led to an increase of Fixed Net revenues by 2.2% to EUR 547.4 million during 4Q 07.

Switched Voice Traffic revenues declined slightly by 0.7% to EUR 88.7 million as higher average tariff and the contribution from eTel offset the decline in traffic volume. The average voice tariff increased by 1.3% to 7.7 cents per minute in 4Q 07 compared to the same period of the previous year as a result of a shift in call mix to more expensive destinations.

Revenues from Switched Voice Monthly Rental & Other declined by 10.8% to EUR 111.9 million due to the lower number of access lines as a result of continuing fixed-to-mobile substitution.

Revenues from Payphones & Value Added Services increased by 11.7% to EUR 12.4 million in 4Q 07 mainly due to the contribution of eTel.

Higher revenues from fiber-based for wholesale, IP-based virtual networks and the contribution from eTel led to an increase of revenues from Data & IT-solutions including wholesale by 8.4% to EUR 125.3 million.

Revenues from Internet Access & Media decreased by 7.1% to EUR 65.5 million driven by the lower price level on the broadband market and the product bundle including fixed net, broadband and up to three SIM cards introduced as a promotion in 4Q 07.

Wholesale Voice Telephony & Internet revenues increased by 13.5% to EUR 101.9 million mainly driven by higher international voice revenues and the contribution of eTel. National voice revenues declined as a result of lower demand for voice minutes and broadband access lines from alternative fixed net operators due to fixed-to-mobile substitution.

Other Fixed Net revenues increased by 23.4% to EUR 41.7 million driven by the contribution of the newly acquired Mass Response Service GmbH, providing interactive TV services.

EBITDA increased slightly by 0.4% to EUR 136.2 million in the 4Q 07 as revenue growth offset higher operating expenses. Operating expenses increased as a result of higher costs for services received and other supported services as well as the consolidation of eTel and Mass Response Service GmbH. Employee costs declined as higher salaries and a higher headcount were offset by lower redundancy cost and expenses for the employee participation program. 4Q 06 included cost of EUR 16.4 million for a voluntary termination and option incentive program and EUR 8.3 million for an employee participation program where as 4Q 07 included severance payments of EUR 13.4 million due to higher than expected acceptance of the voluntary termination incentive program and EUR 1.5 million for the employee participation program.

Mainly lower depreciation and amortization expenses led to a reduction of operating loss from EUR 31.1 to EUR 6.4 million in 4Q 07.

## Mobile Communication

Mobile Communication\*

in EUR million	4Q 07	4Q 06	% change	FY 07	FY 06	% change
Revenues	796.2	730.6	9.0%	3,035.1	2,902.6	4.6%
EBITDA	258.0	245.6	5.0%	1,177.6	1,177.1	0.0%
Operating income	102.6	113.8	-9.8%	637.5	678.8	-6.1%

\* Consolidated FY 2007 financial statements of Telekom Austria include financial figures for MDC for the period from October 3, 2007 through December 31, 2007. Consolidated 4Q 07 financial statements of Telekom Austria include financial figures for MDC. MDC financial results are not included in 4Q 06 and FY 2006 results.

## Year-to-date comparison:

Revenues in the Mobile Communication segment rose by 4.6% to EUR 3,035.1 million during 2007. This growth was driven by international operations and the consolidation of MDC which more than offset lower roaming revenues due to the introduction of EU roaming regulation and lower domestic revenues. On a comp-arable basis, excluding MDC, revenues in the Mobile Communication segment increased by 2.4% to EUR 2,971.1 million.

EBITDA remained stable at EUR 1,177.6 million. Growth of established international operations and the contribution of MDC compensated a for lower contribution from the domestic business impacted by roaming and the reduction of mobile termination rates as well as the cost associated to the launch of operations in the Republic of Serbia and the Republic Macedonia. Excluding MDC, EBITDA in the Mobile Communication segment declined by 2.6% to EUR 1,146.7 million.

Operating income declined by 6.1% to EUR 637.5 million as a result of higher depreciation and amortization charges due to the consolidation of MDC and the new operations in the Republic of Serbia and the Republic of Macedonia. Operating income excluding MDC declined by 7.9% to EUR 625.0 million.

