Report on Item 8 of the AGM Agenda

Report by the Management board of Telekom Austria AG on Exclusion of Subscription Rights in Connection with the Authorization of the Management board to issue Convertible Bonds as well as the Resolution on Conditional Capital according to Para 153 Sec 4 in Connection with Para 174 Sec 4 Stock Corporation Act

1. Authorization

The management board of Telekom Austria AG ("the company") intends to propose a resolution to the AGM of the company, with which it will be authorized to issue – also in several tranches – bonds which grant the right of subscription and/or conversion of up to 80 million shares of the company (convertible bonds) amounting to up to approximately 17.4% of the share capital. To serve the convertible bonds the management board may use either conditional capital of up to 40 million shares (or approximately 8.7% of share capital) and/or treasury shares from the share buy-back effected of up to 40 million shares (or roughly 8.7% of the share capital). The terms and conditions of the issue are to be determined by the management board. The authorization of the management board to issue convertible bonds shall apply for 5 years after the resolution was passed, i.e. up to May 19, 2014. To issue the convertible bonds conditional capital will be generated amounting to up to Euro 87,240,000.

The convertible bonds can also be issued by a company that is 100% directly or indirectly owned by Telekom Austria Aktiengesellschaft. In this case the management board is authorized to assume a guarantee for the company for the convertible bonds and to grant the holders of convertible bonds conversion rights for bearer shares from Telekom Austria Aktiengesellschaft.

Moreover, at the annual general meeting the management board shall be authorized to exclude subscription rights of the shareholders for convertible bonds. The economical justification for this measure is as follows:

2. Advantages of Issuing Convertible Bonds/Company Interests

In past years the company successfully issued a number of bonds. The company would also like to actively shape its capital structure – particularly in times of financial crisis – in the future, in order to be able to optimize capital costs. With respect to the crisis on financial markets the company would like to be in a position to broaden its financing base. Thus, the company would not only like to address classic bond investors, but if necessary, also the investor groups that focus on instruments such as convertible bonds.

The annual general meeting 2004 granted the company a respective possibility for a period of 5 years. As this authorization expires in 2009, the company is now applying for another authorization for further 5 years to issue convertible bonds and for the possibility to serve them at least partially with conditional capital.

In general, convertible bonds are attractive due to the combination of two factors: on the one hand, investors obtain interest from the bond at comparably little risk in terms of paying back the money invested. On the other hand, they obtain the right to acquire company shares in the future at a price that is already determined when the convertible bond is issued. This enables access to the substance and earning power of the company and provides these investors with the opportunity to profit from possible value enhancement of the company. Thus, with rising share performance additional potential can be generated.

Based on the above-mentioned components, security as a bond holder and the possibility to participate in the rising share performance through the conversion option, comparably attractive financing conditions can additionally be achieved for the company, partially below the level of debt capital markets. Moreover, convertible bonds also offer the opportunity to utilize the strong volatility of the company share to the advantage of the company and thus, to lower the company's capital costs.

In addition, by issuing convertible bonds the capital structure of the company can be expanded and the balance sheet structure of the company can be improved. Depending on the structure chosen, part of the debt capital taken up via the convertible bond can be treated as equity capital by international rating agencies. In turn, treating the convertible bond like equity can lead to an improved rating of the company, and thus, can lead to lower financing costs for the company for future debt capital of the company.

3. Target Group Institutional Investors

Usually, convertible bonds are only subscribed by institutional investors which have specialized in this form of investment, and which also should be addressed by the convertible bond to be issued. Institutional investors pose special demands on denomination, terms and flexibility of the convertible bonds in terms of timing; target group-specific communication is also necessary. These demands can only be reasonably accommodated by excluding subscription right. Thus, the authorization to the management board to exclude subscription rights is necessary for strategic, financial and organizational reasons, in order to place the convertible bond on the capital market accordingly and to be able to make a target group-specific offer to investors specialized in convertible bonds and – as a consequence – to optimally exploit the advantages for the company by issuing convertible bonds. If convertible bonds were offered to the market of small investors as an investment instrument, the advantages for the company explained above resulting from the relatively low-priced interest components but also from the swiftness and flexibility, would be strongly reduced – if not entirely consumed – due to the strong increase in administration (time-intensive preparations, marketing and advertising efforts) and the related one-off and recurring administration costs.

Moreover, the possibility to exclude subscription rights on convertible bonds enables the company to utilize quickly, flexibly and cost-efficiently the opportunities of changing stock market conditions. By avoiding a time consuming and expensive administration of subscription rights, the capital requirements of the company can be promptly covered by short-term market opportunities and new investors can additionally be gained in Austria and abroad. Hence, due to the possibility for excluding subscription rights the equity base can be strengthened to the best degree possible and a reduction of financing costs can be achieved to the benefit of the company and all shareholders.

