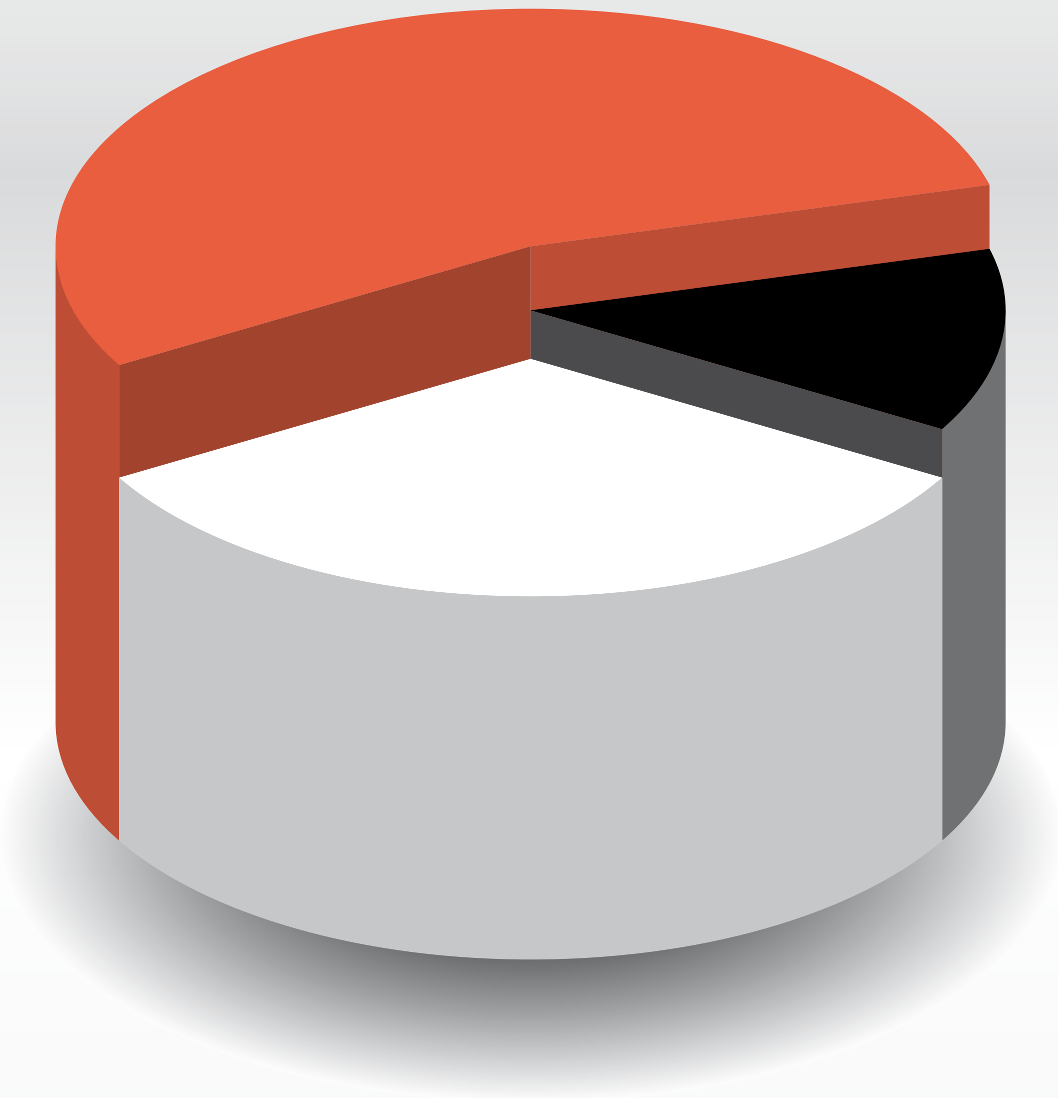
Annual Financial Report 2010

According to § 82 Para 4 Stock Exchange Act



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Recovery of Global Economic and Financial Markets

Following a deep-seated economic and financial crisis, which started to unfold in 2008 and peaked in mid 2009, the 2010 business year was characterized by an economic recovery that varied in intensity across countries. While in some of the EU member states like Germany, Austria and Finland the recovery clearly started to gather momentum in the year under review, the economies of Spain, Greece and Ireland labored under the strains of a persistent recession and national debt crises. Both Greece and Ireland applied for financial assistance from the European Financial Stability Facility (EFSF), triggering widespread uncertainty on the financial markets and leading to substantial depreciation of the euro by the middle of the year. Economic trends in Austria benefited from export growth and a greater willingness to invest. According to preliminary estimates by the Austrian Institute of Economic Research (WIFO), real GDP in Austria rose by 2.0%, the unemployment rate declined from 4.8% to 4.4% well below the EU 27 average of 9.6%, while inflation increased from 0.5% to 1.9%.

In 2010, Central and Eastern Europe profited from a stronger economic performance in Western Europe and were able to generate growth from the export sector. However, in Southeastern Europe, impetus for growth was significantly weaker due to subdued foreign investment. The development of currencies in Central and Eastern Europe was marked by increasing stabilization, which in Croatia and the Republic of Serbia was mainly attributable to central bank intervention.

In the year under review, the economic recovery in large parts of Europe and the US along with the sustained growth of the Asian economies went hand in hand with the stabilization of the international financial markets. This favorable development was supported by liquidity injections from central banks and companies' improved profitability. At the Vienna Stock Exchange, the leading index ATX recorded a plus of 14.5% and the DAX in Germany an increase of approximately 14%. Both the European Central Bank (ECB) and the US Federal Reserve Bank (FED) continued to pursue a low interest-rate policy in the year under review. As a result, the key interest rate of the ECB has been stable at a level of 1.0% since May 2009 and that of the FED has remained unchanged at 0.25% since October 2008.

Telecom Industry Trends

The Telekom Austria Group operates in a highly competitive environment both in the fixed line and mobile communication markets. The resulting negative impact on pricing levels is further intensified by regulatory measures in all segments. Continuous scrutiny of cost structures and improvements to productivity and operating efficiency are therefore essential to safeguard the Telekom Austria Group's earnings power.

In Austria, continued fixed-to-mobile substitution reflects the dynamics of current technological change. At the same time, the trend towards convergent products and customer demand for one-stop-shop communication services are increasingly gathering momentum. For this reason, in 2010 the Group's domestic fixed line and mobile communication operations were merged into a convergent telecom provider under the name A1 Telekom Austria Aktiengesellschaft (A1 Telekom Austria). Competitiveness is safeguarded by a market-oriented product portfolio and attractive pricing schemes.

In the Central and Eastern European region, the development of the telecommunication industry continues to be shaped by a challenging macro-economic environment, additional fiscal levies in Croatia and the Republic of Serbia (the levy in Serbia was abolished in January 2011) as well as a high level of competition. Moreover, convergent bundles and innovative premium products are gaining increasing importance and are influencing customer usage patterns.

Regulatory measures, especially the reduction of mobile termination charges and roaming tariffs, are negatively impacting the Group's operational performance across all segments.

Regulation

Fixed Line Telecommunication Market in Austria

In accordance with the country's legal provisions, the Austrian Regulatory Authority again carried out a market analysis procedure in 2010 to assess the intensity of competition on the Austrian telecommunication market as well as the scope of current regulatory requirements imposed on companies with a dominant market position. The ongoing competitive pressure exerted by mobile communication on fixed line services not only affects voice telephony, it is also impacting the Austrian broadband market. The Regulatory Authority has therefore recognized these fixed-to-mobile substitution effects on broadband access lines and consequently provided for a partial deregulation of the domestic broadband market. As a result, the regulation of fixed broadband access lines for residential customers at the wholesale level was partially lifted. This decision was approved by the European Commission.

Partial deregulation measures were also adopted in other telecommunication markets. For instance, regulatory requirements for wholesale rental lines “terminating segments” were lifted for certain high bandwidths and urban areas. Furthermore, regulatory requirements for certain markets of A1 Telekom Austria were eased: the strict rule of cost orientation for the determination of tariff schemes was replaced by a more flexible price-cap regime. There were no further significant reductions of regulatory intensity on the domestic fixed line telecommunication markets in the year under review.

Within the framework of the aforementioned market analysis procedure, in 2010 the Regulatory Authority also assessed the market for the physical access to network infrastructures at the wholesale level (former market for local loop unbundling), which is crucial to the national fiber-optic rollout. As a result, a ruling was issued settling general technical and operating questions concerning access to the next generation network/next generation access infrastructure. However, details regarding technical implementation and the commercial aspects of fiber-optic access are still subject to a review process that is currently underway.

A resolution concerning fixed line interconnection charges was adopted mandating that tariff schemes that applied so far will be maintained until a new market review procedure has been carried out, which will take place once the new legal framework has come into effect. The new legal framework for the regulation of telecommunication services, which was approved by the European Commission at the end of 2009,must be implemented in Austria on the basis of an amendment to the Austrian Telecommunications Act by mid 2011.

Mobile Communication Markets

The Telekom Austria Group’s mobile communication markets are governed by differing regulatory systems: Due to their membership of the European Union and the European Economic Area (EEA), Austria, Slovenia, Bulgaria and Liechtenstein are subject to regulations of these bodies, governing roaming tariffs and termination charges between the individual market players. The regulatory frameworks in Croatia, Belarus, the Republic of Serbia and the Republic of Macedonia are at various stages of development and in certain areas are gradually coming in line with European Union directives.

On June 30, 2009 the second Regulation of the European Commission governing roaming tariffs became effective. This envisages a gradual annual reduction of roaming tariffs for all mobile communication providers within their operational areas starting from July 2009. The most important provisions are summarized as follows:

- Outgoing calls: reduction in caps on roaming voice tariffs from EUR 0.43 to EUR 0.39 as of July 1, 2010 and by a further EUR 0.04 as of July 1, 2011
- Incoming calls: reduction in the price ceiling from EUR 0.19 to EUR 0.15 as of July 1, 2010 and by a further EUR 0.04 as of July 1, 2011
- At the wholesale level: reduction in the price ceiling from EUR 0.26 to EUR 0.22 as of July 1, 2010 and by a further EUR 0.04 as of July 1, 2011
- Abolition of roaming charges within the EU for the receipt of voice mail messages abroad as of July 1, 2010
- Text messages: capping of retail prices at EUR 0.11 and of wholesale prices at EUR 0.04
- The obligation to provide personalized tariff information for the use of data roaming services as well as the introduction of one or several cost caps or data volume limits as of March 1, 2010, which will result in the data roaming service being cut off once this ceiling has been exceeded unless the customer has explicitly consented to incurring additional expense. One of the offered ceilings has to amount to EUR 50 (or to the corresponding data limit).
- Reduction in the wholesale price cap for data roaming services to EUR 0.80 per MB as of July 1, 2010 and to EUR 0.50 per MB as of July 1, 2011

The second EU Roaming Regulation will terminate on June 30, 2012 unless the European Union decides to further extend it on the basis of a report by the European Commission to be submitted by June 30, 2011. In December 2010 and in preparation for this report, the European Commission published the results of a public consultation process regarding the impact of the roaming regulation to date and the potential effects of future regulatory alternatives. In particular, this public consultation underlines the search for a “permanent structural” solution. In this context it is important to point out that one of the goals of the European Commission’s Digital Agenda is to reduce the difference between roaming and national tariffs to zero by 2015.

In May 2010, the European Commission published a statement on its Digital Agenda, which is one of the 7 flagship initiatives of the Europe 2020 Strategy. The most important objectives of the EU Digital Agenda will impact the Telekom Austria Group’s activities most strongly in relation to broadband rollout and the aforementioned roaming regulation. The Strategy seeks to ensure that all EU citizens have access to basic broadband Internet by 2013 and to transmission speeds of up to 30 Mbit/s or even higher by 2020. 50% of all European households should be equipped with ultrafast broadband with transmission speeds of more than 100 Mbit/s by 2020.

In May 2009, the European Commission also published a recommendation concerning the calculation of termination rates with the aim of harmonizing the cost-based methods used by the national regulatory bodies and consequently the termination charges within the EU. The overall objective is to bring mobile termination charges in line with fixed line termination fees and to reduce them to between EUR 0.015 and EUR 0.03 per minute by year-end 2012 at the latest.

In September 2010, the European Commission published a proposal for the first "Multiannual Radio Spectrum Policy Program" (RSPP) setting out policy guidelines for the strategic planning and harmonization of the use of spectrum within the European internal market between 2011 and 2015. One of the most important objectives concerns the use of the spectrum for mobile broadband services. According to the European Commission, the 790 to 862 MHz frequency band, which is part of the so-called Digital Dividend, must be made available in all EU member states by January 1, 2012. In May 2010, the Commission mandated harmonized, technical conditions for the use of the 800 MHz band for non-broadcasting services and more particularly for mobile broadband services and 4G mobile technologies such as Long Term Evolution (LTE). When member states open the 800 MHz band for the services described above they must comply with the requirements of this resolution. Pursuant to the RSPP proposal this resolution should be fully implemented by January 1, 2013. An extension of this deadline until January 1, 2015 for technical reasons should be possible with prior authorization of the Commission.

Spectrum trading is a further aspect of RSPP: the 800 MHz, 900 MHz and the 1800 MHz – as well as the 2.0 GHz, 2.6 GHz and 3.4 GHz – bands have been designated for this purpose and the Commission now has to propose concrete implementation measures. Furthermore, the Commission also plans to propose guidelines to safeguard the harmonization of selection criteria and licensing procedures for designated bands, which will mainly focus on infrastructure sharing models and terms and conditions of use. The RSPP is currently being debated by the European Parliament; political agreement, or if this should not be possible, the adoption of a progress report by the Council of Ministers of Telecommunications is expected for May 2011.

A spectrum auction for the 2.6 GHz band, which will facilitate the commercial launch of LTE technology in Austria and mobile broadband Internet access with transmission speeds of up to 100 Mbit/s, was completed at the end of September 2010. A1 Telekom Austria acquired 2x20 MHz of paired and 25 MHz of unpaired frequency blocks for a total consideration of EUR 13.2 million.

In Bulgaria, the acquisition of both fixed line broadband operators "Megalan Network" and "Spectrum Net" by Mobiltel was approved by the country's competition authority in the year under review. In Croatia, the national regulatory authority decided to further reduce termination rates as of year-end 2010. As a consequence, the national termination charge for Vipnet was reduced to EUR 0.053 as of January 1, 2011. In Slovenia, the switchover to digital TV was concluded on December 1, 2010, marking a first step towards the future allocation of "digital dividend frequencies". In the Republic of Serbia, the 10% mobile communication levy was abolished as of January 1, 2011. In the Republic of Macedonia, a gliding path for the reduction of mobile termination charges was agreed in July 2010, according to which Vip operator will still be entitled to charge higher termination rates than the other providers in the country. In Belarus, velcom was able to acquire an additional frequency package within the 2,100 frequency band with a bandwidth of 2 x 5 MHz for a total consideration of EUR 4.7 million. Furthermore, the possibility of spectrum refarming was established by law.

Change in the Reporting Structure

In the year under review, the Telekom Austria Group realigned its management structure to reflect the increasing demand for convergent products. As a result, segment reporting will be based on geographical markets from now on instead of the segmentation in fixed line and mobile communication businesses. The Telekom Austria Group reports separately on the five operating segments, Austria, Bulgaria, Croatia, Belarus and Additional Markets.

The Austrian segment comprises the former Fixed Net and Mobile Communication segments in Austria. This segment offers convergent product packages including voice telephony, Internet access, data and IT solutions, value added services, wholesale services, television broadcasting (aonTV), mobile business and payment solutions in Austria. The product portfolio of the Bulgarian segment encompasses voice telephony (both mobile and fixed line telephone services), access to emergency services, directory services, Internet access, data and IT solutions, value added services, wholesale services, the sale of end-user terminal equipment and payment solutions. The Croatian segment provides mobile and fixed line telephony, value added services and mobile Internet access in Croatia. The Belarusian segment includes mobile communication services in Belarus. The segment Additional Markets covers the mobile communication companies in Slovenia, the Republic of Serbia, the Republic of Macedonia and Liechtenstein. The segment Corporate & Other performs strategic and cross-divisional management functions and acts as an interface with the capital markets.

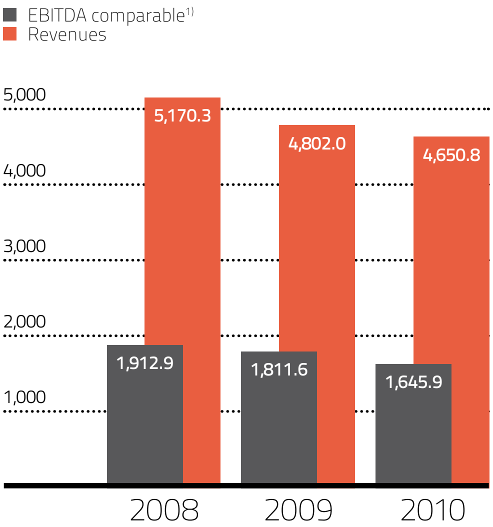
The Telekom Austria Group uses the financial figures EBITDA comparable and EBITDA (incl. impairment and restructuring charges) to better reflect operational development of individual business units. EBITDA is defined as net income excluding financial result, income tax, depreciation and amortization. EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program as well as for impairment charges, when applicable. The restructuring program includes social plans for employees, whose employment contract is terminated in a socially responsible way, as well as expenses for the future compensation of civil servants, who no longer provide services to the Telekom Austria Group but whose employment contracts cannot be terminated due to their civil servant status. Furthermore, this figure includes expenses for the transfer of civil servants to the Austrian government. Due to the utilization of EDP devices, differences can arise in the addition of rounded amounts.

Revenue and Earnings Development

In the year under review, the Telekom Austria Group reported revenues of EUR 4,650.8 million, a 3.1% decline compared to the previous year, in line with the revised outlook for 2010 in the quarterly reporting. The negative effect of foreign currency translation amounted to EUR 11.5 million or 0.2% in 2010.

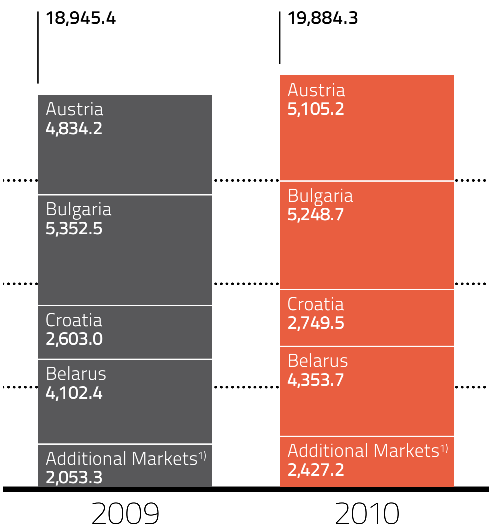
Lower revenues from the Austrian, Bulgarian and Croatian segments could not be compensated for by the revenue growth in the Belarusian segment and in the Republic of Serbia and the Republic of Macedonia, which are included in the segment Additional Markets. Besides a very challenging economic environment, declining prices due to intensive competition and further regulatory cuts of roaming and termination tariffs remained the main drivers for this negative development.

Development of Revenues and EBITDA comparable in EUR million



[1)] EBITDA excluding restructuring and impairment charges

Customer Numbers Mobile Communication
in '000 / as of Dec. 31



[1)] Slovenia, Republic of Serbia, Republic of Macedonia, Liechtenstein

In the year under review, fixed access lines showed a positive development in Austria. Thanks to the success of product bundles and rising demand for fixed line broadband, the persistent decline in fixed access lines over recent years was stopped in 2010 and 1,400 net additions were registered. The Group's mobile subscriber base increased by 5.0% to 19.9 million in 2010 compared to the previous year, with the Austrian and the Belarusian segments recording the strongest growth, with approximately 271,000 and 251,300 net additions respectively.

The Telekom Austria Group's international activities (measured on the basis of the consolidated revenues of the international segments, i.e. of the foreign subsidiaries, as a share of total group revenues excluding the segments Corporate & Other and Eliminations) accounted for 35.4% of total revenues in 2010 after 34.5% in the previous year. In the year under review, the Telekom Austria Group continued to adopt extensive and group-wide measures to optimize operating expenses. As a result, operating expenses were maintained at a low level in 2010, showing a slight increase of 0.3%, while material expenses rose by 1.7% to EUR 403.6 million due to the greater number of end-devices sold. Employee costs rose by 2.4% to EUR 806.8 million compared to the previous year's level due to salary adjustments. This increase in employee costs could not be mitigated by a reduction in the average number of personnel by 3.5% to 9,985 employees in the Austrian segment. The ongoing growth trend in the Belarusian segment as well as in the Republics of Serbia and Macedonia led to an increase in the average headcount of international operations by 1.7% to 6,534 employees. On a yearly average, total headcount declined at group level by 1.2% to 16,580 employees. Other operating expenses decreased by 0.9% to EUR 1,883.7 million in the year under review. This development was mainly driven by lower interconnection expenses and lower costs for services received – mainly attributable to lower termination charges and roaming tariffs – as well as by a reduction of expenses for advertising, repair and maintenance. Due to lower capital expenditures in previous years, depreciation and amortization charges decreased by 2.9% to EUR 1,065.6 million in the year under review compared to 2009.

EBITDA comparable, which does not include restructuring and impairment charges, declined by 9.1% from EUR 1,811.6 million in 2009 to EUR 1,645.9 million in 2010. While both the Belarusian and Additional Markets segments showed an EBITDA comparable growth of 3.8% and 197.0% respectively, lower revenues in the Austrian, Bulgarian and Croatian segments could only be partly offset by lower expenses. The negative effect of foreign currency translation on EBITDA comparable amounted to EUR 1.1 million in 2010. This led to a decrease of the EBITDA comparable margin from 37.7% in the previous year to 35.4% in the year under review.