## Quarterly comparison:

The total number of customers in the Mobile Communication segment as of December 31, 2007 grew strongly by 50.9% to 15.4 million customers. The newly launched operations in the Republic of Serbia and the Republic of Macedonia had 650,100 customers and MDC in Belarus had 3.1 million customers at year-end 2007.

Revenues in the Mobile Communication segment grew by 9.0% to EUR 796.2 million in 4Q 07 due to higher contributions from international operations including the consolidation of recently acquired MDC. Excluding MDC revenues grew by 0.2% to EUR 732.2 million. Revenues in the Mobile Communication segment included a one-off charge related to a retroactive reduction of mobile termination rates mandated by the Austrian regulatory authority in 4Q 07 for the period from January 1, 07 to September 30, 07.

EBITDA grew by 5.0% to EUR 258.0 million in 4Q 07 as higher contributions from Bulgaria, Croatia, Slovenia and the consolidation of MDC compensated for a lower domestic EBITDA and cost associated to the launch of operations in the Republic of Serbia and the Republic of Macedonia. EBITDA in Austria declined mainly due to a one-off charge related to the retroactive reduction of mobile termination rates of in the amount of EUR 9.5 million.

Operating income decreased by 9.8% in 4Q 07 to EUR 102.6 million as a consequence of higher depreciation and amortization following the consolidation of MDC and of the recently started operations in the Republic of Serbia and the Republic of Macedonia.

## **mobilkom austria**

mobilkom austria's subscriber base grew by 9.1% to nearly 4.0 million subscriber at the end of December 2007. Strong sales of data cards and USB modems as well as attractive voice tariffs drove this growth. mobilkom austria increased its market share from 38.7% at the end of 4Q 06 to 40.3% at the end of 4Q 07.

The penetration rate in Austria rose from 114.2% at the end of 4Q 06 to 118.3% at the end of 4Q 07 due to an increasing number of customers having SIM cards for mobile broadband in addition to SIM cards for voice services.

Average revenues per user (total ARPU) declined by 15.0% to EUR 28.4 as an increase of usage per subscriber by 13.1% and a higher data ARPU partly offset lower prices and lower termination rates.

mobilkom austria had more than 1.7 million Vodafone live! customers and 290,000 mobile broadband customers at year-end 07 compared to 140,000 mobile broadband customers at the end of December 2006. Data revenues as a percentage of traffic-related revenues rose from 24.1% during 4Q 06 to 30.7% during 4Q 07.

Revenues of mobilkom austria declined by 8.9% to EUR 395.8 million compared to 4Q 06 including a one-off charge related to a retroactive reduction of mobile termination rates mandated by the Austrian regulatory authority in 4Q 07. Higher monthly rental revenues partly offset lower revenues from interconnection revenues and traffic revenues. Monthly rental revenues grew due to a larger contract subscriber base compared to the same period of the previous year. Interconnection revenues

declined due to a reduction of termination rates despite more minutes terminated. Traffic revenues declined due to lower prices partly offset by higher usage and higher data revenues.

EBITDA decreased by 10.2% to EUR 112.3 million during 4Q 07 as a reduction of operating expenses partly offset a one- time charge related to the retroactive reduction of mobile termination rates mandated by the Austrian regulatory authority in the amount of EUR 9.5 million. Operating expenses decreased due to interconnection costs following a reduction of mobile termination rates. SACs (subscriber acquisition costs) increased slightly due to a higher share of gross adds with subsidised hardware (higher value customers).

Operating income decreased by 14.7% to EUR 50.1 million driven by lower EBITDA and higher depreciation and amortization expenses.

## **Mobiltel**

Mobiltel increased its customer base by 19.5% to 5.1 million customers at the end of December 2007 compared to end of 2006. Mobiltel's market share declined from 52.5% at the end of 4Q 06 to 50.3% at the end of 4Q 07.

The mobile penetration reached 132.8% compared to 105.9% at the end of 4Q 06 as many customers in Bulgaria owned more than one SIM card.