4. Issue Price and Terms and Conditions of the Convertible Bonds; Issue Price of the Shares

When issuing convertible bonds, the management board will determine the issue price and the terms and conditions of the issue, such as interest rate, maturity and denomination, terms to protect against dilution, conversion period or date, conversion rights and obligations, conversion ratio and conversion price according to applicable stock corporation law. To serve the convertible bonds, the management board may use either the conditional capital to be resolved and/or treasury shares.

The price of the convertible bonds shall be calculated according to recognized finance mathematical methods in a recognized pricing procedure as follows:
The issue price of the convertible bond is composed of the issue price of a traditional fixed interest-bearing bond, the price for the conversion right and the other terms.

The calculation of the issue price of the bond is determined by calculating the cash value under consideration of the maturity date of the bond, the interest of the bond, the current market interest rate (e.g. Euribor/swap rate) as well as the credit standing of the company.

The calculation of the price of the conversion right is determined by methods of option pricing under consideration of the maturity date/exercise period, the current fluctuations of the share price (volatility), the ratio of the conversion price to the current share price of the Telekom Austria share, the current market interest rate (e.g. Euribor/swap rate) as well as the dividend yield. Additional terms such as a right to early cancellation by the issuer, a right to early cancellation by the purchaser (under terms to be determined), a conversion obligation, a right to effect a cash payment instead of a conversion, a fixed or variable conversion ratio, are additionally taken into account when calculating the price.

According to the recognized finance mathematical methods described above also the exchange ratio and the issue price of the shares are determined in accordance with the issue price and the interest calculation of the convertible bond, if issued in a foreign currency under consideration of the currency rate. These figures are to be calculated in a recognized pricing procedure; the issue price must not lie below the pro-rata amount of the share capital allocated to each share.

The management board is also authorized to determine the following additional terms in the terms and conditions of the issue:

a) an additional cash payment and consolidation or a compensation for non-convertible fractional shares;

b) a fixed or variable conversion ratio and the determination of the conversion price within a given bandwidth depending on the development of the stock price of the company during the maturity of the convertible bonds;

c) the right of the company, to grant no shares or not only shares in case of conversion, but rather to effect a cash payment in an appropriate amount oriented on the stock price of the company;

d) the right of the company to prematurely terminate the convertible bonds and to pay the holders of the convertible bonds the redemption amount;

e) the right of the holders of the convertible bonds to prematurely terminate them and to receive the redemption amount for the convertible bonds;

f) a conversion obligation of the holders of the convertible bonds at the end of maturity or at a different point of time.

Due to the conditions of the convertible bonds the issue price of the shares to be issued will lie above the share price at the time the convertible bonds are issued, so that compared to an immediate capital increase, additional capital can be conveyed to the company. Practice has shown that the conversion price for issuances with exclusion of subscription rights can usually be set higher compared to issuances with subscription rights. This effect is based on the structure of issuing of subscription rights in respect of which at least a two-week subscription period must be granted. Thus, with an exclusion of subscription rights, more financial means can be generated for the company with a lower number of shares to be issued. Also for this reason the exclusion of subscription rights has become the usual practice in issuing convertible bonds on capital markets.

The issue price of the shares to be issued (conversion price) in exercising conversion and/or subscription rights is calculated according to the closing price on the Vienna Stock Exchange on the day before the convertible bonds were allocated, plus an additional charge that corresponds to the expectation of the development of the stock price of the company in connection with similar transactions on the relevant market. This way the company is in a position to flexibly set attractive issuing terms within the authorization period. Simultaneously, the expected development of the share price can be accommodated and the usual conditions and conventions of international markets at the date of issue can be responded to. This will allow to fully exploit the development potential to the advantage of the company and the existing shareholders. Therefore, the designated issue price appears to be appropriately chosen and objectively justified.

5. Consideration of Interests

Based on the mentioned purposes, the proposed authorization to exclude subscription rights is objectively justified and is appropriate to fulfill the intention of optimizing the capital structure and decreasing financing costs, and thus, to continue to strengthen and enhance the competitive position of the company to the benefit of the company and the shareholders. Moreover, the exclusion of subscription rights also appears necessary because the expected capital intake replaces in short-term cost-intensive capital measures due to the target group-specific orientation of convertible bonds, provides low-cost financing conditions, and secures long-term and flexible business planning and the realization of the planned corporate goals to the benefit of the company and, in this connection, of all shareholders.

It is to be expected that the benefits to the company from issuing convertible bonds with the exclusion of subscription rights are to the advantage of all shareholders and outweigh a proportionate dilution of the shareholders excluded from the subscription rights and thus, the interest of the company outweighs the disadvantage of the shareholders resulting from the exclusion of subscription rights. Considering and summing up all the circumstances mentioned above, it can be stated that the authorization to exclude subscription rights within the framework described is necessary, adequate, appropriate and is justified and required in the predominant interest of the company.

Vienna, April 2009

The management board