Operational expenses for the integration of the Austrian fixed line and mobile communication operations totaled EUR 17.6 million in 2010.

Financial Figures in million EUR

	2010	2009	Change in %
Revenues	4,650.8	4,802.0	–3.1
EBITDA comparable	1,645.9	1,811.6	–9.1
EBITDA comparable margin in %	35.4	37.7	–
EBITDA incl. restructuring and impairment charges	1,503.5	1,441.8	4.3
Operating income	437.9	343.9	27.3
Net income/loss	195.2	94.9	105.7
Income/loss per share in EUR	0.44	0.22	105.3
Capital expenditures[1]	763.6	711.4	7.3
Net debt	3,305.2	3,614.8	–8.6

[1] Excluding expenditures for asset retirement obligations

Restructuring costs, which are entirely attributable to the Austrian segment, amounted to EUR 124.1 million in 2010 and encompass costs that were incurred in connection with the company's personnel restructuring program as well as expenses for the transfer of civil servants to the Austrian government.

Impairment charges totaled EUR 18.3 million in the year under review after EUR 352.2 million in the previous year and mainly resulted from the impairment of the Mass Response Service GmbH, a subsidiary of A1 Telekom Austria, which is included in the Austrian segment. In the 2009 business year, the goodwill of velcom had to be reduced by EUR 290.0 million due to the devaluation of the Belarusian ruble. Against the backdrop of a challenging economic environment in the Republic of Serbia, an impairment charge of EUR 62.0 million was recorded for the mobile license acquired by Vip mobile in 2009. On a year-on-year basis, EBITDA including restructuring and impairment charges rose by 4.3% from EUR 1,441.8 million to EUR 1,503.5 million.

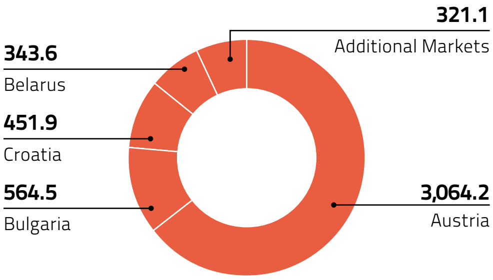
Owing to the developments described above and a partial stabilization of currencies, operating income increased by 27.3% to EUR 437.9 million. The positive effect of foreign currency translation amounted to 2.1% or EUR 7.3 million.

The financial result of the Telekom Austria Group improved by 17.4% from a loss of EUR 237.6 million in 2009 to a loss of EUR 196.3 million in 2010. Total interest expenses decreased by 17.0% to EUR 207.1 million mainly due to the redemption of a EUR 500 million bond in January 2010. Interest income declined from EUR 29.5 million in 2009 to EUR 13.1 million as a result of lower short-term investments. The loss from exchange rate differences was reduced from EUR 14.2 million in 2009 to EUR 1.7 million in 2010 due to a more stable currency development. The loss in the previous year was mainly attributable to the devaluation of the Belarusian ruble by approximately 24% and of the Serbian dinar by approximately 16% on a yearly average.

The increase in operating income went hand-in-hand with a rise in tax expenditures to EUR 46.5 million compared to EUR 11.4 million in the previous year. In the 2010 business year, the Telekom Austria Group recorded a total increase in net income of 105.7% to EUR 195.2 million. Based on a weighted average number of shares outstanding of approximately 442.6 million, earnings per share improved from EUR 0.22 in the previous year to EUR 0.44 in the year under review.

The Group's Return on Invested Capital (ROIC – operating income after taxes divided by the average invested capital) totaled 6.2% in 2010. Return on Equity (ROE – net income divided by average equity) amounted to 12.6% in the year under review.

Revenue Development by Segment
in EUR million

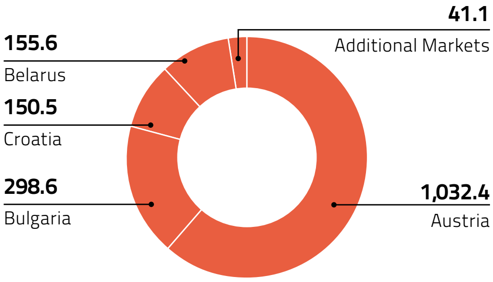


Total group revenues: EUR 4,650.8 million[1]

[1] Corporate & Other, Eliminations: EUR –94.4 million

[2] For details of the content and composition of the reported segments and eliminations, please refer to the report of the Group's business segments in the Notes to the Consolidated Financial Statements.

EBITDA Comparable by Segment
in EUR million



Group EBITDA comparable: EUR 1,645.9 million[1]

[1] Corporate & Other, Eliminations: EUR –32.3 million

Financial Figures by Segment in EUR million

Revenues	2010	2009	Change in %
Austria	3,064.2	3,203.7	–4.4
Bulgaria	564.5	614.7	–8.2
Croatia	451.9	476.9	–5.2
Belarus	343.6	300.3	14.4
Additional Markets	321.1	297.8	7.8
Corporate & Other, Eliminations[1]	–94.4	–91.4	3.2
Total	**4,650.8**	**4,802.0**	**–3.1**

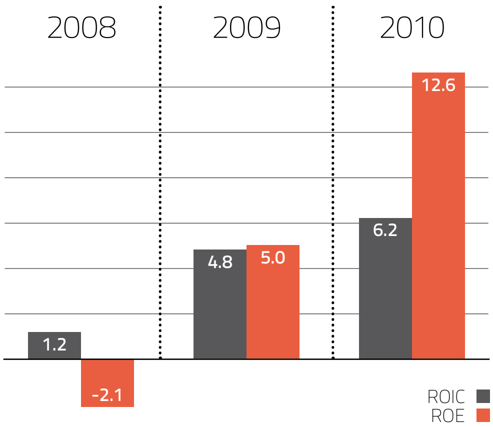
EBITDA comparable	2010	2009	Change in in %
Austria	1,032.4	1,177.6	–12.3
Bulgaria	298.6	327.0	–8.7
Croatia	150.5	170.8	–11.9
Belarus	155.6	149.9	3.8
Additional Markets	41.1	13.8	197.0
Corporate & Other, Eliminations[1]	–32.3	–27.6	16.8
Total	**1,645.9**	**1,811.6**	**–9.1**

EBITDA incl. restructuring and impairment charges	2010	2009	Change in %
Austria	890.0	1,159.9	–23.3
Bulgaria	298.6	327.0	–8.7
Croatia	150.5	170.8	–11.9
Belarus	155.6	–140.1	–
Additional Markets	41.1	–48.2	–
Corporate & Other, Eliminations[1]	–32.3	–27.6	16.8
Total	**1,503.5**	**1,441.8**	**4.3**

Operating income	2010	2009	Change in %
Austria	225.0	469.7	–52.1
Bulgaria	124.1	147.9	–16.1
Croatia	82.9	100.8	–17.8
Belarus	73.4	–211.9	–
Additional Markets	–36.1	–135.6	–73.4
Corporate & Other, Eliminations[1]	–31.3	–26.9	16.3
Total	**437.9**	**343.9**	**27.3**

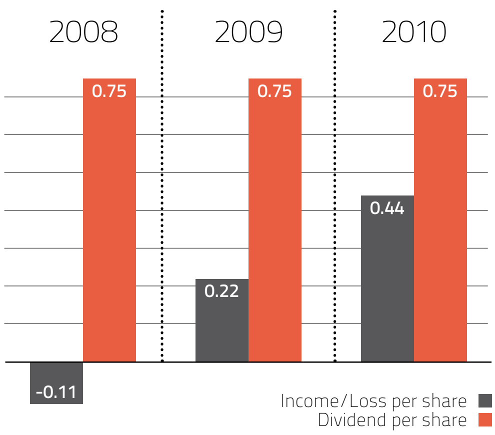
[1] For details of the content and composition of the reported segments and eliminations, please refer to the report of the Group's business segments in the Notes to the Consolidated Financial Statements.

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



	2010	2009	2008
Income/loss per share in EUR	0.44	0.22	–0.11
Dividend per share in EUR	0.75	0.75	0.75
Free cash flow per share in EUR	1.43	1.52	1.71
ROE in %	12.6	5.0	–2.1
ROIC in %	6.2	4.8	1.2

Dividend and Income/Loss per Share in EUR



Operating Expenses in EUR million

	2010	2009	Change in %
Material expenses	403.6	396.8	1.7
Employee costs	806.8	788.0	2.4
Other operating expenses	1,883.7	1,900.1	–0.9
Restructuring costs	124.1	17.5	607.2
Impairment charges	18.3	352.2	–94.8
Depreciation and amortization	1,065.6	1,097.9	–2.9

Balance Sheet Structure

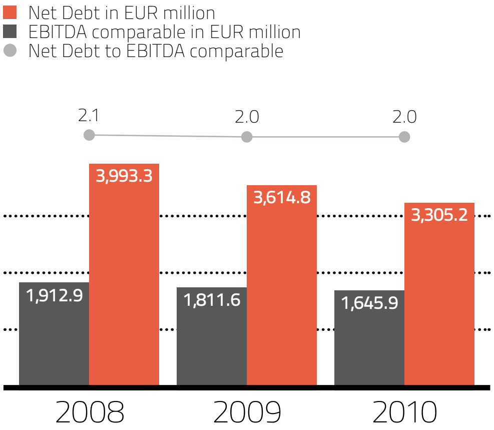
The Telekom Austria Group's balance sheet total amounted to EUR 7,555.8 million as of December 31, 2010, down 11.1% on the previous year. While in 2009 the development of current assets had been marked by an increase in cash and cash equivalents resulting from the issue of a EUR 750 million bond, in the year under review current assets decreased by 29.0% due to the repayment of liabilities. In 2010, amortization and depreciation charges were higher than fixed asset additions. As a result, fixed assets declined by 4.7% to EUR 2,549.0 million. For the same reason, other intangible assets decreased by 9.6% to EUR 1,718.1 million.

Current liabilities declined in 2010 mainly due to the redemption of a EUR 500 million bond and the previously agreed settlement of obligations related to the acquisition of the remaining 30% stake in the Belarusian subsidiary velcom for a total consideration of EUR 582.7 million. Long-term debt decreased by 4.2% due to the shift of long-term debt to short-term borrowings. Long-term provisions increased to EUR 761.8 million due to the allocation to the restructuring provision.

Dividend payments amounted to EUR 331.9 million for the 2009 financial year. A decline in retained earnings by 28.3% led to a reduction of the stockholders' equity by 8.5% to EUR 1,476.9 million. Due to a lower balance sheet total, the equity ratio improved to 20% as of December 31, 2010 compared to 19% as of the balance sheet date of the previous year.

In the year under review, the Telekom Austria Group's net debt was reduced by 8.6% to EUR 3,305.2 million due to the redemption of a EUR 500 million bond and the settlement of obligations related to the acquisition of the remaining stake in velcom. The net debt to EBITDA comparable ratio remained unchanged at 2.0x in 2010.

Development of Net Debt and EBITDA comparable



Net Debt[1] in EUR million

	Dec. 31, 2010	Dec. 31, 2009
Long-term debt	3,146.4	3,234.8
Short-term borrowings	522.6	1,501.6
Cash and cash equivalents, short-term and long-term investments, financing with related parties	–355.0	–1,099.0
Derivative financial instruments for hedging purposes	–8.9	–22.5
Net debt Telekom Austria Group	3,305.2	3,614.8
Net debt to EBITDA comparable ratio	2.0x	2.0x

[1] Cross-border lease and finance lease obligations are included in long-term debt and short-term borrowings. Deposits for cross-border leases are included in short-term and long-term investments. The purchase price obligation related to the acquisition of SBT (velcom) is included in short-term borrowings and long-term debt.

Balance Sheet Structure in EUR million

	Dec. 31, 2010	As % of the Balance Sheet Total	Dec. 31, 2009	As % of the Balance Sheet Total
Current assets	1,437.7	19.0	2,023.8	23.8
Property, plant and equipment	2,549.0	33.7	2,675.2	31.5
Goodwill	1,489.2	19.7	1,493.1	17.6
Other intangible assets	1,718.1	22.7	1,900.3	22.4
Other assets	361.8	4.8	406.3	4.8
ASSETS	**7,555.8**	**100.0**	**8,498.7**	**100.0**
Current liabilities	1,883.0	24.9	2,679.5	31.5
Long-term debt	3,077.2	40.7	3,213.7	37.8
Employee benefit obligation	131.6	1.7	123.7	1.5
Long-term provisions	761.8	10,1	669.9	7.9
Other long-term liabilities	225.3	3.0	197.7	2.3
Stockholders' equity	1,476.9	19.5	1,614.2	19.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**7,555.8**	**100.0**	**8,498.7**	**100.0**

Development of Cash Flow

In the year under review, cash flow generated from operations increased to EUR 1,397.5 million due to a reduction of the change in working capital by 0.9%. Cash flow used in investing activities declined by 33.7% to EUR 616.9 million as proceeds from time deposits exceeded the increase in capital expenditures. Cash outflow used in financing activities recorded an increase from EUR 1,235.6 million at year-end 2009 to EUR 1,388.4 million at year-end 2010 due to the issue of a EUR 750 million bond in 2009, the redemption of a EUR 500 million bond and the settlement of obligations related to the acquisition of the remaining stake in velcom in 2010. As a result, total cash and cash equivalents declined by EUR 609.9 million.

Cash Flow in EUR million

	2010	2009	Change in %
Cash flow generated from operations	1,397.5	1,385.4	0.9
Cash flow used in investing activities	–616.9	–929.8	–33.7
Cash flow generated from (used in) financing activities	–1,388.4	–152.9	808.3
Effects of exchange rate changes	–2.0	42.6	–
Change in cash and cash equivalents	–609.9	345.3	–

Capital Expenditures

Total capital expenditures rose by 7.3% to EUR 763.6 million on a year-on-year basis. The increase in capital expenditures for tangible assets by 10.9% to EUR 573.0 million is mainly attributable to investments in the “Next Generation Network” in the Austrian segment and to the UMTS rollout in the Belarusian segment. In Bulgaria, capital expenditures for tangible assets declined in the year under review as investments in the network infrastructure were already made in 2009.

The decline in capital expenditures for intangible assets of 2.1% to EUR 190.6 million in 2010 was mainly driven by a reduction in software investments in the Bulgarian segment and lower expenditures for rights in the Republic of Serbia in the segment Additional Markets. In the Austrian segment the increase in capital expenditures for intangible assets in 2010 was mainly due to the acquisition of frequency blocks at a 2.6 GHz auction as well as to investments in IT software.

EUR 2.4 million are attributable to the integration of the domestic fixed line and mobile communication operations.

Capital Expenditures[1] in EUR million

	2010	2009	Change in %
Tangible Austria	382.4	314.8	21.5
Tangible Bulgaria	42.2	38.6	9.1
Tangible Croatia	41.4	45.6	–9.1
Tangible Belarus	54.1	49.8	8.7
Tangible Additional Markets	52.9	68.0	–22.3
Total tangible	573.0	516.7	10.9
Intangible Austria	133.3	109.7	21.6
Intangible Bulgaria	24.1	36.2	–33.3
Intangible Croatia	6.9	12.0	–42.3
Intangible Belarus	8.8	9.4	–6.6
Intangible Additional Markets	17.4	27.4	–36.3
Total intangible	190.6	194.7	–2.1
Total capital expenditures[1]	**763.6**	**711.4**	**7.3**

[1] Excluding capital expenditures arising from asset retirement obligations.

Austria

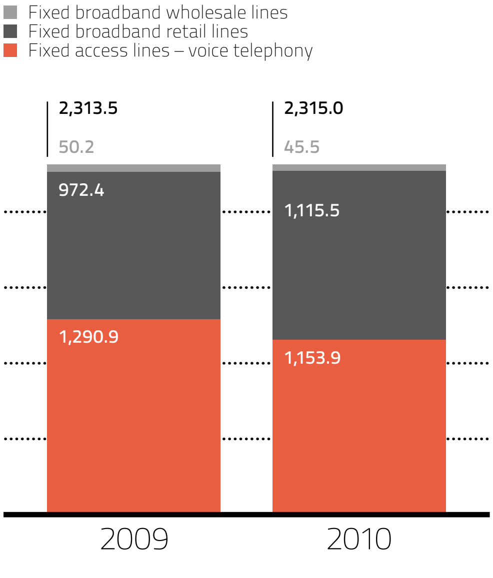
In the 2010 business year, product bundles continued to be successful. Attractive products and price structures as well as measures to strengthen customer loyalty led to increased demand for fixed broadband lines in both the residential and business customer segments. The aonTV subscriber base increased by approximately 50% to 151,300 customers. This strong demand led to a reversal of the fixed access line downward trend: in the year under review a growth of 1,400 lines was recorded for the first time. In 2009, 23,300 lines were lost. Fixed-to-mobile substitution continued in 2010, leading to a 12.1% decline in fixed line voice minutes.

The Austrian segment successfully expanded its mobile subscriber base by 5.6% to 5.1 million customers while at the same time increasing its share of contract customers from 72.8% to 76.0%. The number of mobile broadband customers rose by 29.4% to 653,748 driven by strong demand. Despite intense competition, market share remained largely stable during the year under review at 41.4% after 42.6% in 2009.

However, the positive development of customer numbers in both fixed line and mobile operations could not offset the negative effects of regulatory-induced reductions of roaming tariffs and interconnection charges as well as lower prices due to competitive pressure. As a result, revenues in the Austrian segment declined by 4.4% to EUR 3,064.2 million.

Due to the steady decline in fixed line minutes and competition-driven price reductions, Monthly Fee and Traffic revenues decreased by 4.0%, to EUR 2,085.7 million, whereas revenues from Data and ICT Solutions rose by 16.0% to EUR 215.8 million due to a regrouping of Wholesale revenues (incl. Roaming) and improved demand. As a result of this regrouping of revenues and lower prices, Wholesale revenues (including Roaming) fell by 18.3% to EUR 200.4 million. The lowering of national and international mobile termination rates led to a 7.8% decline in interconnection revenues to EUR 397.6 million. Equipment revenues in the year under review rose by 1.0% to EUR 107.2 million driven by demand.

Fixed Access Lines in Austria
in '000



As a one-off reimbursement from the government in the amount of EUR 10.2 million for investments in telecommunication surveillance equipment had been recorded in 2009, other operating income in the year under review fell by 6.6% to EUR 105.8 million. In 2010, a one-off net effect of EUR 1.9 million was recorded for a real estate disposal.

Average monthly revenues per fixed access line (ARPL) declined by 2.2% to EUR 33.3 in the year under review, as the increase in fixed access lines was unable to compensate for the decline in fixed line voice minutes. Average revenues per mobile user (ARPU) decreased by 9.5% from EUR 24.3 to EUR 22.0 due to competition-driven price reductions and lower interconnection charges. This development was further exacerbated by the migration to cheaper package tariffs and an increased number of no-frills customers.

Operating expenses remained stable at EUR 2,137.6 million due to the continuation of the cost-cutting programs. While material and personnel expenses registered a small increase of 1.4% to EUR 245.4 million and 0.7% to EUR 670.5 million respectively, interconnection costs decreased by 4.5% to EUR 364.4 million due to falling termination charges and lower volumes, especially from fixed line operations. Expenses for maintenance and repairs remained almost stable showing a slight increase of 1.6% to EUR 134.9 million. Expenses for services received decreased by 6.0% to EUR 182.7 million due to lower inter-operator tariffs, while costs for other services received rose due to higher demand for third-party services.

EBITDA comparable, which does not include restructuring and impairment charges, amounted to EUR 1,032.4 million in 2010, down 12.3% on the previous year; EBITDA comparable margin declined from 36.8% to 33.7%.

Restructuring expenses in the Austrian segment in the 2010 business year amounted to EUR 124.1 million, comprising a EUR 54.6 million charge for the transfers of civil servants to government bodies as well as an additional restructuring charge of EUR 69.4 million related to the restructuring program in 2008. Negative business development at the subsidiary Mass Response Service GmbH led to an impairment charge of EUR 18.3 million. This comprised an impairment of goodwill amounting to EUR 11.7 million and an impairment charge on software, other intangible assets and other equipment of EUR 6.6 million. EBITDA, including restructuring and impairment charges, for the reporting year therefore amounted to EUR 890.0 million, 23.3% less than in 2009.

Depreciation and amortization charges declined by 3.7% to EUR 665.0 million due to lower investments in previous years. As a result of the aforementioned effects, operating income in the Austrian segment fell by 52.1% to EUR 225.0 million.