An increase in average minutes of use charged per subscriber (MoU) partly offset lower prices leading to a slight decline in total ARPU from EUR 10.8 in 4Q 06 to EUR 10.4 in 4Q 07.

As a result of the strong growth of the customer base and higher traffic, revenues of Mobiltel grew by 10.6% to EUR 167.6 million in 4Q 07 compared to 4Q 06. Traffic revenues increased due to higher usage and more data revenues.

EBITDA grew by 1.4% to EUR 82.4 million during 4Q 07 compared to 4Q 06 as a result of higher revenues which more than offset higher interconnection costs. Marketing costs increased due to higher advertising expenses as well as higher dealer commissions.

Mobiltel's operating income increased by 5.8% to EUR 43.7 million in 4Q 07 compared to 4Q 06 mainly due to lower depreciation & amortization.

## **MDC**

On October 3, 2007 Telekom Austria Group announced the acquisition of 70% of SB Telecom Ltd., sole owner of MDC the number 2 mobile operator in Belarus. MDC has been consolidated into the Telekom Austria's Mobile Communication segment from October 3, 2007.

As of year-end 2007 MDC had nearly 3.1 million subscribers.

The penetration in Belarus increased to 71.5% at the end of 4Q 07. MDC had a market share of 43.4% at year-end 07.

MDC's mobile communication services are marketed under the brand names "Velcom" for postpaid services and "Privet" for prepaid services.

MDC contributed EUR 64.0 million of revenues and EUR 30.9 million of EBITDA in 4Q 07. MDC contributed EUR 12.6 million to the operating income. The total depreciation and amortization of EUR 18.5 million includes EUR 11.2 million of amortization of intangible assets resulting from the purchase price allocation.

## Vipnet

Vipnet increased its subscriber base by 14.0% to 2.2 million customers at the end of December 2007.

Vipnet's market share remained stable at 43.0%. At the end of December 2007 the mobile penetration rate in Croatia stood at 114.9% compared to 101.0% at the end of 4Q 06.

Total ARPU declined slightly from EUR 15.7 to EUR 15.1 due to lower prices in particular in the business segment as well as strong growth in the low-end prepaid segment through the no-frills brand tomato. An increase in the number of average minutes of use charged per subscriber (MoU) by 6.3% to 90.9 minutes partly offset lower prices.

Revenues of Vipnet grew by 9.3% to EUR 121.8 million in 4Q 07 due to higher monthly rental revenues and lower discounts granted. The increase in monthly rental revenues was driven by a strong growth of the contract subscriber base. Equipment revenues declined mainly due to lower sales of prepaid packages partly offset by higher sales of postpaid handsets and higher sales of data cards.

EBITDA increased by 26.6% to EUR 40.0 million in 4Q 07 as a result of higher revenues despite higher material expenses and higher commissions paid.

Operating income of Vipnet increased by 64.4% to EUR 21.7 million in 4Q 07 compared to the same period of the previous year due to stable depreciation and amortization charges.

## Si.mobil

Si.mobil increased its subscriber base by 18.2% to 497,300 customers at the end of December 2007.

Si.mobil increased its market share from 24.9% to 26.9%. The mobile penetration in Slovenia was 92.2% at the end of 4Q 07 compared to 85.4% at the end of 4Q 06.

Average monthly revenues per user (total ARPU) rose by 11.0% to EUR 23.2. This development was driven by a higher contract subscriber base, an increase in average minutes of use charged per subscriber (MoU) by 20.7% to 134.7 minutes as well as higher SMS usage.

Revenues rose by 21.0% to EUR 43.2 million during 4Q 07 mainly as a result of higher traffic revenues. A higher number of contract subscribers, an increase of higher usage as well as higher data revenues led to this increase.

EBITDA grew by 50.6% to EUR 11.6 million due to higher revenues despite an increase of operating expenses due to higher material and marketing expenses.

Operating income increased almost five fold from EUR 1.2 million in 4Q 06 to EUR 5.7 million in 4Q 07.