Key Data Austria

Key Financials in EUR million	2010	2009	Change in %
Revenues	3,064.2	3,203.7	–4.4
of which Monthly Fee and Traffic	2,085.7	2,172.0	–4.0
of which Data and ICT Solutions	215.8	186.1	16.0
of which Wholesale (incl. Roaming)	200.4	245.1	–18.3
of which Interconnection	397.6	431.2	–7.8
of which Equipment	107.2	106.1	1.0
of which Other	57.4	63.1	–9.1
EBITDA comparable	1,032.4	1,177.6	–12.3
EBITDA comparable margin in %	33.7	36.8	–
EBITDA incl. restructuring and impairment charges	890.0	1,159.9	–23.3
Operating income	225.0	469.7	–52.1
Fixed Line			
ARPL in EUR	33.3	34.1	–2.2
Average tariff voice telephony in EUR/minute	0.082	0.078	5.1
Total access lines in '000s	2,315.0	2,313.5	0.1
of which fixed broadband lines in '000s	1,161.0	1,022.6	13.5
of which retail	1,115.5	972.4	14.7
of which wholesale	45.5	50.2	–9.4
Unbundled Lines	278.1	286.6	–3.0
Fixed line voice traffic in million minutes	2,972.7	3,380.1	–12.1
of which domestic traffic	2,031.5	2,352.8	–13.7
of which fixed-to-mobile traffic	631.6	681.3	–7.3
of which international fixed line traffic	309.6	346.0	–10.5
Broadband penetration in Austria in % of households	102.9	90.5	–
Mobile Communication			
Mobile communication subscribers in '000s	5,105.2	4,834.2	5.6
Share of contract customers in %	76.0	72.8	–
Market share in %	41.4	42.6	–
Penetration in %	146.7	135.7	–
Mobile broadband customers	653,748	505,183	29.4
ARPU in EUR	22.0	24.3	–9.5
Human resources (full-time employees as of Dec. 31)	9,717	10,045	–3.3

Operating Expenses Austria in EUR million

	2010	2009	Change in %
Material expenses	245.4	241.9	1.4
Employee costs	670.5	665.6	0.7
Interconnection	364.4	381.5	–4.5
Maintenance and repairs	134.9	132.7	1.6
Services received	182.7	194.3	–6.0
Other services received	126.0	114.0	10.5
Other expenses	413.8	409.3	1.1
Total Expenses	**2,137.6**	**2,139.3**	**–0.1**

Bulgaria

In the year under review Mobiltel, the leading mobile communication operator in Bulgaria, was able to keep its market share stable at approximately 50% with some 5.2 million customers. Notwithstanding a slight improvement in the overall economic situation in Bulgaria in 2010 compared to 2009, demand was subdued in both the residential and business customer segments.

The trend towards convergent products and integrated telecommunication solutions from a single source intensified in the year under review. Mobiltel responded to this development and on September 15, 2010 announced the planned acquisition of two Bulgarian fixed line operators, thus becoming the first foreign subsidiary of the Telekom Austria Group to follow this global trend towards convergence. The first convergent products were brought to market under the M-Tel brand in the fourth quarter of 2010. The acquisitions were completed in January and February of 2011 and will be consolidated in the accounts of the Bulgarian segment as of the first quarter 2011. Driven by demand for data products, the number of mobile broadband customers grew sharply in the year under review and more than doubled to 126,217.

The business performance of the Bulgarian segment was mainly impacted by lower prices for voice telephony due to competitive pressure, which could not be offset by higher monthly fees, as well as by the reduction of mobile termination charges. These two effects had a negative impact on revenue development in the year under review, leading to a decline of 8.2% to EUR 564.5 million. On the back of cost savings totaling EUR 23.7 million, which partially mitigated the negative effect of lower revenues on EBITDA comparable, the EBITDA comparable margin was 52.9% in 2010, almost matching the previous year's high level of 53.2%. Operating income declined by 16.1% to EUR 124.1 million.

Key Data Bulgaria

Key Financials in EUR million	2010	2009	Change in %
Revenues	564.5	614.7	–8.2
EBITDA comparable	298.6	327.0	–8.7
EBITDA comparable margin in %	52.9	53.2	–
EBITDA incl. restructuring and impairment charges	298.6	327.0	–8.7
Operating income	124.1	147.9	–16.1
Mobile Communication			
Mobile communication subscribers in '000s	5,248.7	5,352.5	–1.9
Share of contract customers in %	64.2	59.0	–
Market share in %	49.6	49.8	–
Penetration in %	140.8	142.0	–
Mobile broadband customers	126,217	60,111	110.0
ARPU in EUR	8.3	9.1	–8.8
Human resources (full-time employees as of Dec. 31)	2,453	2,457	–0.2

Croatia

Despite a challenging economic environment, Vipnet increased its market share from 42.6% to 43.1% in the year under review. The mobile subscriber base grew by 5.6% to more than 2.7 million customers on the back of sharp increases in the number of both contract and prepaid customers. Mobile broadband also showed a favorable development, recording subscriber growth of 30.5% to 178,958 customers.

The 5.2% decline in revenues to EUR 451.9 million was mainly driven by lower Roaming and Interconnection revenues. Although the expansion of the subscriber base by 7.1% led to an increase in Monthly Fee revenues, these were unable to fully compensate for the decline in voice minutes. Foreign currency translation had a positive impact on revenues of EUR 3.3 million.

Thanks to strict cost management, operating expenses were reduced by 1.5% to EUR 303.6 million despite a 6% mobile communication levy. This development was mainly driven by lower material costs and expenses for services received as well as reduced expenses for roaming and interconnection tariffs. EBITDA comparable fell by 11.9% to EUR 150.5 million on a year-on-year basis, reducing the EBITDA comparable margin from 35.8% to 33.3%. Foreign currency translation positively impacted EBITDA comparable by EUR 1.1 million. Due to the aforementioned effects, operating income declined by 17.8% to EUR 82.9 million in the year under review.

Key Data Croatia

Key Financials in EUR million	2010	2009	Change in %
Revenues	451.9	476.9	–5.2
EBITDA comparable	150.5	170.8	–11.9
EBITDA comparable margin in %	33.3	35.8	–
EBITDA incl. restructuring and impairment charges	150.5	170.8	–11.9
Operating income	82.9	100.8	–17.8
Mobile Communication			
Mobile communication subscribers in '000s	2,749.5	2,603.0	5.6
Share of contract customers in %	25.0	24.6	–
Market share in %	43.1	42.6	–
Penetration in %	144.5	138.4	–
Mobile broadband customers	178,958	137,106	30.5
ARPU in EUR	11.3	12.3	–8.1
Human resources (full-time employees as of Dec. 31)	1,059	1,064	–0.5

Belarus

velcom successfully defended its position as the second-largest provider on the highly competitive Belarusian market, expanding its subscriber base by 6.1% to 4.4 million customers and maintaining its market share of approximately 42.0%. With the acquisition of the UMTS frequency in March 2010, the company was able to launch a comprehensive portfolio of broadband products, gaining 143,532 mobile broadband customers by the end of the year. The share of contract customers rose from 75.8% to 78.2%.

The successful marketing of mobile broadband products in the Belarusian segment led to a revenue increase of 14.4% to EUR 343.6 million, driven by higher Monthly Fee and Traffic revenues as well as higher Equipment revenues, which were bolstered by the introduction of netbooks to the market in June 2010.

As a result of this strong growth, operating expenses increased by 23.1% to EUR 193.3 million in a year-on-year comparison. However, due to higher revenues, EBITDA comparable grew by 3.8% to EUR 155.6 million; foreign currency translation negatively impacted EBITDA comparable by EUR 2.3 million in the year under review. The EBITDA comparable margin decreased from 49.9% to 45.3% due to higher expenses.

After an operating loss of EUR 211.9 million in 2009 due to an impairment charge of EUR 290.0 million resulting from the devaluation of the Belarusian ruble, operating income in the year under review rose to EUR 73.4 million.

Key Data Belarus

Key Financials in EUR million	2010	2009	Change in %
Revenues	343.6	300.3	14.4
EBITDA comparable	155.6	149.9	3.8
EBITDA comparable margin in %	45.3	49.9	–
EBITDA incl. restructuring and impairment charges	155.6	–140.1	–
Operating income	73.4	–211.9	–
Mobile Communication			
Mobile communication subscribers in '000s	4,353.7	4,102.4	6.1
Share of contract customers in %	78.2	75.8	–
Market share in %	41.9	42.7	–
Penetration in %	109.6	99.4	–
Mobile broadband customers	143,532	0	–
ARPU in EUR	6.2	6.1	1.6
Human resources (full-time employees as of Dec. 31)	1,770	1,711	3.4

Additional Markets

Slovenia

Si.mobil, the second-largest mobile communication operator in Slovenia, grew its subscriber base by 5.0% in 2010, improving its market share from 28.2% to 29.2%. The share of contract customers rose from 69.2% to 71.2%. Due to rising demand and a product portfolio that caters to customer needs, the number of mobile broadband customers grew by 20.4% to 14,559 subscribers.

While Monthly Fee and Traffic revenues benefited from the increase in the number of customers, Roaming and Interconnection revenues declined, leading to a drop in total revenues of 3.4% to EUR 174.0 million.

At EUR 45.1 million EBITDA comparable was 6.5% lower than in the previous year as lower operating expenses of EUR 10.8 million were unable to compensate for the decline in revenues. The EBITDA comparable margin remained stable at approximately 26%. Operating income amounted to EUR 24.0 million, after EUR 25.5 million in the previous year.

Key Data Slovenia

Key Financials in EUR million	2010	2009	Change in %
Revenues	174.0	180.3	–3.4
EBITDA comparable	45.1	48.2	–6.5
EBITDA comparable margin in %	25.9	26.8	–
EBITDA incl. restructuring and impairment charges	45.1	48.2	–6.5
Operating income	24.0	25.5	–6.2
Mobile Communication			
Mobile communication subscribers in '000s	618.9	589.4	5.0
Share of contract customers in %	71.2	69.2	–
Market share in %	29.2	28.2	–
Penetration in %	102.7	102.9	–
Mobile broadband customers	14,559	12,094	20.4
ARPU in EUR	20.5	21.7	–5.5
Human resources (full-time employees as of Dec. 31)	331	329	0.6

Republic of Macedonia

In 2010, Vip operator in the Republic of Macedonia reported a 45.6% surge in customer growth. Due to this sharp increase in the contract customer base, average revenues per customer rose by 11.5% to EUR 6.8.

Revenues improved by 65.2% to EUR 35.8 million compared to the previous year. This increase was mainly driven by a higher share of contract customers and the resulting growth of Monthly Fee and Traffic revenues.

Key Data Republic of Macedonia

Key Financials in EUR million	2010	2009	Change in %
Revenues	35.8	21.7	65.2
EBITDA comparable	–5.2	–13.4	–61.1
EBITDA incl. restructuring and impairment charges	–5.2	–13.4	–61.1
Operating income	–14.3	–20.9	–31.4
Mobile Communication			
Mobile communication subscribers in '000s	442.2	303.7	45.6
Market share in %	19.9	15.9	–
Penetration in %	108.2	92.7	–
ARPU in EUR	6.8	6.1	11.5
Human resources (full-time employees as of Dec. 31)	196	172	14.0

Operating expenses rose by EUR 6.3 million to EUR 41.4 million in a year-on-year comparison. This development was fuelled by higher interconnection expenses, driven by increased voice minutes, and higher material costs due to increased sales of equipment. EBITDA comparable improved from EUR –13.4 million to EUR –5.2 million. The operating loss of 20.9 million reported in 2009 was reduced to a loss of EUR 14.3 million in 2010.

Republic of Serbia

Vip mobile continued to grow its subscriber base in 2010, reporting a 17.8% increase to 1.4 million customers. Market share rose from 12.0% to 13.7%. An increase in the share of contract customers supported the 12.7% increase of average monthly revenues per user (ARPU) to EUR 6.2.

Revenues grew by approximately 30% to EUR 104.7 million, largely due to higher Monthly Fee and Traffic revenues. Foreign currency translation, however, impacted revenues negatively by EUR 10.1 million. Increased employee costs and interconnection expenses led to a 3.1% rise in operating expenses to EUR 108.7 million in the year under review. The EBITDA comparable break-even target was also reached for the first time in the 2010 financial year.

Operating loss was reduced from EUR 143.3 million in 2009 to EUR 47.1 million in 2010. In the previous year operating loss included a one-off impairment charge of EUR 62.0 million for the Serbian mobile license.

Key Data Republic of Serbia

Key Financials in EUR million	2010	2009	Change in %
Revenues	104.7	80.7	29.8
EBITDA comparable	0.0	–23.6	–
EBITDA incl. restructuring and impairment charges	0.0	–85.6	–
Operating income	–47.1	–143.3	–67.1
Mobile Communication			
Mobile communication subscribers in '000s	1,359.7	1,153.9	17.8
Market share in %	13.7	12.0	–
Penetration in %	134.1	128.4	–
ARPU in EUR	6.2	5.5	12.7
Human resources (full-time employees as of Dec. 31)	811	772	5.1

Liechtenstein

At year-end 2010, mobilkom liechtenstein had approximately 6,400 customers, 1.6% more than in the previous year. The decline in revenues to EUR 7.0 million was essentially due to a fall in Interconnection revenues.

As the decline in operating expenses was unable to completely compensate for falling revenues, EBITDA comparable decreased to EUR 1.3 million from EUR 3.4 million in 2009. Operating income fell to EUR 0.5 million from 2.6 million in a year-on-year comparison.

Key Data Liechtenstein

Key Financials in EUR million	2010	2009	Change in %
Revenues	7.0	15.6	–55.2
EBITDA comparable	1.3	3.4	–62.9
EBITDA incl. restructuring and impairment charges	1.3	3.4	–62.9
Operating income	0.5	2.6	–82.1
Mobile Communication			
Mobile communication subscribers in '000s	6.4	6.3	1.6
Market share in %	20.2	20.1	–
Penetration in %	91.5	90.1	–
ARPU in EUR	56.2	57.3	–1.9
Human resources (full-time employees as of Dec. 31)	15	15	0.0

Human Resources

At year-end 2010, the Telekom Austria Group had 16,501 employees, a decline of 72 employees compared to the previous year. As of December 31, 2010 the Austrian segment had 9,717 employees, around 57% of whom had civil servant status.

Employees at year-end[1]

	2010	2009	Change in %
Austria	9,717	10,045	–3.3
International	6,634	6,519	1.8
Corporate	150	9	–
Total	**16,501**	**16,573**	**–0.4**

[1] Full-time equivalents

The Telekom Austria Group is consolidating its position in a dynamic and highly competitive environment. Against this background, the skills, education and further training of employees are central to safeguarding the company's competitiveness and innovative strength. At the same time, however, it is essential to increase efficiency and productivity. In order to address these fundamental challenges, the Telekom Austria Group uses modern instruments of human resource development and training, and creates performance-orientated remuneration schemes. In the year under review a total of EUR 12.4 million (2009: EUR 11.5 million) was spent on further education and professional training, the equivalent of EUR 754 per employee (2009: EUR 685).

Changes to the Management and Supervisory Boards

Following the resignation of Stephan Koren from the Supervisory Board of Telekom Austria AG, Wolfgang Ruttenstorfer was elected to the Supervisory Board at the Annual General Meeting held on May 27, 2010. Due to the restructuring of the Group and Works Council elections, several members of the Supervisory Board delegated by the Works Council were replaced. Following the resignation of Michael Kolek from the Supervisory Board on February 10, 2010, Markus Hinker was delegated to the Supervisory Board from February 18 to December 31, 2010. Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and reassumed his mandate on January 11, 2011. Gottfried Zehetleitner has been a member of the Supervisory Board since October 27, 2010. Silvia Bauer resigned from the Supervisory Board on November 3, 2010. Alexander Sollak was appointed to the Supervisory Board as of the same date.

Innovation and Technology

The Telekom Austria Group's wide range of research and development activities focus on the creation of market-oriented products and services as well as the further technological development of network infrastructures.

In Austria, the rollout of the Next Generation Network (NGN) was continued in 2010. In addition to the ongoing upgrading of switching centers on the basis of VDSL technology (FTTEx – Fiber To The Exchange), the four fiber-optic pilot projects were further developed. The second of the four pilot projects was completed in 2010, providing valuable experience in terms of costs and customer acceptance. Parallel to this, the further development and gradual migration of the existing infrastructure to a state-of-the-art All-IP service platform was pushed ahead. Investments in mobile communication networks were continued in 2010 to ensure adequate transmission capacity for the rising volume of data traffic and excellent quality in all networks.

Thus, four paired frequency blocks with 2x5 MHz each and five unpaired frequency blocks with 5 MHz each were acquired for the Austrian market at a 2.6 GHz frequency auction in September 2010. These frequency blocks provide the basis for the introduction of the Long Term Evolution technology. The commercial launch of the UMTS network in Belarus took place at the start of the reporting year.

In 2010, the Telekom Austria Group invested a total of EUR 38.4 million in research and development (2009: EUR 40.3 million).

Sustainable Corporate Management

The Telekom Austria Group's prime strategic objective is to sustainably enhance shareholder value. This goal is also reflected in the company's cash use policy. The focus is on integrating and striking a balance between economic, ecological and social aspects. The instruments used at Group level such as the Internal Control system, the Code of Conduct, compliance guidelines together with the commitment to comply with the Austrian Corporate Governance Code underline this corporate orientation.

Innovative solutions provided by information and communication technologies offer significant potential for climate protection. The virtualization and digitalization of processes reduces the impact on the environment. Video-conferencing and teleworking help eliminate travel, thus reducing CO_2 emissions. Increased use of e-government, e-health, e-studying etc. also offers savings potential.

The Telekom Austria Group companies are active participants in a range of national and international environmental protection initiatives. By joining the WWF Climate Group, A1 Telekom Austria undertook to reduce its CO_2 emissions by at least 15.0% before 2012. A department for energy management ensures continuous improvements to energy efficiency and the systematic optimization of energy flows. In 2009, the energy management system was certified according to the new Austrian Standard ÖNORM EN 16001. To combat rising electricity consumption at computer centers, A1 Telekom Austria has also signed up to the Code of Conduct on Data Centres Energy Efficiency and the Code of Conduct on Energy Consumption of Broadband Equipment of the European Union.

Cash Use Policy

In December 2010, the Telekom Austria Group presented an update of its cash use policy at its Capital Markets Day and announced its intention to distribute 55% of free cash flow as dividends.

For the years 2011 and 2012 a dividend floor of EUR 0.76 per share will apply. Maintaining a stable investment grade rating of at least "BBB" (stable outlook) remains central to the Group's financial profile. Nevertheless, a higher leverage corridor of 2.0x – 2.5x net debt/EBITDA comparable provides increased flexibility to balance share buybacks with growth projects. The start of share buybacks depends on the potential volume of growth projects. However, cash will always be returned to shareholders via share buybacks if leverage falls below 2.0x net debt/EBITDA comparable. A stable business and currency environment remains a general prerequisite for share buybacks.

Shareholder Structure and Disclosures about Share Capital

At year-end 2010, 71.48% or 316.6 million Telekom Austria AG shares were free-float. A further 0.1% or 0.4 million shares were held by the company itself. The remaining stake amounting to 28.42% or 125.9 million shares was held by the Republic of Austria through ÖIAG. As of January 20, 2010 Capital Research & Management, California, announced that it had increased its stake to 15.13% or 67.0 million of the 443 million shares originally issued. 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.

At the Annual General Meeting on May 20, 2009, the Management Board was authorized without further shareholder resolution to decrease the share capital of the company by up to EUR 100,326,000 by withdrawing up to 46 million treasury registered or bearer shares without par value pursuant to § 65 para. 1 No. 8 last sentence of the Stock Corporation Act as amended. There were no share buybacks in the year under review.

Several finance agreements contain Change of Control clauses, which can ultimately lead to termination of contract. Apart from these, the company has entered into no significant agreements that will become effective, change or be terminated upon a change of control in the company or a takeover bid.

The voting rights attached to shares belonging to the Telekom Austria Group's employees which are held in a collective custody account, are exercised by a notary.

Risk Management

Risk management at the Telekom Austria Group systematically identifies possible events and trends, and regulates procedures for dealing with both potential risks and opportunities. The main focus of activities is on market and competitive risks, interventions by regulators and uncertain legal situations, which could influence the company's success. The quality and technical reliability of infrastructure facilities and the security of data networks are also key areas of risk management, as weather conditions, human error or force majeure can have a negative impact on their performance. Risks and opportunities are regularly analyzed at both the segment and the Group level and effective measures are implemented to reduce or identify them. The effects of deviations from plan are established using, inter alia, scenario and probability calculations. The Telekom Austria Group's overall risk is calculated on the basis of the sum of individual risks. In addition to the Austrian fixed line and mobile communication markets, the Telekom Austria Group holds a leading position in the telecommunication markets of seven other countries, which provide the basis for both sectoral and broad geographical diversification.

As the operating markets of the Telekom Austria Group are exposed to risks of a diverse nature, risk management implementation is not a centrally steered process but falls under the responsibility of the designated managers. Segment-wide monitoring and coordination is carried out by a central risk manager. In structured interviews and workshops with top management, risks are identified, evaluated and then compiled in a risk report, on the basis of which, measures are drawn up and put in place to mitigate and avoid risks. Their effectiveness is then monitored in a second step.

Proper risk control is achieved by dovetailing business planning and risk management. Risk management at the Telekom Austria Group is monitored by the Audit Committee of the Supervisory Board on the basis of a risk catalogue, which defines regional and segment-related risks. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. A regular status report is sent to management as a controlling instrument.

Action was taken to counter risks arising from the integration of mobilkom austria Aktiengesellschaft and Telekom Austria TA Aktiengesellschaft by establishing an Integration Office and appointing a Chief Integration Officer to manage the integration process in 2010. In addition, a crisis intervention centre was set up to offer anonymous telephone and personal counseling to help employees cope with acute psychosocial crises.

The most important risk categories and individual risks, which could have a significant impact on the financial, assets and earnings positionof the Telekom Austria Group, are explained below. This complies with the requirement of the Austrian Corporate Governance Code on the publication of risks and uncertainties.

Market and Competitive Risks

A high level of competition, which also increasingly affects the foreign markets, is leading to sharp falls in prices in voice telephony and data traffic. There is therefore a risk that volume growth will not be able to offset price declines. Although falling prices for mobile communication also accelerate fixed-to-mobile substitution, attractive product packages and a convergent corporate strategy led to a slight increase in the number of fixed access lines in Austria in 2010.

Regulatory and Legal Risks

Telecommunication services offered by a provider with significant market power are subject to network access and price regulation. The Telekom Austria Group is categorized as such in Austria in several sub-markets; the foreign subsidiaries are also subject to the regulatory frameworks of their own countries. Operational flexibility with regard to fixed line and bundled products is curtailed by regulation at both the retail and wholesale levels as well as by the obligation to open up access to fixed infrastructure and services. Furthermore, regulatory decisions to reduce termination charges can also negatively impact the results of the Telekom Austria Group.

In 2007, the European Parliament and the European Council passed a resolution for the introduction of comprehensive regulation of roaming tariffs for calls within the European Union. In 2009, the validity of this Regulation was extended until 2012 and its scope expanded to cover roaming SMS and data services on the basis of a subsequent provision. This provision affects the Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria.

The Telekom Austria Group is party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the company, enable the Group to identify problems early on and develop measures to counteract them.

Financial and Economic Risks

The Telekom Austria Group is exposed to liquidity, loss, currency, transfer and interest-rate risks. Medium and short-term financing instruments in a variety of currencies and with different legal frameworks can only limit these risks. A liquidity reserve is held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility. Details of the financial and economic risks are described in the Notes to the Consolidated Financial Statements under the heading Financial Instruments.

Derivative financial instruments were used by the Telekom Austria Group's financing company (Telekom Finanzmanagement GmbH (TFG), to manage sustained fluctuations in interest rates and minimize the risk of currency translation effects. The company has established a control environment, which includes policies and procedures for risk assessment, approval, reporting and monitoring of derivative financial instruments. The company is not a party to leveraged derivatives and corporate policies prohibit the holding or issuing of financial instruments for speculative purposes.

The market risk pertaining to long-term debt and derivative instruments is quantified using value-at-risk models. In 2003 and 2008, TFG entered into interest rate swaps.

Exposure to Credit Risks

The Telekom Austria Group regularly monitors its exposure to credit risk; there is no significant credit risk exposure with regard to any individual business partner or any individual financial instrument. To reduce the non-performance risk relating to contractual obligation in derivatives, the swap contracts are subject to Swap Dealer Agreements.

During the financial crisis, existing cross-border leases were dissolved or, in some cases, restructured. Additional collateral was provided for A1 Telekom Austria AG's future payment obligations relating to the US cross-border leasing transactions in the form of AAA rated US federal bonds. Moreover, the counter-party risk of the struggling American International Group (AIG) has been secured by a long-term hedge with a European bank with a high credit rating. The transaction is therefore expected to expire in accordance with the terms of the contract in 2013.

Safeguarding the Value of Assets

Each year the Telekom Austria Group tests assets, in particular equity stakes in other companies, for impairment. In the course of the impairment tests, which are carried out at least once a year, but also whenever internal or external events make it necessary, each company is subjected to detailed scrutiny on the basis of the business plan.

Personnel

Almost 57% of the Austrian segment's workforce has civil servant status, making it impossible to terminate their contracts. Consequently, management has only limited scope to adjust the headcount to the future volume of business.

To address the structure of personnel costs, the Austrian segment has, therefore, in cooperation with workforce representatives, developed models that enable employees with civil servant status to be transferred to government bodies (Ministry of Internal Affairs, Ministry of Finance or the Ministry of Justice). After a successful trial period and with the consent of all parties, this transfer is made permanent.

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 speed with which the infrastructure reaches its end-of-life. Effective measures to ensure maximum network reliability and fault tolerance encompass redundant critical network components, firewalls, self-defending networks and the implementation of the highest safety standards.

Due to its expansion into Eastern and South-Eastern Europe, the Group operates in markets that have been experiencing political and economic changes, which could affect the business activities of the Telekom Austria Group.

Internal Control System for Financial Reporting

Even after delisting from the New York Stock Exchange, the Telekom Austria Group is retaining its internal control system for financial reporting (ICS) and thus complies with all EU standards, which became mandatory for the first time in 2009. 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. Regular internal reporting to management and internal audits of the internal control system also help ensure that risks are promptly identified early on and properly reported. The most important contents and principles apply to all Telekom Austria Group companies. Each important financial transaction has a risk and control matrix behind it to ensure that financial reporting is correct and complete.

The effectiveness of this system is surveyed, analyzed and evaluated at regular intervals. At the end of the year, a management evaluation of the companies under scrutiny is carried out in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management confirmed the effectiveness of the internal control system as of December 31, 2010. The internal control system complies with all legal regulations.

Major Subsequent Events

On January 25, 2011 the Telekom Austria Group became the sole owner of the Bulgarian fixed line operator Spectrum Net AD acquiring a 100% stake in the company through its Bulgarian subsidiary Mobiltel.

On February 3, 2011, the Telekom Austria Group also acquired an 80% stake in a second Bulgarian fixed line operator, Megalan Network AD, and committed itself to buying the remaining 20% stake by March 31, 2012.

The purchase price for the acquisition of a 100% stake in both companies amounted to approximately EUR 83,000 (cash and debt-free) and includes variable components amounting to EUR 11,500, payment of which depends on the fulfillment of predetermined performance criteria. The two companies will be included in the accounts of the Bulgarian segments as of the first quarter of 2011. The purchase price allocation has not yet been finalized.

To address the structure of personnel costs in Austria, new social plans for civil servants and employee were drawn up in consultation with employee representatives. The new social plans, which came into effect on January 19, 2011, will run until December 31, 2011 and include early retirement, temporary leaves and other severance packages. The social plans are one means with which the company seeks to stabilize personnel costs in a mutually acceptable and socially compatible manner.

Outlook

The Telekom Austria Group expects that the market environment in 2011 will continue to be shaped by negative external effects, strong competition and a slow recovery. These negative external effects mainly encompass unabated fixed-to-mobile substitution in Austria, continued price and competitive pressure in all the Group's major markets and the impact of regulatory-induced lower roaming prices and mobile termination charges. A levy on certain mobile communication services in Croatia also constitutes an additional burden.

For the 2011 financial year, revenues are expected to amount to up to EUR 4.60 billion and EBITDA comparable to up to EUR 1.60 billion. Capital expenditures are forecast to reach up to EUR 800 million although this figure does not include investments in licenses or the acquisition of additional frequencies. Operating free cash flow, which is defined as EBITDA comparable less capital expenditures, is expected to amount to approximately EUR 800 million in 2011. This outlook is based on a constant currency basis.

The Telekom Austria Group intends to distribute 55% of free cash flow as a dividend. For the years 2011 and 2012 a dividend floor of EUR 0.76 per share will apply. Maintaining a stable investment grade rating of at least "BBB" (stable outlook) will remain central to the Group's financial profile.

A higher leverage corridor of 2.0x – 2.5x net debt/EBITDA comparable provides increased flexibility to balance share buybacks with growth projects. The start of share buybacks depends on the potential volume of growth projects. However, cash will always be returned to shareholders via share buybacks if leverage falls below 2.0x net debt/EBITDA comparable. A stable business and currency environment remains a general prerequisite for share buybacks.

The Management Board
Vienna, February 14, 2011

Hannes Ametsreiter

Hans Tschuden

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TELEKOM AUSTRIA AG – Consolidated Statements of Operations

Notes		2010	2009
(4)	Operating revenues	4,650,843	4,801,983
(5)	Other operating income	89,161	94,558
	Operating expenses		
	Materials	–403,617	–396,788
	Employee expenses, including benefits and taxes	–806,836	–788,042
(6)	Other operating expenses	–1,883,659	–1,900,119
	EBITDA comparable	**1,645,892**	**1,811,593**
(22)	Restructuring	–124,061	–17,543
(17)(18)(19)	Impairment charges	–18,342	–352,188
	EBITDA incl. restructuring and impairment charges	**1,503,489**	**1,441,861**
(18)(19)	Depreciation and amortization	–1,065,585	–1,097,923
	OPERATING INCOME	**437,903**	**343,938**
	Financial result		
(7)	Interest income	13,078	29,514
(7)	Interest expense	–207,093	–249,491
(7)	Foreign exchange differences	–1,665	–14,252
(7)	Other financial result	205	–4,180
(15)	Equity in earnings of affiliates	–790	780
	EARNINGS BEFORE TAXES	**241,638**	**106,311**
(30)	Income taxes	–46,465	–11,406
	NET INCOME	**195,173**	**94,904**
	Attributable to:		
	Owners of the parent	195,350	95,129
	Non-controlling interests	–177	–225
(29)	Basic and fully diluted earnings per share	0.44	0.22

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

Notes		2010	2009
	Net income	**195,173**	**94,904**
(8)(16)	Unrealized result on securities available for sale	363	1,425
	Income tax (expense) benefit	–91	–338
(7)	Realized result on securities available for sale	39	–172
	Income tax (expense) benefit	–10	24
(33)	Unrealized result on hedging activities	8,292	–3,643
	Income tax (expense) benefit	–773	586
(29)	Foreign currency translation adjustment	–8,293	–340,829
	Other comprehensive income (loss)	**–471**	**–342,947**
	Total comprehensive income (loss)	**194,702**	**–248,042**
	Attributable to:		0
	Owners of the parent	194,879	–247,818
	Non-controlling interests	–177	–225

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

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TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes		December 31, 2010	December 31, 2009
	ASSETS		
	Current assets		
	Cash and cash equivalents	120,196	730,054
(8)	Short-term investments	127,555	215,412
(9)	Accounts receivable – trade, net of allowances	772,236	668,640
(10)	Receivables due from related parties	82	3,893
(11)	Inventories	150,238	126,418
(12)	Prepaid expenses	128,358	121,323
(30)	Income taxes receivable	40,718	43,929
(13)	Non-current assets held for sale	0	3,177
(14)	Other current assets	98,324	111,004
	TOTAL CURRENT ASSETS	**1,437,707**	**2,023,849**
	Non-current assets		
(15)	Investments in associates	4,298	7,467
(16)	Financial assets long-term	90,374	137,755
(17)	Goodwill	1,489,219	1,493,062
(18)	Other intangible assets	1,718,085	1,900,294
(19)	Property, plant and equipment	2,548,970	2,675,156
(20)	Other non-current assets	31,199	33,664
(30)	Deferred tax assets	235,841	227,508
(10)	Notes receivables due from related parties	127	0
	TOTAL NON-CURRENT ASSETS	**6,118,113**	**6,474,905**
	TOTAL ASSETS	**7,555,820**	**8,498,754**
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	–506,653	–856,014
	Accounts payable – trade	–678,705	–523,646
(22)	Current provisions and accrued liabilities	–258,014	–222,753
(10)	Payables due to related parties	–13,057	–11,446
(30)	Income taxes payable	–41,720	–22,485
(23)	Other current liabilities	–221,851	–890,821
(24)	Deferred income	–162,966	–152,345
	TOTAL CURRENT LIABILITIES	**–1,882,965**	**–2,679,511**
	Non-current liabilities		
(25)	Long-term debt	–3,077,240	–3,213,671
(26)	Lease obligations and cross border lease	–13,879	–21,091
(27)	Employee benefit obligations	–131,576	–123,732
(22)	Non-current provisions	–761,771	–669,868
(30)	Deferred tax liabilities	–125,402	–144,017
(28)	Other non-current liabilities and deferred income	–86,063	–32,719
	TOTAL NON-CURRENT LIABILITIES	**–4,195,929**	**–4,205,097**
	Stockholders' equity		
(29)	Common stock	–966,183	–966,183
(29)	Treasury shares	8,196	8,196
(29)	Additional paid-in capital	–582,896	–582,896
(29)	Retained earnings	–346,341	–482,913
(29)	Fair value reserve	335	637
(29)	Hedging reserve	7,363	14,883
(29)	Translation adjustments	405,146	396,854
	Equity attributable to equity holders of the parent	**–1,474,379**	**–1,611,423**
	Non-controlling interests	–2,546	–2,723
	TOTAL STOCKHOLDERS' EQUITY	**–1,476,925**	**–1,614,146**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–7,555,820**	**–8,498,754**

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

Notes		2010	2009
	Cash flow from operating activities		
	Net income	195,173	94,904
	Adjustments to reconcile net income to cash flow		
(18)(19) (17)	Depreciation, amortization and impairment charges	1,083,927	1,450,112
(27)	Change in employee benefit obligation – non-cash	13,645	11,976
(6)	Bad debt expenses	47,456	50,048
(30)	Change in deferred taxes	–27,082	–88,182
(15)	Equity in earnings of affiliates – non-cash	790	–115
(31)	Stock compensation	661	–5,367
(31)	Employee participation program	0	1,616
(22)	Asset retirement obligation – accretion expense	5,848	6,938
(22)	Provision for restructuring – non-cash	139,439	42,232
(7)	Result on sale of financial assets	–135	–1,086
(5)(6)	Result on disposal/retirement of equipment and intangible assets	3,986	–5,516
(32)	Other	14,871	12,209
	Gross cash flow	**1,478,580**	**1,569,769**
	Changes in assets and liabilities		
(9)	Accounts receivable – trade	–148,402	–10,992
(10)	Receivables due from related parties	1,106	–274
(11)	Inventories	–22,670	2,579
(12)(14)	Other receivables and assets, prepaid expenses	–13,405	–28,713
	Accounts payable – trade	151,697	–44,197
(27)	Employee benefit obligation	–5,612	–6,096
(22)	Provisions and accrued liabilities	–39,467	–54,029
(23)(24)	Other liabilities and deferred income	–6,704	–40,353
(10)	Payables due to related parties	2,412	–2,276
		–81,045	**–184,350**
	Cash flow from operating activities	**1,397,535**	**1,385,418**
	Cash flow from investing activities		
(18)(19)	Capital expenditures, including interest capitalized	–763,572	–711,446
(2)(15)	Acquisitions of subsidiaries, net of cash acquired	3,501	–12,726
(2)(15)	Sale of subsidiaries	3,846	7,664
(18)(19)	Proceeds from sale of equipment and intangible assets	11,043	18,047
(8)(16)	Purchase of financial assets	–294,483	–394,894
(8)(16)	Proceeds from sale of financial assets	422,736	163,513
	Cash flow from investing activities	**–616,930**	**–929,842**
	Cash flow from financing activities		
(25)	Proceeds from issuance of long-term debt	75,000	750,000
(25)	Principal payments on long-term debt	–579,724	–629,884
(21)	Change in short-term borrowings	30,900	58,825
(29)	Dividends paid	–331,923	–331,799
(2)	Deferred consideration paid for business combinations	–582,694	0
	Cash flow from financing activities	**–1,388,441**	**–152,857**
	Effect of exchange rate changes	–2,023	42,573
	Change in cash and cash equivalents	**–609,858**	**345,292**
	Cash and cash equivalents at beginning of the year	730,054	384,762
	Cash and cash equivalents at end of the year	120,196	730,054

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

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TELEKOM AUSTRIA AG – Consolidated Statements of Changes in Stockholders' Equity

	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Retained earnings
Balance at January 1, 2009	1,003,260	–330,845	547,318	1,005,231
Net income	0	0	0	95,129
Other comprehensive income (loss)				
Net unrealized result on securities	0	0	0	0
Net realized result on securities	0	0	0	0
Net unrealized result on hedging activities	0	0	0	0
Foreign currency translation adjustment	0	0	0	0
Other comprehensive income (loss)	**0**	**0**	**0**	**0**
Total comprehensive income	0	0	0	95,129
Distribution of dividends	0	0	0	–331,799
Retirement of treasury shares	–37,077	319,534	37,077	–285,976
Employee Participation Program	0	3,115	–1,499	327
Addition from acquisition	0	0	0	0
Balance at December 31, 2009	**966,183**	**–8,196**	**582,896**	**482,913**
Net income	**0**	**0**	**0**	**195,350**
Other comprehensive income (loss)				
Net unrealized result on securities	0	0	0	0
Net realized result on securities	0	0	0	0
Net unrealized result on hedging activities	0	0	0	0
Foreign currency translation adjustment	0	0	0	0
Other comprehensive income (loss)	**0**	**0**	**0**	**0**
Total comprehensive income	**0**	**0**	**0**	**195,350**
Distribution of dividends	0	0	0	–331,923
Balance at December 31, 2010	**966,183**	**–8,196**	**582,896**	**346,341**

See accompanying notes to consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.

Fair value reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
−1,575	−11,826	−56,025	2,155,538	54	2,155,592
0	0	0	95,129	−225	94,904
1,087	0	0	1,087	0	1,087
−148	0	0	−148	0	−148
0	−3,057	0	−3,057	0	−3,057
0	0	−340,829	−340,829	0	−340,829
939	−3,057	−340,829	−342,947	0	−342,947
939	−3,057	−340,829	−247,818	−225	−248,042
0	0	0	−331,799	0	−331,799
0	0	0	33,559	0	33,559
0	0	0	1,943	0	1,943
0	0	0	0	2,894	2,894
−637	−14,883	−396,854	1,611,423	2,723	1,614,146
0	0	0	195,350	−177	195,173
272	0	0	272	0	272
29	0	0	29	0	29
0	7,520	0	7,520	0	7,520
0	0	−8,293	−8,293	0	−8,293
302	7,520	−8,293	−471	0	−471
302	7,520	−8,293	194,879	−177	194,702
0	0	0	−331,923	0	−331,923
−335	−7,363	−405,146	1,474,379	2,546	1,476,925

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TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements
Consolidated Segment Reporting

2010	Austria	Bulgaria	Croatia
External revenues	3,036,976	534,570	432,053
Intersegmental revenues	27,183	29,905	19,870
Total revenues	**3,064,160**	**564,475**	**451,923**
Other operating income	105,756	5,691	2,144
Segment expenses	–2,137,556	–271,562	–303,565
EBITDA comparable	**1,032,360**	**298,604**	**150,503**
Restructuring	–124,061	0	0
Impairment charges	–18,342	0	0
EBITDA incl. restructuring and impairment charges	**889,957**	**298,604**	**150,503**
Depreciation and amortization	–664,976	–174,497	–67,636
Operating income	**224,981**	**124,107**	**82,867**
Interest income	9,289	1,618	826
Interest expense	–64,113	–428	–698
Equity in earnings of affiliates	–790	0	0
Other income	107,452	–33	1,201
Earnings before taxes	**276,819**	**125,264**	**84,196**
Income taxes			
Net income			
Segment assets	4,376,238	1,576,930	486,029
Segment liabilities	–2,653,947	–110,297	–146,802
Capital expenditures other intangible assets	133,341	24,119	6,900
Capital expenditures property, plant and equipment	382,410	42,162	41,430
Total capital expenditures	515,752	66,281	48,331
Cost to acquire assets	525,579	75,982	48,736
Other non-cash items	195,143	12,005	9,744

2009	Austria	Bulgaria	Croatia
External revenues	3,176,933	593,364	454,712
Intersegmental revenues	26,727	21,290	22,215
Total revenues	**3,203,660**	**614,655**	**476,927**
Other operating income	113,272	7,652	2,137
Segment expenses	–2,139,288	–295,265	–308,278
EBITDA comparable	**1,177,644**	**327,041**	**170,786**
Restructuring	–17,543	0	0
Impairment charges	–196	0	0
EBITDA incl. restructuring and impairment charges	**1,159,905**	**327,041**	**170,786**
Depreciation and amortization	–690,177	–179,174	–69,997
Operating income	**469,728**	**147,868**	**100,789**
Interest income	21,017	1,421	1,556
Interest expense	–81,014	–279	–894
Equity in earnings of affiliates	780	0	0
Other income	–5,046	–30	–403
Earnings before taxes	**405,465**	**148,979**	**101,049**
Income taxes			
Net income			
Segment assets	4,463,035	1,650,336	474,913
Segment liabilities	–2,756,119	–95,682	–111,300
Capital expenditures other intangible assets	109,678	36,168	11,965
Capital expenditures property, plant and equipment	314,823	38,644	45,592
Total capital expenditures	424,501	74,812	57,557
Cost to acquire assets	426,026	75,000	58,137
Other non-cash items	71,664	7,292	8,914

See accompanying notes to consolidated financial statements, Note (3).
The use of automated calculation systems may give rise to rounding differences.