## Vip mobile

Vip mobile, the third mobile communication provider in the Republic of Serbia was launched in July 2007 and achieved a market share of 5.8% corresponding to 508,900 customers at year-end 2007.

The penetration rate in the Republic of Serbia stood at 117.2% as a high number of subscribers reported by the incumbent results in an inflated penetration.

Revenues of Vip mobile amounted to EUR 9.1 million in 4Q 07, while cost associated to the introduction of services led to an EBITDA loss of EUR 24.4 million and an operating loss of EUR 35.6 million.

## Vip operator

In September 2007, Telekom Austria Group launched Vip operator, the third mobile communication operator in the Republic of Macedonia. At year-end 2007 Vip operator had 141,200 customers and held a market share of 7.9%.

At the end of December 2007 the penetration rate in the Republic of Macedonia was 87.4%.

Vip operator generated revenues of EUR 2.1 million in 4Q 07 while start-up cost during this period resulted in an EBITDA loss of EUR 7.7 million. Operating loss for 4Q 07 was EUR 8.3 million.

## Consolidated Net Profit

### Year-to-date comparison:

Net interest expenses in 2007 increased by 28.9% to EUR 152.2 million compared to the same period of the previous year due to higher net debt following the acquisition of MDC and higher shareholder remuneration via dividends and share buyback.

Despite a slightly lower tax base, 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, a one-off tax gain of only EUR 16.6 million was included in 4Q 07. The effective tax rate for the 2007 financial year thus amounted to 19.0 % compared to 14.6% in the previous year.

Net income declined by 12.3% to EUR 492.5 million due to a lower operating income, higher interest expenses and higher income tax expenses.

Basic and diluted earnings per share declined by 8.4% to EUR 1.09 in 2007 compared 2006 as a result of lower net income despite a lower number of shares outstanding following the acquisition of treasury shares.

### Quarterly comparison:

During 4Q 07 net interest expenses increased by 75.1% to EUR 53.8 million due to a higher average net debt as a result of the acquisition of MDC and higher shareholder returns during the first nine months of 2007.

Income tax benefit decreased by 80.4% from EUR 16.8 million in 4Q 06 to EUR 3.3 million in 4Q 07 including a one-off tax benefit of EUR 16.6 million compared to a one-off tax benefit of EUR 43.6 million in 4Q 06.

Overall, quarterly net income decreased by 35.2% to EUR 41.0 million in 4Q 07 and basic and diluted earnings per share declined by 35.7% to EUR 0.09 as a result of lower net income despite a lower number of shares outstanding following the acquisition of treasury shares.

## Capital Expenditures

Capital expenditures in EUR million	4Q 07	4Q 06	% change	FY 07	FY 06	% change
Fixed Net tangible	106.5	98.6	8.0%	272.6	260.4	4.7%
Mobile Communication tangible	114.1	110.1	3.6%	364.9	300.3	21.5%
Tangible	220.6	208.7	5.7%	637.5	560.7	13.7%
Fixed Net intangible	29.2	7.0	317.1%	51.9	23.5	120.9%
Mobile Communication intangible	66.7	359.6	-81.5%	161.9	412.5	-60.8%
Intangible	95.9	366.6	-73.8%	213.8	436.0	-51.0%
Capital expenditures	316.5	575.3	-45.0%	851.3	996.7	-14.6%

### Year-to-date comparison:

Total capital expenditures for tangible and intangible assets decreased by 14.6% to EUR 851.3 million during 2007. Capital expenditures for tangible assets rose by 13.7% to EUR 637.5 million and for intangible assets declined from EUR 436.0 million to EUR 213.8 million. Capital expenditures in 2006 included EUR 320.0 million for the acquisition of a licence for the Republic of Serbia.

### Quarterly comparison:

During 4Q 07 capital expenditures for tangible and intangible assets decreased by 45.0% to EUR 316.5 million. Capital expenditures for tangible assets increased by 5.7% to EUR 220.6 million and for intangible assets decreased by 73.8% to EUR 95.9 million.

In the Fixed Net segment capital expenditures for tangible assets increased by 8.0% to EUR 106.5 million during 4Q 07 mainly due to higher investments in broadband access and the core network.