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
343,460	303,783	0	0	4,650,843
129	17,273	0	–94,359	0
343,589	**321,055**	**0**	**–94,359**	**4,650,843**
5,339	4,800	34,895	–69,466	89,161
–193,343	–284,761	–51,908	148,582	–3,094,112
155,585	**41,094**	**–17,013**	**–15,242**	**1,645,892**
0	0	0	0	–124,061
0	0	0	0	–18,342
155,585	**41,094**	**–17,013**	**–15,242**	**1,503,489**
–82,216	–77,191	0	931	–1,065,585
73,369	**–36,097**	**–17,013**	**–14,311**	**437,903**
907	1,233	31,293	–32,089	13,078
–852	–774	–172,317	32,089	–207,093
0	0	0	0	–790
173	–1,886	979,703	–1,088,069	–1,460
73,596	**–37,524**	**821,666**	**–1,102,379**	**241,638**
				–46,465
				195,173
881,162	728,817	7,105,619	–7,598,975	7,555,820
–107,259	–130,528	–4,494,260	1,564,198	–6,078,895
8,783	17,441	0	0	190,585
54,105	52,880	0	0	572,988
62,888	70,321	0	0	763,572
66,609	72,299	0	0	789,207
1,958	5,181	17,022	0	241,053

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
300,102	276,872	0	0	4,801,983
222	20,968	0	–91,423	0
300,324	**297,840**	**0**	**–91,423**	**4,801,983**
6,620	7,819	18,538	–61,480	94,558
–157,051	–291,822	–44,116	150,872	–3,084,948
149,893	**13,837**	**–25,579**	**–2,030**	**1,811,593**
0	0	0	0	–17,543
–290,000	–61,992	0	0	–352,188
–140,107	**–48,155**	**–25,579**	**–2,030**	**1,441,861**
–71,824	–87,428	0	676	–1,097,923
–211,931	**–135,583**	**–25,579**	**–1,355**	**343,938**
2,362	1,643	87,531	–86,014	29,514
–1,526	–2,408	–249,371	86,001	–249,491
0	0	0	0	780
–10,741	304	90,517	–93,033	–18,432
–221,836	**–136,044**	**–96,901**	**–94,401**	**106,311**
				–11,406
				94,904
839,953	713,904	7,518,089	–7,161,477	8,498,754
–72,759	–114,718	–5,421,607	1,687,577	–6,884,608
9,406	27,388	0	0	194,604
49,764	68,019	0	0	516,842
59,170	95,407	0	0	711,446
60,488	97,532	0	0	717,184
291,996	70,497	19,746	0	470,108

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Table of Other Intangible Assets

	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
Balance at January 1, 2009	1,082,124	547,344	918,336	1,114,076	68,669	194,259	3,924,809
Additions	6,849	0	80,048	0	83,995	23,713	194,604
Disposals	−126	0	−87,699	0	−155	−1,734	−89,714
Transfers	0	0	75,005	0	−65,675	6,275	15,606
Translation adjustments	−40,547	−25,621	−14,128	−91,723	−561	−4,121	−176,700
Changes in reporting entities	0	491	123	766	0	1,537	2,917
Balance at December 31, 2009	**1,048,301**	**522,215**	**971,686**	**1,023,119**	**86,273**	**219,929**	**3,871,523**
Additions	13,290	0	93,318	0	70,811	13,166	190,585
Disposals	−13,671	0	−57,199	0	−1,555	−2,649	−75,075
Transfers	3,337	0	80,070	0	−88,978	7,072	1,501
Translation adjustments	−23,410	2,468	−894	8,918	−46	−4,792	−17,756
Changes in reporting entities	0	496	1,100	1,146	8	0	2,750
Balance at December 31, 2010	**1,027,847**	**525,179**	**1,088,080**	**1,033,183**	**66,512**	**232,726**	**3,973,527**
Accumulated amortization							
Balance at January 1, 2009	−452,772	−4,800	−559,803	−530,507	0	−111,313	−1,659,195
Additions	−67,143	0	−154,396	−108,765	0	−37,418	−367,722
Impairments	−61,992	0	0	0	0	0	−61,992
Disposals	126	0	87,148	0	0	1,582	88,856
Transfers	0	0	113	0	0	−87	26
Translation adjustments	6,139	0	5,388	14,216	0	3,166	28,910
Changes in reporting entities	0	0	−102	0	0	−9	−111
Balance at December 31, 2009	**– 575,643**	**– 4,800**	**– 621,652**	**– 625,055**	**0**	**– 144,079**	**– 1,971,229**
Additions	– 63,411	0	– 169,948	– 107,282	0	– 21,846	– 362,488
Impairments	0	0	– 3,961	0	0	– 2,005	– 5,966
Disposals	13,671	0	57,007	0	0	2,467	73,145
Transfers	0	0	– 11	0	0	0	– 12
Translation adjustments	8,643	0	637	– 1,822	0	4,491	11,949
Changes in reporting entities	0	0	– 842	0	0	0	– 842
Balance at December 31, 2010	**– 616,740**	**– 4,800**	**– 738,771**	**– 734,159**	**0**	**– 160,972**	**– 2,255,442**
Carrying amount at							
December 31, 2010	411,107	520,379	349,309	299,024	66,512	71,754	1,718,085
December 31, 2009	472,658	517,415	350,033	398,064	86,273	75,850	1,900,294

See accompanying notes to consolidated financial statements, Note (18).
The use of automated calculation systems may give rise to rounding differences.

Table of Property, Plant and Equipment

	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2009	819,760	10,801,722	1,432	222,410	11,845,324
Additions	10,176	358,944	0	153,459	522,580
Disposals	−8,668	−265,921	0	−3,230	−277,820
Transfers	−3,048	135,380	0	−158,269	−25,938
Translation adjustments	−751	−95,601	0	−18,546	−114,898
Changes in reporting entities	78	51,256	0	1,364	52,698
Balance at December 31, 2009	**817,547**	**10,985,780**	**1,432**	**197,187**	**12,001,946**
Additions	10,287	392,429	0	195,906	598,622
Disposals	−5,640	−433,247	0	−2,483	−441,370
Transfers	10,825	156,155	0	−168,481	−1,501
Translation adjustments	−801	−6,464	0	−554	−7,819
Changes in reporting entities	0	28	0	0	28
Balance at December 31, 2010	**832,218**	**11,094,682**	**1,432**	**221,575**	**12,149,906**
Accumulated depreciation					
Balance at January 1, 2009	−455,534	−8,413,072	−764	0	−8,869,371
Additions	−42,779	−687,144	−278	0	−730,201
Impairments	−196	0	0	0	−196
Disposals	6,115	240,818	0	0	246,934
Transfers	6,478	−11	0	0	6,467
Translation adjustments	210	50,853	0	0	51,063
Changes in reporting entities	−38	−31,448	0	0	−31,486
Balance at December 31, 2009	**−485,745**	**−8,840,003**	**−1,042**	**0**	**−9,326,790**
Additions	−40,553	−662,397	−147	0	−703,097
Impairments	0	−653	0	0	−653
Disposals	4,648	422,899	0	0	427,547
Transfers	−66	78	0	0	12
Translation adjustments	293	1,772	0	0	2,065
Changes in reporting entities	0	−20	0	0	−20
Balance at December 31, 2010	**−521,423**	**−9,078,325**	**−1,189**	**0**	**−9,600,937**
Carrying amount at					
December 31, 2010	310,795	2,016,357	243	221,575	2,548,970
December 31, 2009	331,802	2,145,777	390	197,187	2,675,156

See accompanying notes to consolidated financial statements, Note (19).
The use of automated calculation systems may give rise to rounding differences.

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(1) The Company and Significant Accounting Policies

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

Telekom Austria AG is incorporated as a joint stock corporation ("Aktiengesellschaft") under the laws of the Republic of Austria and is located in Austria, Lassallestraße 9, 1020 Vienna. Telekom Austria AG and its subsidiaries ("Telekom Austria Group") are engaged as full service telecommunications providers of long distance, local and wireless services, corporate data communications services as well as internet services and television broadcasting.

Telekom Austria Group also supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Croatia, Slovenia, Bulgaria, Serbia, Macedonia and Belarus.

The Federal Republic of Austria, through Österreichische Industrieholding AG ("ÖIAG"), is a significant shareholder of Telekom Austria Group. At the end of December 2010 and 2009, ÖIAG's stake amounts to approximately 28.4%.

In addition to the related party transactions described in Note (10), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of Telekom Austria Group.

The government holds the taxing authority for the Austrian operations of Telekom Austria Group and imposes taxes such as income and value-added taxes on Telekom Austria Group.

The use of automated calculation systems may give rise to rounding differences.

Basis of presentation

Telekom Austria Group prepared the accompanying consolidated financial statements as of December 31, 2010 in compliance with the provisions of the International Financial Reporting Standards ("IFRS/IAS"), issued by the International Accounting Standards Board ("IASB"), the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") and the interpretation of the Standards Interpretation Committee ("SIC"), effective as of December 31, 2010 and as endorsed by the European Union.

The IASB issued the following amendments toIFRS and revisions of existing IFRS as well as new IFRS and IFRIC which have been endorsed by the European Union and therefore, are effective as of January 1, 2010.

IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 9 and IAS 39	Amendments to IFRIC 9 and IAS 39: Embedded Derivatives
IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
IFRS 2	Group Cash-settled Share-based Payment Transactions
IFRS 1	Additional Exemptions
IFRS 3 and IAS 27	Business Combinations, Consolidated and Separate Financial Statements (revised)
IAS 39 and IFRS 7	Reclassification of Financial Assets: Effective Date
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
	Amendments as a result of the improvements project 2009

The initial adoption of abovementioned IFRS resulted in the following changes compared to December 31, 2009:

IFRS 3 and IAS 27: With Business Combinations Project Phase II the principles of capital consolidation were revised. The main changes are that an option to recognize non-controlling interests at fair value (full goodwill approach) was introduced; acquisition costs must be expensed as incurred; subsequent changes in the value of estimated considerations no longer result in changes in goodwill, and in the case of acquisitions achieved in stages, the previously held equity interest is re-measured at fair value and any resulting changes are recognized in profit and loss. Furthermore, all transactions with non-controlling interests are recognized in equity.

The initial application of the other IFRS and IFRIC mentioned above had an insignificant impact on the consolidated financial statement as of December 31, 2010 since the amendments and revisions were not fully applicable. No changes in accounting principles resulted.

The following standards and interpretations were issued from the IASB, but were not effective for the financial year 2010. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

		Effective *	Effective**
IAS 24	Related party disclosures (revised)	January 1, 2011	January 1, 2011
IAS 32	Changes regarding classification of rights issue	February 1, 2010	February 1, 2010
IFRS 1	Additional exemptions for first time adopters in connection with IFRS 7	July 1, 2010	July 1, 2010
IFRS 7	Financial instruments: Disclosures	July 1, 2011	not endorsed
IFRS 9	Financial instruments	January 1, 2013	not endorsed
IFRIC 19	Repayments of financial liabilities with equity instruments	July 1, 2010	July 1, 2010
	Amendments to IFRS as result of improvements project 2010	January 1, 2011	not endorsed
IAS 12	Income taxes (revised)	January 1, 2012	not endorsed
IFRS 1	Regulations for hyperinflationary economies	July 1, 2011	not endorsed
IFRIC 14	Minimum funding payments (revised)	January 1, 2011	January 1, 2011

* This standard/interpretation is effective for annual periods beginning on or after the presented date (in accordance with IASB).
** This standard/interpretation is effective for annual periods beginning on or after the presented date (in accordance with EU endorsement).

Principles of consolidation

The consolidated financial statements of Telekom Austria Group include 25 (2009: 24) subsidiaries in Austria and 31 (2009: 29) subsidiaries abroad in which Telekom Austria Group, either directly or indirectly, holds the majority of the voting rights or has the power to govern the subsidiaries' financial and operating policies.

According to IFRS 3, business combinations are accounted for using the acquisition method at the acquisition date, which is the date, on which the Group obtains control over the acquiree. Goodwill is measured as the difference between the aggregate of the acquisition-dated fair value of the consideration transferred, the amount of any non-controlling interest, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and the net of the acquisition-dated fair value amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not adjusted for subsequent changes in the estimated purchase price.

If the purchase price is lower than the fair value of the net asset acquired the resulting gain is recognized in profit and loss. Acquisition costs are expensed as incurred. In case of acquisition achieved in stages the previously held interest is restated at fair value and any resulting difference is recognized in profit or loss. All transactions with non-controlling interests holders are recognized in shareholder's equity.

Investments in companies in which Telekom Austria Group has significant influence, but less than a controlling financial interest, are accounted for using the equity method. The consolidated financial statements include three (2009: five) investments accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in and net amounts due to and due from the equity investee are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of operations. Only dividends, loans or cash received from or paid to the investee are included in the consolidated statements of cash flows.

All significant intercompany balances and transactions have been eliminated in consolidation.

The subsidiaries included in the consolidated financial statements are listed in Note (38).

Foreign currency translation

The consolidated financial statements of Telekom Austria Group are expressed in thousand Euros ("EUR").

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. Equity is translated at historical exchange rates. Until the disposal of the respective operation, the foreign currency translation adjustment, classified in equity, is recognized in other comprehensive income (OCI).

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Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the financial result.

The following table provides the exchange rates for the currencies in which Telekom Austria Group conducts most of its transactions:

	Exchange rates at December 31,		Average exchange rates for the period ended December 31,	
	2010	2009	2010	2009
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.3830	7.3000	7.2889	7.3417
Hungarian Forint (HUF)	277.9500	270.4200	275.4534	280.5505
Serbian Dinar (CSD)	105.4982	95.8888	103.0016	93.9096
Swiss Franc (CHF)	1.2504	1.4836	1.3799	1.4836
Rumanian Leu (RON)	4.2620	4.2363	4.2121	4.2408
Turkish Lira (TRY)	2.0694	2.1547	1.9965	2.2132
Macedonian Denar (MKD)	61.5085	61.1659	61.5181	61.2739
Belarusian Ruble (BYR)	3,972.6000	4,106.1100	3,951.7641	3,894,3698
US Dollar (USD)	1.3362	1.4406	1.3257	1.3939

Format of the consolidated statements of operations

In the financial year 2010, the format of the consolidated statements of operations was changed. Telekom Austria Group defines EBITDA as net income excluding financial result, income taxes and depreciation and amortization. EBITDA comparable and EBITDA (incl. impairment and restructuring charges) are used to better evaluate trends in the Company's underlying operations. EBITDA comparable comprises EBITDA adjusted for expenses relating to the restructuring program described in Note (22) and impairment charges, if any.

The restructuring program includes social plans for employees whose employment will be terminated in a socially responsible way, and expenses for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be terminated due to their status as civil servants. Furthermore, expenses for the transfer of civil servants to the Austrian government are adjusted for the purpose of determining EBIDTA comparable. Employee expenses for 2009 were reduced by EUR 17,543 accordingly related to restructuring expenses.

Revenue recognition

Operating revenues include all revenue resulting from the ordinary operations of Telekom Austria Group. Operating revenues are stated net of value added tax and other taxes, collected from the customer on behalf of the tax authorities.

Telekom Austria Group generates revenues from fixed line services and mobile communication services to individuals, commercial and non-commercial organizations and other national and foreign carriers.

Fixed line services include access fees, domestic and long distance services, including internet, fixed to mobile calls, international traffic, voice value-added services, interconnection, call center services and public payphone services.

Mobile communications services comprise digital mobile communications services including value-added services, text and multimedia messaging, m-commerce and information services. To a lesser extent, Telekom Austria Group generates revenue from the sale of mobile communications handsets.

Certain arrangements that Telekom Austria Group enters into provide for the delivery of multiple deliverables by Telekom Austria Group. For the mobile communication services, these multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. For fixed line services, these arrangements typically include internet and fixed line and optional TV and mobile communication services. In general, Telekom Austria Group determines that such arrangements are divided into separate "units of accounting" based on a determination of a separable value to the customer for each deliverable on a standalone basis. The total arrangement consideration is allocated to the units of accounting based on the relative fair value and after taking into consideration any contingent revenue.

Telekom Austria Group recognizes long distance and local service revenue based on minutes of use processed or based on contracted fixed fee schedules at the time the services are rendered. Revenues due from other national and foreign carriers for incoming calls from outside Telekom Austria Group's network are recognized in the period the call occurs.

Access fees, monthly base fees, maintenance fees, service fees and lines leased to business customers are billed in advance resulting in deferred revenues. These fees are recognized over the period the service is provided. Cash discounts and rebates are accounted for as reductions in revenues when granted.

Revenues from the sale of merchandise and revenues generated from other services are recognized upon delivery and acceptance by the customers or when the services are provided in accordance with contract terms.

Setting up customer lines is a separate service, offered by Telekom Austria Group independently from other services. Revenue on such installation work is recognized when the set up is completed.

Telekom Austria Group has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby Telekom Austria Group has granted contractually agreed access to existing capacity on within its physical network in return for similar access to the physical network of the counterparty. Telekom Austria Group does not recognize revenue or liabilities to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans as the services transacted under such agreements are equivalent.

The benefits and costs of such swap agreements are reflected in Telekom Austria Group's results of operations in the periods in which they are realized through reduced interconnection revenues and expenses, respectively.

Telekom Austria Group recognizes mobile and roaming service revenue based upon minutes of traffic processed or contracted fee schedules when the services are rendered. Revenues due from foreign carriers for international roaming calls are included in revenues in the period in which the call occurs.

Certain prepaid services are billed in advance resulting in deferred revenues. These fees are recognized over the period the service is provided. Cash discounts and rebates are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognized pro-rata over the contract period as marketing expenses when a service contract exists.

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

Activation revenues and direct incremental expenses are generally recognized over the average expected contract term. When direct incremental expenses exceed revenues, the excess is expensed as incurred. Activation fees do not have a standalone value to customers and are therefore allocated as part of the arrangement consideration according to the relative fair value method to the units of accounting.

Other service revenues are recognized when delivered and accepted by customers and when services are provided in accordance with contract terms.

Research and development costs

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. If development costs cannot be separated from research costs, the development costs are expensed as incurred according to IAS 38.

Research and development costs are expensed as incurred and totaled EUR 38,400 and EUR 40,299 for the years ended December 31, 2010 and 2009, respectively, and are classified based on their origination as employee costs, depreciation or operating expenses in the consolidated statements of operations.

Interest, royalties and dividends

Interest is recognized using the effective interest method in accordance with IAS 39. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement; dividends are recognized when the shareholder's right to receive payment is established.

Earnings per share
Basic and diluted earnings per share are calculated by dividing the net income attributable to the shareholders of the parent by the weighted average number of common shares outstanding for the year.

The Management Board determined to settle all employee stock options granted in the course of the Stock Option Plan 2004, as well as shares granted in the course of the long-term incentive program, in cash. Thus no related dilutive effect has been considered in 2010 and 2009 for current stock option plans.

Cash and cash equivalents
Telekom Austria Group considers cash in banks and highly liquid investments with remaining maturities of three months or less to be cash and cash equivalents. Money market deposits with remaining maturities of more than three months from the date of acquisition are classified as short-term investments along with marketable securities. The financial resource fund in the consolidated statement of cash flows is equal to cash and cash equivalents reported in the consolidated statements of financial position.

Marketable securities and other long-term investments
In accordance with IAS 39, Telekom Austria Group has classified all marketable securities and certain long-term investments as either held-to-maturity or available-for-sale, and carries these securities at amortized cost or fair value. When no fair value is available, the security is recorded at cost. Unrealized gains and losses resulting from the change in the fair value of available-for-sale financial assets are recorded in other comprehensive income (OCI), net of applicable actual or deferred income tax.

Telekom Austria Group's policy for determining if an impairment of a security exists is based on a two-step approach taking into consideration the significance of the difference between the fair value and carrying amount of the security as well as the period of time for which such a difference exists. Telekom Austria Group determines, on an individual security basis, whether the change in fair value is temporary and insignificant. If the change is neither temporary nor insignificant, Telekom Austria Group records an impairment loss in other financial expenses when realized. Due to the financial crisis, Telekom Austria Group further evaluated whether there was any indication for a complete loss of a tranche due to credit risk.

If the reasons for the impairment no longer exist, the impairment charge is fully or partly reversed. Impairment losses recognized in profit or loss for investments in equity instruments classified as available for sale shall not be reversed through profit or loss. In case the fair value of a debt instrument classified as available for sale increases and such increase is a result of an event that occurred after recognition of the impairment loss, the impairment loss shall be reversed in profit or loss.

Investments in unquoted equity instruments are not carried at fair value because their fair value cannot be reliably measured. They are carried at cost less impairment losses, if applicable. The amount of an impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flow discounted at the current market rate of return for a similar financial asset. The subsequent reversal of such impairment losses in the future is not allowed.

Receivables
Accounts receivable – trade and other receivables are classified as loans and receivables and are measured at amortized cost or the lower recoverable amount.

An impairment of loans, accounts receivable – trade and other receivables is recorded (specific allowance) if there is objective evidence that Telekom Austria Group will not be able to collect all amounts due according to the original terms. Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

Additionally, for groups of similar financial assets, Telekom Austria Group records a general allowance, which is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets is reduced through the use of allowance accounts, and the impairment charge is recognized in the consolidated statements of operations. When a receivable is considered to be irrecoverable, the amount is written off against the receivable.

Inventories

Inventories consist of merchandise sold in retail shops or by retailers and material and spare parts used for the construction and maintenance of networks, mainly for Telekom Austria Group's own use. Inventories are valued at the lower of cost or net realizable value, with cost being determined on the basis of weighted average cost.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expense. Telekom Austria Group assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction and maintenance.

Assets held for sale

In accordance with IFRS 5, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell, are no longer depreciated and are classified separately on the face of the statements of financial position as assets held for sale. The net gain or loss on the sale of assets held for sale is recorded together with gains and losses from retirement of equipment either in other operating expenses or other operating income. The net gain or loss on the sale of investments held for sale is recorded in the other financial result.

Goodwill and other intangible assets

Goodwill, other intangible assets with indefinite useful lives and other intangible assets, which are not yet available for use, are not amortized, but are tested for impairment in accordance with IFRS 3, IAS 38 and IAS 36 at least once a year, in the fourth quarter, irrespective of whether there is any indication of impairment, by comparing their carrying amounts with their recoverable amounts. If an event or circumstance indicates that an asset may be impaired, impairment tests are also carried out on an interim basis.

Other intangible assets with estimable useful lives are amortized over their respective useful lives to their estimated residual values and reviewed for impairment if an event or circumstance indicates that the assets may be impaired.

In each reporting period, Telekom Austria Group is required to re-evaluate its decision that an intangible asset has an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the intangible asset is written down to its fair value if lower than its carrying amount and amortized prospectively based on its remaining useful life.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Telekom Austria Group performs these impairment tests by calculating the value in use. Value in use is determined by estimating the future cash flows of the cash-generating unit based on the business plans, which are prepared for periods of four years and which are based on past performance and the management's best estimates about future developments. Significant assumptions to determine the value in use comprise EBITDA, fixed asset additions, growth rate and discount rate.

The growth rates in the business plans reflect the weighted average growth rates based on market estimates. Estimated cash flows for the subsequent five to nine years are determined taking into consideration the expected market conditions and the individual market positioning of the cash generating unit. The present value of the perpetual annuity is calculated based on a constant growth rate, which does not exceed the long-term average growth rate for the industries and the countries in which the cash-generating unit operates.

If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss. The impairment loss shall first be allocated to the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units), provided that the recoverable amount is less than the carrying amount of the unit (group of units). These reductions in the carrying amounts represent impairment losses on individual assets.

in EUR '000s 39

Intangible assets with a definite useful life are stated at cost and are amortized using the straight-line method over their estimated useful lives, as shown below:

	Years
Mobile communications and fixed net licenses	4–30
Patents and proprietary rights	4–30
Subscriber base	3–12
Software	1–10
Other	4–30

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

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

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalized once the project has reached the application development stage. The costs are amortized using the straight-line method over a period not exceeding four years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs and research and development costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations. Value-added tax ("VAT"), which is charged by suppliers and refunded by the tax authorities, is not included in cost. Plant and equipment under finance leases are stated at the lower of present value of minimum lease payments or fair value.

Depreciation on plant and equipment is calculated using the straight-line method and the estimated useful lives of the assets. Plant and equipment under finance lease and leasehold improvements are amortized using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter.

The useful lives are:

	Years
Transmission equipment	1–10
Cables and wires	15–20
Communications equipment	3–20
Furniture, fixtures and other	2–20
Buildings and leasehold improvements	1–50

Maintenance and repairs are expensed as incurred, while replacements and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is recognized in other operating expenses or other operating income.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

Government grants
Investment grants are deducted from the cost of the asset. Performance-related grants are recorded as other operating income in the consolidated statements of operations.

Impairment of tangible and intangible fixed assets
In the event that facts and circumstances indicate that Telekom Austria Group's tangible or intangible fixed assets, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed.

In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction less the cost of the disposal.

Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the consolidated statements of operations.

If there is any indication that the impairment recognized in prior periods no longer exists, Telekom Austria Group considers the need to reverse all or a portion of the impairment charge.

Financial liabilities
All financial liabilities are classified as other liabilities in accordance with IAS 39, and are recognized at the time of receipt in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognized over the term of the liability using the effective interest rate method in the financial result (amortized cost).

Other liabilities
Other liabilities are carried at amortized cost.

Provisions
A provision is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. Long-term provisions relating to personnel and social costs, restructuring provisions and asset retirement obligation are recorded at their net present value. Provisions for restructuring are recorded if there is a detailed formal plan for the restructuring and if a valid expectation has been raised in those affected that the restructuring will be carried out by starting to implement that plan or announcing its main features to those affected by it.

Leases
Lease agreements in which Telekom Austria Group assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases. Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

If substantially all risks and rewards are attributable to Telekom Austria Group as a lessor, the leased asset is recognized by Telekom Austria Group. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. The lease payments are recognized over the term of the lease contract in the consolidated statements of operations as earned.

If Telekom Austria Group as a lessor transfers substantially all the risks and rewards incidental to legal ownership to the lessee, the lease agreements are classified as finance leases; otherwise they are classified as operating leases. Lease receivables are recorded at an amount equal to the net investment in the lease.

Employee benefit obligations
Telekom Austria Group provides retirement benefits under defined contribution and defined benefit plans.

In the case of defined contribution plans, Telekom Austria Group pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, Telekom Austria Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due.

All other employee benefit obligations are unfunded defined benefit plans for which Telekom Austria Group records provisions which are calculated using the projected unit credit method in accordance with IAS 19. The future benefit obligations are measured using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of compensation increase, rate of employee turnover and rate of increase of pensions. Actuarial gains and losses are recorded using the corridor method and are therefore not recognized directly in other comprehensive income (OCI). For severance and pensions, Telekom Austria Group recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the reporting period exceed the corridor of 10% of the projected benefit obligation. The excess is amortized over the expected remaining service period. For service awards, actuarial gains and losses are recognized immediately.

According to IAS 19.118, companies may distinguish between current and non-current assets and liabilities arising from post-employment benefits. Telekom Austria Group applies this distinction in its financial statements.

Interest cost related to employee benefit obligations is reported in the financial result, while service cost is reported in employee expenses.

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 “Property, Plant and Equipment” the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”.

The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the financial statements of operations. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new recoverable amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

Income taxes

Income taxes are determined for each of the tax jurisdictions in which Telekom Austria Group and its subsidiaries operate, involving specific calculations of the expected actual income tax rate applicable for each taxable entity. In accordance with IAS 12 “Income Taxes”, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, for current-year tax losses and tax losses carried forward as well as certain impairment losses on investments for which recognition for tax purposes is deferred over a specified period. For the purpose of calculating deferred tax assets and liabilities, Telekom Austria Group uses the rates that have been enacted or substantively enacted at the reporting date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the tax rate is effectively enacted. A deferred tax asset is recognized only to the extent that it is probable that sufficient future taxable income will be available. The distribution of dividends by Telekom Austria AG has no effect on the tax rate of Telekom Austria Group.

Investment tax credits are recognized as a reduction of income taxes in the period in which those credits are granted. Income tax receivables or payables cover obligations for current and prior periods.

Stock-based compensation

Telekom Austria Group accounts for stock-based employee compensation in accordance with IFRS 2.

Stock-based employee compensation is measured at fair value at the grant date. The cost of employee compensation is expensed over the vesting period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, Telekom Austria Group records an increase in equity or a liability. Due to the Management Board’s decision to settle employee stock options granted in the Stock Option Plan 2004 and bonus shares granted in the course of the long-term incentive program in cash, the options granted are recorded as a liability. Until their settlement in cash, the liabilities are re-measured at their fair value at each reporting date as well as at the settlement date. Changes in the fair value are recorded in profit or loss.

Shares granted under an employee participation program are measured at fair value at the grant date. The corresponding cost is expensed. The use of treasury shares increases outstanding shares and additional paid-in capital accordingly.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognized when Telekom Austria Group becomes a party to the contractual provisions of the financial instrument. Telekom Austria Group uses the settlement date in recording regular purchases and sales of financial assets. Derivative financial instruments are recognized at the trade date and derecognized when settled. Financial assets and financial liabilities are initially recognized at cost, which is the fair value of the consideration given or received. Transaction costs are included in the initial measurement, except for financial instruments, which are recognized at their fair value through profit or loss.

For financial liabilities carried at amortized cost, a gain or loss is recognized in the consolidated statements of operations when the financial liability is derecognized.

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position only when the entity has a contractual right to offset the recognized amounts and intends to settle on a net basis.

Financial assets include, in particular, cash and cash equivalents, accounts receivable – trade and other originated loans and receivables, receivables due from related parties, held-to-maturity investments, available-for-sale financial assets and derivative financial assets.

Financial liabilities include, in particular, payables due to related parties, bonds and other financial liabilities, accounts payable – trade and derivative financial liabilities.

Telekom Austria Group classifies its financial assets and financial liabilities in accordance with IAS 39. Management determines the classification of its financial assets and financial liabilities at initial recognition.

Derivative financial instruments

In accordance with IAS 39, Telekom Austria Group recognizes all derivative financial instruments as assets or liabilities in the statements of financial position, and measures all at fair value, regardless of Telekom Austria Group's intent. Changes in the fair value of derivative instruments designated as hedged items are recognized in income or in other comprehensive income (as hedging reserve) depending on whether the derivative is designated as a fair value or a cash flow hedge. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized in the consolidated statement of operations. For derivatives designated as a cash flow hedge, changes in fair value of the effective portion of the hedging instrument are recognized in other comprehensive income (hedging reserve) until the hedged item is realized and recognized in the consolidated statement of operations.

The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and the fair value changes of derivatives which do not qualify for hedge accounting are recognized in profit or loss immediately.

Fair value of financial instruments

The carrying amounts of cash, accounts receivable – trade, accounts payable – trade, receivables due from and payables due to related parties approximate their fair values. The fair value of securities held to maturity and securities available for sale is based on quoted market rates.

The fair value of long-term debt and derivative financial instruments is either determined based on market prices or on the cash flows from such financial instruments discounted at Telekom Austria Group's estimated current interest rate to enter into similar financial instruments. The basis for determining fair values is summarized in Note (33).

Concentration of risks

A portion of Telekom Austria Group's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications and cellular companies as well as to providers of internet online services. As a result, Telekom Austria Group has a certain concentration of credit risk in its customer base. To limit such risk, Telekom Austria Group performs credit evaluations of its key accounts on an ongoing basis.

As of the reporting date, Telekom Austria Group does not have any significant concentration of business transacted with a particular supplier or creditor or customers. Furthermore, Telekom Austria Group does not have any concentration with respect to contractors, other services, franchises or other rights which could, if suddenly eliminated, severely impact operations. Telekom Austria Group invests its cash with various institutions with appropriate credit standings.

Through its expansion into the Central Eastern European (CEE) region, Telekom Austria Group operates in markets that have been experiencing political and economic change. This has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties, which typically do not exist in other markets.

The accompanying consolidated financial statements reflect Management's assessment of the impact of the CEE business environment on the operations and the financial position of Telekom Austria Group. The future business environment may differ from Management's assessment.

Use of estimates

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities and of contingent liabilities reported at the end of any given period, and the reported amounts of revenues and expenses for that reported period. Actual results may differ from these estimates.

Management has made judgments in the process of applying Telekom Austria Group's accounting policies. Additionally, at the reporting date, Management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the reporting date which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Employee benefit plans: The measurement of the various pension and other post-employment benefit plans as well as service awards is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase. Changes in these parameters could result in higher or lower expenses (see Note (27)).

b) Impairments: The impairment analysis for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the use and eventual disposal of the assets. Factors such as lower than anticipated sales and the resulting decreases in net cash flows and changes in the discount rates used could lead to impairments or, if allowed, to revaluations. For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment (PPE), see Notes (17), (18) and (19).

c) The estimated useful lives of tangible and intangible assets subject to depreciation and amortization represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortization resulting from changes in the useful lives, see Note (19).

d) Stock-based compensation: Long term incentive liabilities are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. The stock option plans are measured based on the fair value of the options on the grant date and every subsequent reporting date taking into consideration the expected fulfillment of performance conditions and the expected share price. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, term of the option, expected exercise pattern and expected dividend yield. Compensation expense and liabilities could materially differ from the estimated amount as of the reporting date if the underlying parameters were to change see Note (31).

e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. If Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realized and therefore will not be recognized (see Note (30)).

f) Restructuring: The provision is based on various parameters such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

(2) Business Combinations

On July 12, 2010 the Telekom Austria Group acquired the remaining 16.67 % interest in paybox austria GmbH ("paybox"). As a consequence Telekom Austria Group exercises control resulting in a change in accounting from equity method to full consolidation. The following table summarizes the acquisition-date fair values of each major class of assets and liabilities. Fair values were determined based on the provisional purchase price allocation to assets and liabilities.

	Fair values at date of acquisition
Cash and cash equivalents	4,101
Trade and other receivables	3,815
Inventories	1,150
Non-current assets	1,937
Trade liabilities	–6,365
Other current liabilities	–1,305
Non-current liabilities	–344
Net assets acquired	**2,989**
Fair value of previous held equity interest	–2,386
Gain resulting from bargain purchase	–3
Total purchase consideration	**600**
Cash and cash equivalents acquired	–4,101
Net cash inflow	–3,501

Acquisition costs recognized as expense amounted to EUR 11. A gain amounting to EUR 1,236 resulting from the fair value adjustment of previously held equity interests was recognized in the financial result in the line item equity in earnings of affiliates. A gain resulting from bargain purchase of EUR 3 was recognized in other operating income. Subsequent to the acquisition, paybox generated revenues amounting to EUR 1,773 and a net income of EUR 114.

Since the effect of the acquired entity on the consolidated financial statements of Telekom Austria Group is not considered significant, no pro-forma information is presented.

On July 8, 2010 mobilkom austria AG as the transferring entity and Telekom Austria TA AG as the absorbing entity were merged and renamed A1 Telekom Austria AG. The merger led to changes in the operating segment structure but had no impact on the consolidated financial statements.

On October 4, 2010, Telekom Austria Group acquired the remaining 30% interest in SB Telecom Limited (SBT) the sole owner of FE VELCOM ("velcom"), as the co-owners of SB Telecom Limited exercised their put option. The total purchase price for the 30%-stake amounted to EUR 335,022. Additionally, a portion of EUR 247,672 of the total performance-based deferred consideration of EUR 313,296 became payable since predetermined performance criteria had been fulfilled.

The next evaluation for the settlement of the remaining EUR 65,624 (present value as of October 4, 2010) will be in first quarter 2011 based on the annual net income for 2010 of velcom and SBT. Final settlement of the remaining consideration is not expected before first quarter 2012.

Due to the existing put option of the co-owners and in accordance with IAS 32, Telekom Austria Group has been consolidating 100% of SB Telecom Limited since 2007, thus recorded a financial liability for the purchase price of the remaining 30% of the shares at fair value without recognizing a non-controlling interest (see Note (23) and (25)).

(3) Operating Segments

Reporting on operating segments (see table "Consolidated Operating Segments") has been prepared in accordance with IFRS 8. The accounting policies of the segments are the same as those described in Note (1).

Telekom Austria Group has realigned its management structure due to the increasing demand for convergent products. As a result, operating segments are based on geographical markets, instead of the segmentation in fixed and mobile business. The Telekom Austria Group reports separately on the five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets.

Under the segment Austria the former Fixed Net segment and the Austrian share of Mobile Communication segment is reported. The segment comprises convergent products for voice telephony, internet access, data and IT solutions, value added services, wholesale services, television broadcasting (aonTV), mobile business and payment solutions in Austria.

The segment Bulgaria comprises voice telephony (mobile and fixed line telephone service), access to emergency services, directory services, internet access, data and IT solutions, value added services, wholesale services, the sale of end-user terminal equipment and payment solutions in Bulgaria.

The segment Croatia provides mobile and fixed line telephony, value added services and mobile internet access in Croatia.

The segment Belarus comprises mobile communication services in Belarus.

The segment Additional Markets comprises the mobile communication companies in Slovenia, Republic of Serbia, Republic of Macedonia and Liechtenstein.

The segment Corporate & Other performs strategic and cross-divisional management functions and takes responsibility for the connection to the capital markets.

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

The segments are reported on a consolidated basis. Segment assets and segment liabilities do not include deferred tax assets or liabilities, income tax assets or income tax liabilities. The elimination column contains the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and other intangible assets.

Other non-cash items mainly consist of restructuring expenses, pension and severance expense, expense for stock-based compensation, accrued interest, accretion expense related to the asset retirement obligation, bad debt expenses, the accrued interest and hedging expenses relating to the purchase price liability of SBT as well as impairment charges.

None of the segments records revenues from transactions with a single external customer amounting to at least 10% or more of an entity's revenues.

Impairment charges recorded in the Segment Austria in 2010 relate to the impairment of the goodwill, software and equipment of Mass Response Service (see Note (17), (18) and (19)). Impairment charges recorded in 2009 relate to the impairment of property (see Note (19)). Impairment charges recorded in the Segment Belarus and in the Segment Additional Markets in the year 2009 relate to the goodwill of velcom (see Note (17)) and to a license in Serbia (see Note (18)).

The item other includes other financial result as well as foreign exchange differences. In 2010, the significant gain reported in the segments Austria as well as Holding & Other, mainly resulting from the reorganization within Telekom Austria Group, is consolidated in eliminations, thus having no impact on the consolidated financial statements.

The following table sets out revenues from external customers for each product line:

	2010	2009
Monthly fee and traffic	3,306,321	3,372,316
Data and ICT Solutions	215,840	186,062
Wholesale (incl. Roaming)	250,521	309,431
Interconnection	597,335	667,767
Equipment	213,044	196,372
Other revenues	67,781	70,035
Total revenues	**4,650,843**	**4,801,983**

(4) Revenues

	2010	2009
Services	4,437,799	4,605,611
Equipment	213,044	196,372
Operating revenues	**4,650,843**	**4,801,983**

(5) Other Operating Income

	2010	2009
Rental revenue	17,314	15,390
Own work capitalized	44,395	32,138
Net income from retirement of equipment and intangible assets	0	5,516
Other	27,452	41,514
Other operating income	**89,161**	**94,558**

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

Gains and losses from the retirement of equipment and intangible assets are offset. Resulting net gains are reported as other operating income, resulting net losses are reported as other operating expense.

Other operating income 2009 includes the reimbursement of investment costs amounting to EUR 10,175. The reimbursement was received by network operators and is related to fully depreciated facilities that serve to provide information and to control data. In addition, other operating income includes the gain resulting from the acquisition of CRI Beteiligungs GmbH at a purchase price less than the fair value of the net assets acquired (bargain purchase). In 2010 and 2009 tax free research and educational rewards amounting to EUR 3,543 and EUR 2,766 respectively, are included in the other operating income.

in EUR '000s

(6) Other Operating Expenses

	2010	2009
Interconnection	520,751	561,547
Repairs and maintenance	184,001	182,018
Services received	271,794	292,011
Advertising and marketing	229,869	237,734
Other support services	123,108	112,090
Rental and lease expenses	143,278	135,345
Commissions	86,352	77,298
Bad debt expenses	47,456	50,048
Legal and other consulting	38,083	35,488
Travel expenses	19,994	20,899
Other taxes	14,883	21,093
Energy	54,059	41,617
Transportation	27,569	23,629
Training expenses	12,317	11,539
Net loss from retirement of equipment and intangible assets	3,986	0
Other	106,160	97,764
Other operating expenses	**1,883,659**	**1,900,119**

At the Annual General Meeting on May 27, 2010, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Wien ("KPMG Austria") was appointed as group auditor for Telekom Austria Group. Expenses related to the group auditor amount to:

	2010	2009
Audit fees	1,184	793
Other reviews	150	216
Fees KPMG Austria	**1,334**	**1,009**

(7) Financial Result

Financial income recognized in the consolidated statements of operations is as follows:

	2010	2009
Interest income on loans and receivables	5,286	15,905
Interest income on bank deposits	3,774	5,655
Interest income on held-to-maturity investments	1,767	1,917
Interest income on available-for-sale financial assets	532	1,976
Net gain on hedging transactions	395	1,179
Interest income from sale of tax benefit	1,324	2,881
Interest income	**13,078**	**29,514**

	2010	2009
Interest expense on financial liabilities	161,936	200,217
Interest expense on restructuring	32,798	35,659
Interest expense on employee benefit obligations	6,511	6,677
Interest expense on asset retirement obligations	5,848	6,938
Interest expense	**207,093**	**249,491**

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

	2010	2009
Result on interest rate swaps – fair value hedge	–450	7,326
Result from fair value measurement of EMTN bonds	844	–6,146
Interest income	**395**	**1,179**

Foreign exchange differences

	2010	2009
Foreign exchange gains	21,831	19,757
Foreign exchange losses	–23,496	–34,008
Foreign exchange differences	**–1,665**	**–14,252**

Other financial result

	2010	2009
Dividends received	70	158
Loss on sale of investments measured at cost	0	–586
Gain on sale of investments measured at cost	173	0
Loss on disposal of available-for-sale securities transferred from other comprehensive income	–39	–24
Gain on disposal of available-for-sale securities transferred from other comprehensive income	0	200
Result from financial instruments	0	–4,450
Result from sale of subsidiaries	0	521
Result from financial assets	**205**	**–4,180**

The amounts previously recognized in other comprehensive income (OCI) and subsequently recognized in the consolidated statements of operations are shown in the consolidated statements of comprehensive income.

Telekom Austria Group recognizes gains and losses relating to financial assets in the financial result. Write-downs and subsequent reversals of allowances for accounts receivable – trade and other accounts receivable, classified as loans and receivables, are reported either as operating expense or other operating income.

(8) Short-term Investments

Short-term investments consist of the following items:

At December 31,	2010	2009
Marketable securities short-term – available for sale	1,803	2,217
Deposits under cross border lease	6,659	8,842
Other short-term investments	119,093	204,353
Short-term investments	**127,555**	**215,412**

As of December 31, 2010, other short-term investments mainly relate to a 100,000-EUR deposit, serving as collateral for guarantees related to cross border lease transactions (see Note (26)) which was classified as long term as of December 31, 2009 (see Note (16)), and to USD-time deposits. As of December 31, 2009 other short-term investments mainly relate to time deposits.

in EUR '000s 49

Available-for-sale securities are classified as short-term, based on Management's intention to sell these marketable securities within the next twelve months.

(9) Accounts Receivable – Trade

At December 31,	2010	2009
Accounts receivable – trade, gross	937,581	825,171
Allowances	–165,345	–156,531
Accounts receivable – trade, net	**772,236**	**668,640**

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

	2010	2009
Allowance at the beginning of the year	156,531	142,366
Foreign currency adjustment	–1,069	–998
Change in reporting entities	407	226
Reversed	–1,954	–11,356
Charged to expenses	49,409	61,404
Amounts written-off	–37,979	–35,111
Allowance at the end of the year	**165,345**	**156,531**
Thereof		
Specific allowance	13,486	18,671
General allowance	151,859	137,860

Accounts receivable – trade are classified as short-term and non-interest bearing.

The aging of accounts receivable – trade as of December 31, 2010 and 2009 is as follows:

	Gross 2010	Allowance 2010	Gross 2009	Allowance 2009
Not yet due	674,701	10,392	572,864	8,222
Past due 0-90 days	84,857	12,106	91,047	11,324
Past due 91-180 days	25,582	13,533	31,770	15,703
Past due 181-360 days	41,472	30,550	38,570	32,612
More than one year	110,968	98,763	90,921	88,670
Total	**937,581**	**165,345**	**825,171**	**156,531**

Telekom Austria Group has grouped accounts receivable – trade according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, Telekom Austria Group considers a certain percentage of accounts receivable – trade of each category as doubtful.

Bad debt expense recognized mainly relates to end-users. Based on past experience, Telekom Austria Group estimates that an allowance for doubtful accounts is necessary in respect of accounts receivable – trade due from business and private customers. However, accounts receivable – trade due from national and international carriers are only considered doubtful when they are past due for more than 90 days.

Telekom Austria Group has neither collateral nor insurance for its accounts receivable – trade because the credit risk is sufficiently diversified due to the large number of customers.

(10) Related Party Transactions

Related parties consist of the majority shareholder ÖIAG, associated companies as well as key management personnel (members of the Board of Directors and Supervisory Board as well as managers and directors of the most significant operating entities). All transactions with related parties are carried out at arm's length.

The disclosures below present balances and transactions relating to Telekom Austria Group's majority shareholder ÖIAG. None of the individual accounts associated with government agencies or government-owned entities are considered significant to Telekom Austria Group. The terms of services provided by Telekom Austria Group to government entities are generally based on standard pricing policies. However, Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis.

Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was 35,725 EUR und 36,637 EUR in 2010 and 2009, respectively.

On June 28, 2001, a partner in a law firm which provides legal services to Telekom Austria Group was elected to the Supervisory Board. In 2010 and 2009 respectively, Telekom Austria Group was charged EUR 627 and EUR 495 for legal services by this law firm.

The following table sets forth the details of revenues from and expenses charged to related parties:

	2010	2009
Revenues	221	15,242
Other operating income	0	257
Expenses	43,451	41,741
Interest income	3	0
Interest expenses	0	41

In 2009, revenues amounting to EUR 14,917 relate to the sale of prepaid cards to paybox. In 2010 these revenues are no longer included due to the acquisition of the remaining 16.67% interest in paybox (see Note (2)).

In 2010 and 2009 expenses of EUR 40,441 and EUR 38,385 relate to advertising and marketing services provided by Omnimedia Werbegesellschaft mbH ("Omnimedia").

As of December 31, 2009, accounts receivable due from related parties amounting to EUR 3,658 related to paybox and resulted from the sale of prepaid cards to paybox for resale.

As of December 31, 2010 and 2009, EUR 12,680 and EUR 10,233 of total accounts payable due to related parties relate to Omnimedia and result from advertising and marketing services provided to Telekom Austria Group.

The following table sets out compensation of executives:

	2010	2009
Short-term employee benefits	10,673	10,160
Pensions	463	406
Other long-term benefits	3	3
Termination benefits	815	1,921
Share-based payments	493	–367
Compensation of executives	**12,447**	**12,122**

Expenses for pensions and severance for other employees amounted to EUR 25,843 and EUR 22,700 in 2010 and 2009, respectively. Expenses consist of service cost, voluntary severance payments, contributions to pension plans and other pension payments.

in EUR '000s 51

(11) Inventories

Inventories consist of:

At December 31,	2010	2009
Spare parts, cables and supplies	67,826	62,492
Merchandise	81,601	62,350
Prepayments	811	1,576
Inventories	**150,238**	**126,418**

As of December 31, 2010 and 2009, the carrying amount of merchandise measured at fair value less cost to sell, amounted to EUR 19,471, and EUR 16,944, respectively. In 2010 and 2009, Telekom Austria Group recognized impairment charges related to inventories amounting to EUR 21,160, and EUR 19,945. Reversals of impairment charges amounting to EUR 6,568 and EUR 9,009 were recognized in 2010 and 2009. As of December 31, 2010 and 2009, no inventories were pledged as collateral for liabilities.

(12) Prepaid Expenses

Prepaid expenses include the following items:

At December 31,	2010	2009
Advances to employees	15,300	14,910
Rent	10,732	11,355
Prepaid marketing expenses	53,670	56,344
Other	48,656	38,715
Prepaid expenses	**128,358**	**121,323**

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

(13) Non-current Assets Held for Sale

At December 31,	2010	2009
Land and buildings	0	3,177
Non-current assets held for sale	**0**	**3,177**

In 2010, a gain of EUR 5,663 resulting from the sale of land and buildings classified as assets held for sale in the segment Austria as of December 31, 2009 was recognized in the net loss on disposal of equipment and intangible assets. In 2009, Telekom Austria Group recognized a gain resulting from the sale of Infotech Holding GmbH amounting to EUR 903 in other financial result (see Note (7)).

(14) Other Current Assets

Other current assets consist of the following items:

At December 31,	2010	2009
Derivative financial instruments	4,010	24,919
Other financial assets	51,462	43,544
Finance lease receivables	10,123	9,706
Other non-financial assets	34,400	34,521
Other current assets, gross	**99,994**	**112,690**
Less allowance for financial assets	–834	–668
Less allowance for non-financial assets	–836	–1,017
Other current assets	**98,324**	**111,004**

For information on derivative financial instruments, see Note (33).

As of December 31, 2010 and 2009, other current financial assets mainly consist of roaming credits.

For information on finance lease receivables, see Note (26).

Other current non-financial assets mainly consist of value added tax claims and other receivables due from public authorities and claims against the Republic of Austria (see Note (10)), short-term advance payments made to employees, indemnification payments due from insurance companies and deferrals related to customer loyalty programs.

The following table sets forth the aging of derivative financial instruments, finance lease receivables and other current financial assets as of December 31, 2010 and 2009:

	Gross 2010	Allowance 2010	Gross 2009	Allowance 2009
Not yet due	63,299	633	72,623	460
Past due 0-90 days	266	0	1,480	0
Past due 91-180 days	274	152	1,491	8
Past due 181-360 days	1,520	0	944	1
More than one year	235	50	1,631	200
Total	**65,595**	**834**	78,169	668

The following is a roll-forward of the allowance for doubtful finance lease receivables and other current financial assets:

	2010	2009
Allowance at the beginning of the year	668	1,372
Foreign currency adjustment	2	–44
Released	0	–185
Charged to expenses	176	149
Amounts written off	–13	–624
Allowance at the end of the year	**834**	668

(15) Investments in Associates

Regarding the acquisition of the remaining shares in paybox austria GmbH ("paybox") in the segment Austria, see Note (2). Until the acquisition of the remaining shares in July 2010, Telekom Austria Group accounted for the 83.33 % interest in paybox by applying the Equity Method, since Telekom Austria Group held significant influence but could not exercise control over the entity due to the transfer of certain rights. The carrying amount of the investment at time of purchase was EUR 1,150.

In December 2010 Telekom Austria Group sold the 25.1% interest in Output Service GmbH ("OSG")in the segment Austria for a price of EUR 9 paid in cash. The carrying amount of the investment at the time of sale was EUR 12.

In March 2009, Telekom Austria Group acquired 25.029% in Marx Media Vienna GmbH ("Marx Media"), which is reported in the segment Austria. The aggregate purchase consideration was paid in cash and amounted to EUR 3,159. In 2010 this investment was impaired by EUR 2,334.

Apart from the acquisitions and sales described above, the investments in associates of Telekom Austria Group as of December 31, 2010 and 2009 include a 26% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia") and a 40% interest in netdoktor.at GmbH which are reported in the segment Austria.

The reporting date of Omnimedia and netdoktor.at is June 30. Telekom Austria Group's share of income from both companies was based on interim financial statements as of December 31, 2010 and 2009.

in EUR '000s

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

	2010	2009
At January 1,	7,467	4,193
Dividends received	0	–666
Recognized income	327	780
Impairment	–2,334	0
Changes in reporting entities	–12	3,159
Step acquisition	–1,150	0
At December 31,	**4,298**	7,467

The following table provides a summary of aggregated financial information, as reported by equity investees. The information represents 100% amounts and not the proportionate share of Telekom Austria Group:

Statement of operations	2010	2009
Revenues	95,475	126,191
Operating income	3,824	3,430
Net income	2,641	2,837

Financial information for paybox is no longer included in 2010. For Marx Media, the aggregate financial information presented above for the year ended December 31, 2009 includes revenues, operating result and net income for the period April 1 to December 31, 2009.

At December 31,	2010	2009
Total assets	25,669	31,465
Total liabilities	20,998	28,255
Total stockholders' equity	4,671	3,210

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

At December 31,	2010	2009
Other investments carried at cost	579	643
Other financial assets, long-term	56,389	100,336
Marketable securities – available-for-sale, long-term	14,585	14,156
Deposits cross border lease	18,821	22,619
Financial assets, long-term	**90,374**	137,755

Other investments carried at cost include investments in unquoted equity instruments (investments) and unconsolidated affiliated companies (see Note (38)). These equity instruments are not carried at fair value because their fair value cannot be reliably measured due to the absence of an active market for such investments. As of December 31, 2010, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

Other financial assets long term comprise mainly USD-time deposits as of December 31, 2010. As of December 31, 2009, other long-term financial assets comprised essentially a EUR 100,000 deposit, required as collateral for guarantees related to cross border lease transactions (see Note (26)) which is reported in other investments short term as of December 31, 2010.

Marketable securities available-for-sale serve as coverage for the pension payments. Based on Management's intention not to sell these marketable securities within the next twelve months, they are classified as long-term financial assets.

(17) Goodwill

The following table illustrates the changes in the carrying amounts of goodwill by segment for the periods ended December 31, 2010 and 2009:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2009	427,823	605,443	66,519	722,494	136,260	1,958,540
Impairment	0	0	0	–290,000	0	–290,000
Translation adjustments	0	0	506	–175,984	0	–175,478
Balance at December 31, 2009	**427,823**	**605,443**	**67,025**	**256,510**	**136,260**	**1,493,062**
Impairment	–11,723	0	0	0	0	–11,723
Translation adjustments	0	0	–741	8,621	–0	7,880
Balance at December 31, 2010	**416,101**	**605,443**	**66,284**	**265,131**	**136,260**	**1,489,219**

For details on any changes in consolidated companies (acquisitions), see Note (2).

The planned dismissal of interactive television provided by Mass Response Service GmbH resulted in a reduction of the value in use. In 2010, an impairment loss on goodwill was recorded in the Segment Austria amounting to EUR 11,723. Additionally, impairment charges related to software, other intangible assets as well as other equipment in the amount of EUR 6,619 was recognized.

In 2009, the negative effects of the financial crisis on the Belarusian economy have led to a material devaluation of the Belarusian Ruble of 33% since December 31, 2008. This effect, as well as lower-than-expected growth, results in lower future cash flows and consequently, in a decline in the value in use.

Key assumptions applied in the value in use calculation for the cash-generating unit velcom are discount rates after tax (WACC) of 18.9% declining to 10.7% for the perpetual annuity (pre-tax 24.9% declining to 14.0%). An impairment charge in the amount of EUR 290,000 was recorded for the goodwill recognized from the acquisition of velcom located in Belarus.

As of December 31, 2010 and 2009, the accumulated impairment charges totaled EUR 302,794 and EUR 291,071 respectively.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination.

At December 31,	2010	2009
A1 Telekom Austria	414,862	414,862
World-Direct	1,239	1,239
Mass Response Service	0	11,723
Total Austria	**416,101**	**427,823**
Mobiltel	605,443	605,443
Total Bulgaria	**605,443**	**605,443**
Vipnet	66,284	67,025
Total Croatia	**66,284**	**67,025**
velcom	265,131	256,510
Total Belarus	**265,131**	**256,510**
Si.mobil	136,260	136,260
Total Additional markets	**136,260**	**136,260**
Total Goodwill	**1,489,219**	**1,493,062**

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Goodwill of mobilkom austria and Telekom Austria was allocated to separate cash generating units (A1 Telekom Austria) as of December 31, 2009 but was allocated to the Segment Austria in 2010 as a result of the merger described in Note (2). The comparative figures of 2009 were adjusted accordingly.

In 2010 and 2009, the following parameters were used to calculate the value in use:

	Growth rates terminal value		Pre-tax interest rates*	
	2010	2009	2010	2009
Austria	0.0%	0.0% – 1.0%	10.0%	10.2%
Bulgaria	0.0%	1.5%	10.2% – 11.9%	10.5% – 12.7%
Croatia	1.0%	1.5%	10.9% – 12.7%	11.1% – 13.5%
Belarus	2.0%	2.0%	13.0% – 21.1%	14.0% – 24.9%
Additional Markets	1.0% – 2.0%	1.5%	9.1% – 16.8%	10.4% – 11.5%

* based on a risk-free interest rate, adjusted for market, country and industry-specific risks

The resulting value in use was compared with the carrying amount of the cash-generating units including goodwill. Impairment charges were recognized if the carrying amount of the cash-generating units exceeded the value in use.

A sensitivity analysis reflecting a change of one percentage point in the growth rate and the discount rate was performed and did not result in the carrying amount exceeding the value in use. For velcom, a change in the growth rate of the perpetual annuity of 1.7 percentage points or in the interest rate before taxes of 1.1 percentage points would lead to the carrying amount that equals the value in use.

18) Other Intangible Assets

The "Table of Other Intangible Assets" provides the components and a reconciliation of the changes in other intangible assets.

As of December 31, 2010 and 2009, the line item software comprises internally developed software with a carrying amount of EUR 27,880 and EUR 24,917, respectively; acquisition cost of EUR 119,142 and EUR 99,328 and the related accumulated amortization of EUR 91,263 and EUR 74,411 respectively. Additions in 2010 and 2009 amounted to EUR 14,204 and EUR 7,809, respectively.

For the year ended December 31, 2010 and 2009, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

Interest capitalized for the years ended December 31, 2010 and 2009, totaled EUR 514 and EUR 303, respectively. For details on the interest rate applied, see Note (19).

Licenses are recorded at cost and amortized on a straight-line basis over the estimated useful life. The following table sets forth the terms and total cost incurred for each of the major license agreements:

	GSM licenses	UMTS licenses	LTE licenses
License cost	745,565	264,684	13,290
End of the term	2013-2024	2017-2025	2026

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

For the impairment charges of 5,966 EUR relating to Mass Response Service recognized in 2010, see Note (17). In 2009, an impairment charge of EUR 61,992 related to Vip mobile located in Serbia was recognized in the segment Additional Markets. The impairment loss was a result of the economic crisis and lowered expected growth rates.

In 2010 and 2009, the useful life of certain items of software was reduced, which led to an increase in amortization of EUR 1,303 and EUR 537, respectively.

The following table presents expected amortization expense related to intangible assets with a finite useful life for each of the following periods:

2011	342,891
2012	240,645
2013	162,700
2014	121,324
2015	91,971
Thereafter	238,175

As of December 31, 2010 and 2009, brand names were allocated to the following cash-generating units:

At December 31,	2010	2009
A1 Telekom Austria	144,910	144,910
Mass Response Service	1,501	1,501
Cable Runner	491	491
paybox	496	0
Total Austria	**147,398**	146,902
Mobiltel	263,004	263,004
Total Bulgaria	**263,004**	263,004
Vipnet	25,907	26,201
Total Croatia	**25,907**	26,201
velcom	79,804	77,210
Total Belarus	**79,804**	77,210
mobilkom liechtenstein	1,117	950
Si.mobil	3,148	3,148
Total Additional Markets	**4,266**	4,098
Total Brand names	**520,379**	517,415

Brand names are classified as intangible assets with indefinite useful lives. In the fourth quarter of each year presented, they are tested for impairment in accordance with IFRS, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are also carried out on an interim basis.

The following parameters were applied:

	Growth rates terminal value		Pre-tax interest rates*	
	2010	2009	2010	2009
Austria	0.0%	0.0% – 1,0%	10.0%	10.2% – 11.6%
Bulgaria	0.0%	1.5%	10.2% – 11.9%	10.5% – 12.7%
Croatia	1.0%	1.5%	10.9% – 12.7%	11.1% – 13.5%
Belarus	2.0%	2.0%	13.0% – 21.1%	14.0% – 24.9%
Additional Markets	1.0% – 2.0%	1.5%	9.1% – 16.8%	10.4% – 11.5%

* based on a risk-free interest rate, adjusted for market, country and industry-specific risks

The changes in the carrying amounts of the brand names Vipnet and velcom and mobilkom liechtenstein is due to foreign currency translation. For addition to the brand name paybox in the Segment Austria, see Note (2).

in EUR '000s

As of December 31, 2010 and 2009, purchase commitments for intangible assets amounted to EUR 19,390 and EUR 27,017, respectively.(19) Property, Plant and Equipment

The "Table of Property, Plant and Equipment" provides the components and a reconciliation of the changes in PPE.

As of December 31, 2010 and 2009, interest capitalized totaled EUR 1,831 and EUR 1,089, respectively. Calculation of capitalized interest was based on interest rates of 4.3% and 3.5% for the years ended December 31, 2010 and 2009, respectively.

In 2010 and 2009, the carrying amount of land amounted to EUR 55,737 and EUR 55,675 respectively.

Regarding the impairment charges of EUR 653 related to the impairment of Mass Response Service in 2010 see Note (17). In 2009, impairment charges of EUR 196 were recorded due to the results of an impairment test related to developed land held for sale in the Segment Austria.

In 2010 and 2009, Telekom Austria Group reduced the estimated useful lives of certain technical equipment due to the rapid technological progress in certain markets. The changes resulted in an increase in depreciation of EUR 3,105 and EUR 10,235 in 2010 and 2009, respectively. In 2009, the expected useful life of glass fibers of the access net was extended, which resulted in a reduction in depreciation expense of EUR 498.

Government grants totaling EUR 345 and EUR 3,081 were deducted from acquisition cost in 2010 and 2009, respectively.

The transfers from advances and construction in progress relate to property, plant and equipment and intangible assets. Of the total transfers from land, buildings and leasehold improvements recorded in 2009, an amount of EUR 3,840 was transferred to assets held for sale.

As of December 31, 2010 and 2009, communication network and other equipment with a carrying amount of EUR 1,303 and EUR 20,515, respectively, were pledged as collateral under the cross border lease transactions described in Note (26).

As of December 31, 2010 and 2009, purchase commitments for property, plant and equipment amounted to EUR 68,244 and EUR 63,514, respectively.

The estimated useful lives of property, plant and equipment and of intangible assets utilized to calculate depreciation and amortization represent the periods in which the assets are estimated to be in use at Telekom Austria Group. An extension of the useful lives by one year would lead to a decrease in depreciation and amortization expense of EUR 231,895. A reduction in the useful lives of one year would lead to an increase in depreciation and amortization expense of EUR 308,718.

(20) Other Non-current Assets

Other non-current assets include the following items:

At December 31,	2010	2009
Finance lease receivables	7,095	6,694
Other financial assets	19,307	21,724
Other non-financial assets	4,979	5,379
Other non-current assets, gross	**31,381**	33,797
Less allowance for financial assets	–182	–133
Other non-current assets	**31,199**	33,664

For information on finance lease receivables, see Note (26). As of December 31, 2010 and 2009, other non-current financial assets mainly consist of derivative financial assets (fair value hedges – see Note (33)) and loans to employees.

The following table sets forth the aging of long-term finance lease receivables and other non-current financial assets as of December 31, 2010 and 2009:

	Gross 2010	Allowance 2010	Gross 2009	Allowance 2009
Not yet due	26,102	182	28,279	133
Past due 0-90 days	7	0	63	0
Past due 91-180 days	3	0	0	0
Past due 181-360 days	29	0	0	0
More than one year	261	0	76	0
Total	**26,402**	**182**	28,418	133

The roll-forward of the allowance for long-term finance lease receivables and other non-current financial assets is as follows:

	2010	2009
Allowance at the beginning of the year	133	120
Charged to expenses	48	31
Amounts written off	0	–18
Allowance at the end of the year	**182**	133

(21) Short-term Borrowings

Telekom Austria Group's short-term borrowings include:

At December 31,	2010	2009
Current portion of long-term debt	292,789	674,630
Short-term debt	111,500	160,032
Current portion of lease obligations and cross border lease	12,206	11,366
Multi-currency notes program	90,158	9,986
Short-term borrowings	**506,653**	856,014

For further information regarding the short-term portion of long-term debt, see Note (25). Average interest rates relating to short-term borrowings are listed in Note (33), for further explanations regarding lease obligations and cross border leases, see Note (26).

In September 2007, Telekom Austria Group concluded a EUR 300,000 multi-currency short-term and medium-term treasury notes program (multi-currency notes program) with an indefinite term. As of December 31, 2010 and 2009, multi-currency notes in Euro with a nominal value of EUR 90,250 and EUR 10,000 respectively, had been issued.

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(22) Provisions and Accrued Liabilities

Provisions and accrued liabilities consist of the following:

	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Inter-connection and roaming	Other	Total
Balance at January 1, 2010	622,994	65,785	50,228	95,835	11,741	14,617	31,421	892,621
Additions	103,063	37,095	43,321	4,607	6,073	4,818	11,889	210,867
Changes in estimate	47,169	0	0	17,194	0	0	0	64,363
Used	−51,325	−30,273	−34,691	−1,554	−1,166	−326	−18,330	−137,666
Released	−43,590	−3,610	−3,179	−566	−748	−215	−5,565	−57,472
Accretion expense	32,798	0	0	5,848	0	0	0	38,646
Short-term portion of employee benefit obligation	0	8,683	0	0	0	0	0	8,683
Translation adjustments	0	2	0	−453	53	−91	−113	−602
Changes in reporting entities	0	223	0	0	0	0	122	345
Balance at December 31, 2010	**711,108**	**77,906**	**55,679**	**120,911**	**15,954**	**18,803**	**19,423**	**1,019,784**
Thereof long-term								
December 31, 2010	640,860	0	0	120,911	0	0	0	761,771
December 31, 2009	574,032	0	0	95,835	0	0	0	669,868

In establishing provisions, Management assesses different scenarios of reasonably estimated outcomes to determine the amount that Telekom Austria Group is expected to pay upon the resolution of a contingency. Telekom Austria Group records provisions based on the best estimate of the expenditure required to settle the present obligation.

Telekom Austria Group expects that approximately 60% of the provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, will be utilized during the following financial year. Even if Telekom Austria Group does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term if the timing of such outflow cannot be controlled by Telekom Austria Group.

Restructuring

In 2008, a comprehensive restructuring program was initiated in the Segment Austria. As of December 31, 2010 and 2009, the provision for restructuring amounts to EUR 672,957 and EUR 622,994, respectively, and comprises 1,062 employees in each of the years reported. The program includes social plans for employees whose employment will be terminated in a socially responsible way, and provisions for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be terminated due to their status as civil servants.

For the year ended December 31, 2010 and 2009, the calculation of the provision is based on a discount rate of 4.5% and 5.5%, respectively, and an estimated salary increase that remained unchanged in 2010 compared to 2009 of 3.1% for employees and 5.0% for civil servants.