In the Mobile Communication segment capital expenditures for tangible assets increased by 3.6% to EUR 114.1 million in 4Q 07 mainly driven by investments for the newly launched operations in the Republic of Serbia and in the Republic of Macedonia and the consolidation of MDC which were partly compensated by lower capital expenditures in Croatia and Bulgaria.

Capital expenditures for intangible assets in the Fixed Net segment increased from EUR 7.0 million in 4Q 06 to EUR 29.2 million in 4Q 07 due to the reclassification of specific software from tangible to intangible assets.

In the Mobile Communication segment capital expenditures for intangible assets declined by 81.5% from EUR 359.6 to EUR 66.7 million due to the purchase of a licence for the Republic of Serbia of EUR 320.0 million in 4Q 06.

## Balance Sheet and Net Debt

The total assets of the Telekom Austria Group increased from 7,559.7 million as of December 31, 2006 to EUR 9,003.7 million as of December 31, 2007 EUR mainly as a result of the acquisition of MDC.

During 2007 current assets rose from 1,160.2 million to EUR 1,326.2 million mainly due to an increase in cash and cash equivalents mainly as a result of the consolidation of MDC.

The acquisition of MDC, eTel and MRS led to an increase in goodwill from EUR 1,188.6 million at the end of 2006 to EUR 1,939.6 million at December 31, 2007.

Current liabilities increased from EUR 1,657.3 million at the end of December 2006 to EUR 2,557.2 million at the end of December 2007 mainly due to higher short-term borrowings as well as an increase in other current liabilities mainly as a consequence of the acquisition of MDC.

Long-term liabilities rose from EUR 3,078.9 million to EUR 3,881.2 million in 2007 primarily due to the acquisition of MDC. An amount of EUR 99.1 million of long term debt was repaid and an amount of EUR 470 million was borrowed in the year 2007.

Stockholders' equity declined from EUR 2,823.5 million as of December 31, 2006 to 2,565.3 million as of December 31, 2007. The reduction of stockholders' equity was due to the acquisition of treasury shares for EUR 369.9 million and distribution of dividends of EUR 343.0 million, which were offset by a net income of EUR 492.5 million generated during 2007.

Net debt increased by 39.1% from EUR 3,169.0 million as of December 31, 2006 to EUR 4,407.2 million as of December 31, 2007 primarily as a result of the acquisition of MDC. The total purchase price for the acquisition of MDC of EUR 1,330.5 million includes the purchase price paid for the 70% stake of EUR 724.2 million including adjustments and ancillary costs paid in 4Q 07, the call and put option agreement exercisable in the fourth quarter 2010 related to the remaining 30% stake for EUR 313.9 million including adjustments at present value as of October 3, 2007 and an earn out consideration of EUR 292.4 million at present value as of October 3, 2007, also payable in 2010.

Net debt to EBITDA (last 12 months) increased by 41.2% to 2.4x at the end of December 2007 compared to the end of December 2006 primarily as a result of the acquisition of MDC.

## Cash Flow

Cash flow and net debt

in EUR million	4Q 07	4Q 06	% change	FY 07	FY 06	% change
Cash generated from operations	544.4	430.4	26.5%	1,742.0	1,589.9	9.6%
Cash used in investing activities	-1,040.0	-559.7	85.8%	-1,669.9	-971.6	71.9%
Cash used in financing activities	422.6	133.9	215.6%	9.9	-608.8	-
Effect of exchange rate changes	-0.2	0.5	-	2.0	-1.1	-
Net decrease in cash and cash equivalents	-73.2	5.1	-	84.0	8.4	-

in EUR million	Dec. 31, 07	Dec. 31, 06	% change
Net debt	4,407.2	3,169.0	39.1%

## Year-to-date comparison:

Cash generated from operations increased by 9.6% to EUR 1,742.0 million in 2007 mainly due to an increase in accounts payable, provisions and other accrued liabilities, other liabilities and deferred income and was partly offset by an increase of accounts receivables and a reduction of short- and long-term employee benefit obligations.

Cash outflows for investing activities increased by 71.9% in 2007 to EUR 1,669.9 million primarily as a result of EUR 713.6 million paid for the acquisition for the 70 % stake of MDC, net of cash acquired, partly compensated by lower capital expenditures.

Cash from financing activities recorded an inflow of EUR 9.9 million during 2007 compared to an outflow of EUR 608.8 million during the same period of the previous year. Higher dividends paid and funds used to acquire treasury shares were more than offset by higher inflows from issuance of long term debt, lower repayments on long term debt and higher inflows from short-term borrowings.

## Quarterly comparison:

During 4Q 07 cash generated from operations increased by 26.5% to EUR 544.4 million mainly due to an increase in accounts payable and lower prepaid expenses.

Cash outflow from investing activities increased from EUR 559.7 million in 4Q 06 to EUR 1,040.0 million in 4Q 07. The main reason for this increase is the acquisition of MDC for EUR 713.6 million, net of cash acquired partly offset by lower capital expenditures as 4Q 06 included EUR 320 million for the acquisition of a licence for the Republic of Serbia.

Cash flow from financing activities increased from an inflow of EUR 133.9 million in 4Q 06 to an inflow of EUR 422.6 million in 4Q 07 due to an increase in short-term borrowings.

## Personnel

Personnel (full-time equivalent)	End of period			Average of period		
	Dec. 31, 07	Dec. 31, 06	change	FY 2007	FY 2006	change
Fixed Net	9,598	9,433	165	9,629	9,503	126
Mobile Communication	8,030	5,995	2,035	6,461	5,990	471
<b>Total</b>	<b>17,628</b>	<b>15,428</b>	<b>2,200</b>	<b>16,090</b>	<b>15,493</b>	<b>597</b>

The number of total employees of the Telekom Austria Group grew by 2,200 to 17,628 employees at the end of December 2007 compared to the same time the previous year.

The workforce in the Fixed Net segment increased by 165 to 9,598 including 317 eTel employees.

During 2007 200 full time equivalent employees left the Fixed Net segment under the voluntary termination incentive program which started in 4Q 06. The number of employees of the Mobile Communication segment increased by 2,035 to 8,030 employees mainly as a result of the acquisition of MDC and personnel hired in the Republic of Serbia and in the Republic of Macedonia.

## Other Events

On October 1, 2007 Telekom Austria Group closed the acquisition of 100% of the share capital of Mass Response Service GmbH, which provides interactive TV services, for a purchase price of EUR 20.2 million.

On October 3, 2007 the Telekom Austria Group agreed to acquire a 70% stake in Cypriot SB Telecom Limited for a corresponding purchase price for the 70% stake of EUR 724.2 million including adjustments and ancillary costs. SB Telecom is the sole owner of the Belarusian mobile operator MDC.

The company also entered into a call and put option agreement exercisable in the fourth quarter 2010 related to the remaining 30% stake for EUR 313.9 million including adjustments at present value as of October 3, 2007 and an earn out consideration of EUR 292.4 million at present value as of October 3, 2007, also payable in 2010.

In accordance with IAS 32 the Telekom Austria Group consolidates 100% of SB Telecom without minority interest.

Telekom Austria Group closed the acquisition of a majority stake in MDC on November 20, 2007.

On October 8, 2007 the Telekom Austria Group agreed to acquire 100% of the share capital of the Austrian mobile operations of Tele2 including the entire customer base for a purchase price of approximately EUR 7 million which will be adjusted based on the financial statements and the actual number of customers as of closing date. Tele2 is an Austrian virtual mobile network provider and had approximately 131,000 customers at the end of June 2007. Merger control approval is pending and the transaction is currently expected to close in 2Q 2008.

On October 15, 2007 the Austrian regulatory authority adapted the final schedule for the reduction of termination charges between mobile operators. The regulator adheres to the successive abolishment of the asymmetry between Austrian mobile operators by year-end 2008 and has decided to lower termination charges compared to the previous schedule published in 2005. The uniform termination charge of all Austrian mobile communication operators will be reduced from 6.79 cents to 5.72 cents by January 1, 2009. mobilkom austria has retroactively reduced its termination rates to 7.13 cents as of January 1, 2007, 5.91 cents as of July 1, 2007 and as of January 1, 2008 the termination rate is 5.72 cents.

Telekom Austria Group has been informed that the shareholding of Capital Research and Management Company as of October 16, 2007 was 22,284,453 shares or 4.84% of outstanding shares and 23,105,203 shares or 5.02% of the outstanding shares as of 13 December 2007. Under Austrian law a company needs to announce if the stake of a shareholder exceeds or falls below a specific level (e.g. 5%).

On December 20, 2007 Telekom Austria Group announced that the salaries of all employees of the Telekom Austria Group in Austria will be increased by 3.1% as of January 1, 2008, but EUR 150 per month at the most, in line with the conclusion of the collective bargaining agreement for the year 2008. In addition, within the scope of the Employee Participation Program started 2006, employees of the Telekom Austria Group in Austria received shares worth 150 EUR. The Employee Participation Program is based on the authorization of the Annual General Meeting held on May 23, 2006 and on May 30, 2007 and was offered to approximately 11,000 active employees who did not receive stock options.

Due to the acquisition of MDC the target level of net debt/EBITDA of 2.0x has been exceeded and therefore Telekom Austria Group froze the acquisition of treasury shares in 4Q 07 compared to 5,890,917 treasury shares purchased at an average purchase price of EUR 19.56 for a total amount of EUR 115.2 million in 4Q 06.

## **Major Subsequent Events after December 31, 2007**

Based on the approval by the Supervisory Board, an additional tranche of stock options was granted to the eligible employees of Telekom Austria on January 7, 2008.

## Risks & Uncertainties

The Telekom Austria Group faces various risks and uncertainties that could affect its results. These risks include, but are not limited to, a further reduction of prices for mobile communication services in Austria and an acceleration of fixed-to-mobile substitution resulting in further access line loss and a decline of fixed net minutes.

The Telekom Austria Group is also subject to risks related to the planned reduction of the number of employees in the Fixed Net segment.

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 conflicting trends. The international business units continued to show dynamic development. In Austria a fierce price war in the highly competitive mobile communications market and a decline in the number of fixed access lines due to continuing migration to mobile networks limited growth opportunities for both segments.

Furthermore the Telekom Austria Group is subject to intensive regulation.

Through its expansion into the Eastern and Southeastern European 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 Eastern- and Southeastern European region involve uncertainties, including tax uncertainties that typically do not exist in other markets.

The Telekom Austria Group has not been involved in the management of MDC prior to the acquisition. As a result, Telekom Austria Group's assessment of the risks and opportunities as well as the effects of the acquisition on Telekom Austria Group's financial results may not be accurate and there may be risks of which Telekom Austria Group is not aware.

## Forecast 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 over-compensating 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.

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

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 and a continuing reduction of 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.

## **Further Information**

These financial results should be read in connection with the Company's audited annual consolidated financial statement according to IFRS for the year-end December 31, 2007.

For more detailed information about the full-year results 2007 please refer to the corresponding report on Telekom Austria Group's website at [www.telekomaustria.com/interim\\_reports](http://www.telekomaustria.com/interim_reports)

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Disclaimer: This news release contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as “believe,” “intend,” “anticipate,” “plan,” “expect” and similar expressions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- the effects of our tariff reduction or other marketing initiatives;
- the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- our ability to achieve cost savings and realize productivity improvements;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings;
- our ability to secure the licenses we need to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of our domestic and international investments, joint ventures and alliances
- the impact of our new business strategies and transformation program;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditure;
- the outcome of litigation in which we are involved;
- the level of demand in the market for our shares which can affect our business strategies;
- changes in the law including regulatory, civil servants and social security law, including pensions and tax law; and general economic conditions, government and regulatory policies, and business conditions in the markets we serve.

Through its expansion into the Eastern and South-eastern European 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 Eastern and South-eastern European region involve uncertainties, including tax uncertainties that typically do not exist in other markets.