The increase in benefits provided for was recorded in employee expenses, while the accretion of interest was recorded in interest expense. A part of the provision was released, since a number of employees returned to regular operations or transferred to the government and since employees opted for schemes such as golden handshake, maternity leave and early retirement to an extent not foreseeable upon the measurement of the provision in 2009.

In November 2009, Telekom Austria Group signed an agreement with the Austrian government relating to voluntary transfer of civil servants with tenure, whose positions are eliminated due to technological progress, to employment with the government. According to this agreement, civil servants of the segment Austria can voluntarily transfer to administrative employment with the government. After a period of six to twelve months of public service and subject to a positive performance evaluation, the civil servants have the option to apply for a permanent transfer, in which case the right to return to Telekom Austria Group is forfeited.

Telekom Austria Group bears the salary expense for these civil servants up to June 30, 2014 and will compensate the civil servants for any shortfall in salary or pension payments. As of December 31, 2010, the provision amounts to EUR 38,151 and comprises 158 employees. In addition, Telekom Austria Group recognized a liability amounting to EUR 10,802 (see Note (23)). In 2010, the measurement of the provision was based on the same parameters as explained above.

EBITDA was adjusted for restructuring expenses which comprises expenses of the restructuring program of 2008 amounting to EUR 69,429 and EUR 54,632, resulting from the change of employment of civil servants to the government.

Any changes to the major underlying parameters used in the calculation could have a material effect on the amount of the provision. A reduction in the interest rate of one percentage point would lead to an increase in the provision of EUR 56,540 an increase in the interest rate of one percentage point would lead to a reduction in the provision of EUR 49,843.

Employees

The provisions for employees contain unused vacation days, bonuses, overtime and the short-term portion of employee benefit obligations for severance payments, service awards and pension plans (see also Note (27)).

The provision for the social plan of the year 2000 for six civil servants who accepted a Voluntary Retirement Incentive Program ("VRIP") with an amount of EUR 21 as of December 31, 2009 was used in 2010.

Customer allowances

The accrual for customer allowances contains rebates earned by customers but not paid as of the reporting date.

Asset retirement obligation

Telekom Austria Group records asset retirement obligations for the retirement and decommissioning of base stations, buildings, booths for public payphones and wooden masts impregnated with tar or salt.

Telekom Austria Group has an obligation to operate a sufficient number of booths to assure that the Austrian population has sufficient access to telecommunications services. As long as Telekom Austria Group stays in business and technology does not materially change, the number of booths operated will be reduced but not eliminated completely in the foreseeable future.

Telekom Austria Group has estimated the number and timing of booths to be retired from service and estimated the asset retirement obligation based on probability-weighted cash flow estimates.

Telekom Austria Group also records an asset retirement obligation for masts impregnated with tar or salt, based on estimated settlement dates and expected cash flows.

Additionally, Telekom Austria Group records asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances.

Telekom Austria Group operates base stations on land, rooftops and other premises under various types of rental contracts. In estimating the fair value of its retirement obligation for its base stations, Telekom Austria Group has made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

Additionally, Telekom Austria Group records asset retirement obligations for buildings and shops under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

In 2010, the discount rate applied in the calculation of asset retirement obligations was changed from 5.5% to 5.0% to reflect current market conditions in the individual countries. The anticipated inflation rate remained unchanged at 2.0%. This change in estimate resulted in an increase of the asset retirement obligation and a corresponding increase in related tangible assets.

Legal

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

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Other provisions

Other provisions mainly relate to audit and consulting fees, commissions, taxes (excluding income taxes), energy and penalty.

(23) Other Current Liabilities

Other current liabilities consist of the following items:

At December 31,	2010	2009
Tax authorities	55,385	55,061
Social security	8,603	11,096
Stock option plans	0	648
Employees	15,008	27,589
Employees – transferred to the government	10,802	0
Prepayments from customers	8,198	6,127
Government	254	248
Other non-financial liabilities	2,848	5,708
Other current non-financial liabilities	**101,097**	**106,476**
Other current financial liabilities	120,754	784,345
Other current liabilities	**221,851**	**890,821**

Liabilities due to tax authorities mainly include value-added taxes and payroll taxes.

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

For information on stock option programs, see Note (31). Liabilities to employees mainly relate to salaries payable (including overtime and travel allowance) and one-time termination benefits. The liabilities regarding the transfer of civil servants to employment with the government include compensation for reductions in salary, lump sum payments for any shortfall in pension payments, as well as one-time additional payments payable to the civil servants of Telekom Austria Group (see note (22)).

In 2010 and 2009, other current financial liabilities include roaming credits, liabilities arising from customer deposits and cash in transit. In 2009, this line item additionally comprises derivative financial instruments with a negative fair value (cash flow hedges – see Note (33)) as well as the interest-bearing purchase price liability relating to the acquisition of SBT in 2007 amounting to EUR 645,543. This liability became due in the fourth quarter of 2010 (see Note (2)).

(24) Deferred Income

At December 31,	2010	2009
Unearned income	140,840	131,954
Customer loyalty programs	20,801	19,066
Unamortized balance on sale of tax benefits	2,649	3,973
	164,290	**154,994**
Less non-current portion	−1,324	−2,649
Deferred income, current portion	**162,966**	**152,345**

Unearned income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are amortized on a straight-line basis over the period the service is provided.

According to IFRIC 13 "Customer Loyalty Programs", the award credits granted are recognized as deferred income until redeemed or forfeited.

For details on the realization of the unamortized balance on the sale of tax benefits related to the cross border lease transactions, see Note (26).

(25) Long-term Debt

The terms and conditions of long-term debt and its current portion are set out in the following table:

				At December 31, 2010				At December 31, 2009	
Currency	Year of maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
EUR	2010			0	0	fixed	3.375%	500,000	500,988
EUR	2013	fixed	5.00%	750,000	765,415	fixed	5.00%	750,000	764,367
EUR	2017	fixed	4.25%	500,000	496,106	fixed	4.25%	500,000	495,465
EUR	2016	fixed	6.375%	750,000	744,222	fixed	6.375%	750,000	743,085
				2,000,000	2,005,743			2,500,000	2,503,905
Promissory Notes									
EUR	2012	fixed	6.08%	100,000	99,921	fixed	6.08%	100,000	99,871
EUR	2012	variable	2.20%	200,000	199,842	variable	2.18%	200,000	199,742
				300,000	299,763			300,000	299,613
Bank debt guaranteed by federal government									
EUR	2010-2011	variable	2.63%	4,360	4,360	variable	3.63%	8,721	8,721
EUR	2010-2011	variable	2.39%	363	363	variable	3.15%	727	727
				4,724	4,724			9,447	9,447
Bank debt without guarantee by federal government									
EUR	2010			0	0	variable	1.96%	41,250	41,250
EUR	2010			0	0	variable	2.26%	33,750	33,750
EUR	2011	fixed	2.40%	210,000	210,000	fixed	2.40%	210,000	210,000
EUR	2012	fixed	3.59%	224,000	224,000	fixed	3.59%	224,000	224,000
EUR	2012	variable	1.51%	125,000	125,000	variable	1.05%	125,000	125,000
EUR	2012	fixed	5.27%	70,000	70,000	fixed	5.27%	70,000	70,000
EUR	2012	fixed	4.84%	50,000	50,000	fixed	4.84%	50,000	50,000
EUR	2013	fixed	3.72%	96,250	96,250	fixed	3.72%	96,250	96,250
EUR	2013	fixed	4.01%	78,750	78,750	fixed	4.01%	78,750	78,750
EUR	2014	variable	1.53%	75,000	75,000			0	0
EUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
				979,000	979,000			979,000	979,000
Total interest-bearing debt				**3,283,724**	**3,289,229**			3,788,447	3,791,965
Accrued interest				80,800	80,800			96,336	96,336
Financial debt				**3,364,524**	**3,370,029**			3,884,783	3,888,301
Current portion of long-term debt				–292,789	–292,789			–674,630	–674,630
Long-term debt				**3,071,734**	**3,077,240**			3,210,153	3,213,671

Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program. Under this program, Telekom Austria Group launched a Eurobond with a face value of EUR 750,000, a coupon of 5.00% and 10-year maturity in July 2003. Telekom Austria Group entered into fixed to floating interest rate swap agreements for a face value of EUR 300,000 of this Eurobond.

In January 2005, two further Eurobonds with face values of EUR 500,000 each, maturities of five and twelve years, and coupons of 3.375% and 4.250%, respectively, were launched. The bonds were issued in January 2005 at a discount including issue costs of EUR 3,358 and EUR 7,693, respectively, which are amortized over the related terms. For the Eurobond with the maturity of five years Telekom Austria Group entered into fixed to floating interest rate swap agreements with a face value of EUR 500,000. This Eurobond was repaid in January 2010. The EMTN program ended on December 31, 2008, and was not extended.

On January 29, 2009, Telekom Austria Group successfully issued a Eurobond with a face value of EUR 750,000, a maturity of seven years, and a coupon of 6.375%. The discount and the issue costs of EUR 7,965 are amortized over the related term.

in EUR '000s 63

Promissory notes

On August 6, 2008, Telekom Austria Group issued promissory notes. Telekom Austria Group entered into floating to fixed interest rate swap agreements for a total value of EUR 200,000.

Bank debt guaranteed by the Federal Republic of Austria

Bank debt guaranteed by the Federal Republic of Austria was entered into before Telekom Austria Group's privatization in 1996.

Bank debt not guaranteed by the Federal Republic of Austria

Bank debt incurred by Telekom Austria Group after its privatization is not guaranteed by the Federal Republic of Austria. Under the terms of individual agreements for bank debt Telekom Austria Group must observe certain financial ratios which are met at December 31, 2010 and 2009.

(26) Leases and Cross Border Leases

Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified either as operating or finance leases. The lease contracts will expire on various dates through 2016 and mainly comprise the leases of property.

Future minimum lease payments for non-cancelable operating leases, finance leases and cross border leases as of December 31, 2010 are:

	Cross border leases	Other finance leases	Operating leases
2011	11,842	393	29,664
2012	2,190	250	24,495
2013	13,284	0	16,881
2014	0	0	13,654
2015	0	0	12,766
After 2015	0	0	12,529
Total minimum lease payments	**27,315**	**643**	**109,989**
Less amount representing interest	–1,835	–39	
Present value of lease payments	**25,480**	**604**	
Less current portion	–11,842	–364	
Non-current lease obligations	**13,638**	**240**	

Lessor

Telekom Austria Group receives minimum lease payments for non-cancelable operating lease contracts that mainly relate to private automatic branch exchange equipment (PABX) and set-top boxes. These payments are recognized as revenue on a straight-line basis over the terms of the contracts. As of December 31, 2010 and 2009, the cost of this equipment amounted to EUR 36,845 and EUR 30,525, and the carrying amount to EUR 12,819 and EUR 9.365, respectively. The following table sets forth the future minimum lease payments to be received as of December 31, 2010:

	Operating leases
2011	7,303
2012	5,417
2013	2,936
2014	1,883
2015	1,406
After 2015	2,355
Total minimum lease payments	**21,302**

In Bulgaria, Telekom Austria Group leases mobile handsets to customers under finance leases. Furthermore, indefeasible rights of use in dark fiber are leased under finance leases, which have a term of 15 years. As of December 31, 2010, the future minimum lease payments for these transactions amount to:

	Finance lease
2011	10,913
2012	4,429
2013	508
2014	481
2015	460
After 2015	2,644
Total minimum lease payments	**19,435**
Less amount representing interest	−2,217
Present value of finance lease receivables	**17,218**
Less current portion	−10,123
Non-current finance lease receivables	**7,095**

The following table sets forth the allowances for doubtful finance lease receivables (see Notes (14) and (20)):

At December 31,	2010	2009
Allowance finance lease receivables, short-term	182	133
Allowance finance lease receivables, long-term	484	460
Allowance at the end of the year	**666**	593

Cross border lease transactions

In December 2001, Telekom Austria Group entered into a CBL with an US investor in the form of a lease-in lease-out transaction (“LILO”).

With the proceeds from these sales of equipment, Telekom Austria Group funded deposits and other investments. The principal and accrued interest of those investments are sufficient to provide a cash flow stream to cover the periodic leaseback rentals as well as the fixed price purchase option.

The major part of the deposits in investment accounts and the lease payment obligations for the 2001 transaction is recognized on the face of the statements of financial position, as Telekom Austria Group is able to control the investment account and withhold payments.

The cash deposits in connection with the PUA (“payment undertaking agreements”) and the upfront payments received for the master lease as well as the lease obligations are recognized separately on the face of the statements of financial position. Accordingly, interest income and expenses in the same amount totaling EUR 1,598 and EUR 1,999 were recognized in 2010 and 2009, respectively.

At the inception of the CBL, Telekom Austria Group entered into PUAs with several counterparties, whereby the counterparties agreed to make lease payments on behalf of Telekom Austria Group in exchange for a deposit in the same amount. Interest accruing on the cash deposits matches interest on the debt portion financed through the deposit.

In addition to the cash deposits, Telekom Austria Group purchased debt securities, deposited those securities with a custodian and pledged the securities to one of the counterparties in the PUA; the counterparties in the PUAs related to the 2001 transaction received upfront payments totaling EUR 200,526 for a portion of the debt assumed in 2001. In addition to the PUAs, Telekom Austria Group provided a loan of EUR 66,554 to the U.S.-based trust. Interest accruing on the PUAs and the loan match the interest on the debt portion.

According to SIC 27, the transactions described, in substance, do not represent a lease in accordance with IAS 17. Therefore, Telekom Austria Group maintained the assets on its statements of financial position and did not recognize any gain or loss from the sales transaction. The difference between the cash proceeds from the sale and the present value of the future minimum lease payments represents a gain on the sale of a tax benefit. The net cash effect resulting from these transactions relates to the total gain from the sale of the tax benefits which amounted to EUR 14,547, in 2001. Telekom Austria Group amortizes these amounts over the term of the lease. For information on the recognition of the deferred net cash effect of the tax benefit, which was recorded as interest income, see Note (7).

in EUR '000s 65

In 2001, Telekom Austria Group entered into finance agreements with the US insurance group American International Group (AIG) in respect of the cross border lease transactions. As a consequence of the downgrade of AIG's rating in 2008, Telekom Austria Group was required to provide additional guarantees. In July 2009, a EUR 100,000 deposit with a term until December 2011 serving as collateral for these guarantees was opened.

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

At December 31,	2010	2009
Deposits long-term	18,821	22,619
Deposits short-term	6,659	8,842
Total assets in connection with cross border leases	**25,480**	**31,461**
Cross border lease obligations	25,480	31,461
Of which current	11,842	10,988

Between August 1998 and November 1999, Telekom Austria Group entered into several cross border sale-and-lease-back transactions providing for the sale of certain communications equipment to a US-based trust and the lease-back with terms between 13 and 16 years. In accordance with SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease" and the Framework, the cash deposits made the securities purchased in connection with the Payment Undertaking Agreements ("PUAs") and the upfront payments received for the master lease, were not recognized in the statements of financial position. The lease payment obligations are disclosed as contingent liabilities (see Note (34)).

In 2009 and 2008, these transactions were terminated early and, in 2009, Telekom Austria Group recognized expense of EUR 7,636 and on the other hand realized the unamortized balance on the sale of tax benefits allocated to these transactions of EUR 8,842. As a result, Telekom Austria Group recorded net interest income of EUR 1,206 in 2009.

(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

At December 31,	2010	2009
Service awards	63,425	56,936
Severance	59,441	58,644
Pensions	5,851	6,186
Other	2,859	1,966
Long-term employee benefit obligations	**131,576**	**123,732**

Actuarial assumptions

The actuarial assumptions used in the measurement of obligations for service awards, severance payments and pensions are set out in the following table:

At December 31,	2010	2009
Actuarial assumptions:		
Discount rate	4.5%	5.5%
Rate of compensation increase – civil servants	5.5%	5.4%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of increase in pensions	1.6%	1.6%
Employee turnover rate*	0.0%-4.1%	0.0%-7.1%

* depending on years of service

Interest cost related to employee benefits is recorded in interest expense; service cost is recorded in employee costs.

Service awards

Civil servants and certain employees (together "employees") in Austria are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus after a specified service period. The bonus is equal to two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring are also eligible to receive an aliquot portion of the service award for 40 years' service. The compensation is accrued as earned over the period of service, taking into account estimates of employees whose employment will be terminated or who will retire prior to completion of the required service period. All actuarial gains and losses are recognized in profit or loss in the period they are realized or incurred.

The following table provides the components and a reconciliation of the changes in the accrued liability for service awards for the years ended December 31, 2010 and 2009:

	2010	2009
Accrual at the beginning of the year	60,178	55,480
Service cost	2,283	2,068
Interest cost	3,234	3,377
Actuarial losses (gains)	4,351	2,030
Benefits paid	−2,941	−2,770
Past service cost	14	−6
Accrued liability at the end of the year	**67,119**	**60,178**
Less short-term portion	−3,694	−3,242
Accrued service award liability long-term	**63,425**	**56,936**

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2010 and 2009, respectively.

The experience adjustments and the defined benefit obligation as of December 31 amount to:

	2010	2009	2008	2007	2006
Defined benefit obligation	67,119	60,178	55,480	52,599	50,759
Experience adjustments	1,281	360	−3,115	−343	−2,604

Severance

Obligations for employees starting to work for Telekom Austria Group in Austria on or after January 1, 2003 are covered by a defined contribution plan. Telekom Austria Group paid EUR 1,316 and EUR 1,149 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2010 and 2009, respectively.

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans. Upon termination by Telekom Austria Group or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime or bonuses.

Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly installments over a period not exceeding ten months. In case of death, the heirs of an eligible employee receive 50% of the severance benefits.

The following table provides the components of the net periodic benefit cost for the years ended December 31, 2010 and 2009:

	2010	2009
Service cost	3,696	3,269
Interest cost	2,882	2,867
Amortization of actuarial losses (gains)	−1,174	−1,354
Net periodic benefit cost	**5,403**	**4,783**

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The following table provides a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2010 and 2009:

	2010	2009
Defined benefit obligation at the beginning of the year	54,565	45,793
Foreign currency adjustments	-6	-4
Change in reporting units	25	106
Service cost	3,696	4,441
Interest cost	2,882	2,867
Benefits paid	–4,762	–4,144
Past service cost	3	879
Actuarial losses (gains)	10,690	4,626
Defined benefit obligation at the end of the year	**67,093**	**54,565**
Unrecognized actuarial (gains) losses	–6,228	5,636
Accrued liability at the end of the year	**60,865**	**60,202**
Less short-term portion	–1,424	–1,557
Accrued severance liability, long-term	**59,441**	**58,644**

Of the defined benefit obligations for severance, approximately 3% related to foreign subsidiaries as of December 31, 2010 and 2009, respectively.

The experience adjustments and the defined benefit obligation at December 31 amount to:

	2010	2009	2008	2007	2006
Defined benefit obligation	67,093	54,565	45,759	52,425	59,680
Experience adjustments	–1,256	–2,388	–3,904	–20,714	–5,883

Pensions

Defined contribution pension plans

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group's current and former civil servants and their surviving dependents.

In 2010 and 2009, the rate of contribution for active civil servants amounted to a maximum of 28.3% depending on the age of the civil servant. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants. Contributions to the government, net of the share contributed by civil servants, amounted to EUR 40,816 and EUR 41,289 in 2010 and 2009, respectively.

Additionally, Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual cost of this plan amounted to EUR 13,006 and EUR 12,104 in 2010 and 2009, respectively.

Defined benefit pension plans

Telekom Austria Group provides defined benefits for certain former employees. All such employees are retired and were employed prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement, and taking into consideration the pension provided by the social security system.

Telekom Austria Group uses the projected unit credit method to determine pension cost for financial reporting purposes. Under this method, Telekom Austria Group amortizes actuarial gains and losses using the corridor method.

The pension cost for 2010 and 2009 is set out in the following table:

	2010	2009
Interest cost	372	382
Amortization of actuarial losses (gains)	0	–399
Net periodic pension cost	**372**	–17

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2010 and 2009:

	2010	2009
Defined benefit obligation at the beginning of the year	7,186	6,773
Interest cost	372	382
Benefits paid	–774	–836
Past service cost	0	0
Actuarial losses (gains)	349	868
Defined benefit obligation at the end of the year	**7,133**	7,186
Unrecognized actuarial (gains) losses	–539	–190
Accrued liability at the end of the year	**6,593**	6,996
Less short-term portion	–742	–810
Accrued pension liability, long-term	**5,851**	6,186

Past service cost relates to an increase in pension payments for prior periods due to an unfavorable change in estimate, which could not be deferred to future periods. The experience adjustments and the defined benefit obligation at December 31 amounted to:

	2010	2009	2008	2007	2006
Defined benefit obligation	7,133	7,186	6,773	7,489	8,040
Experience adjustments	179	–610	–419	–303	168

Any changes to the major underlying actuarial assumptions used in the calculation of employee benefit obligations could have a material effect on such obligations and on the net employee costs, as well as on interest expense of Telekom Austria Group. A change in the discount rate of one percentage point would lead to the following defined benefit obligations:

At December 31, 2010	3.5%	4.5%	5.5%
Service awards	72,990	67,119	61,929
Severance	80,473	67,093	56,437
Pensions	7,750	7,133	6,605

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(28) Other Non-current Liabilities and Deferred Income

Telekom Austria Group's other liabilities and deferred income include:

At December 31,	2010	2009
Long-term accounts payable – trade	884	1,026
Cash flow hedges	9,817	12,908
Other liabilities	56,247	1,123
Other non-current financial liabilities	**66,948**	**15,057**
Unamortized balance on sale of tax benefits	1,324	2,649
Long-term incentive program	1,309	0
Other liabilities	3,413	1,558
Deferred income, other	13,068	13,455
Other non-current non-financial liabilities	**19,114**	**17,662**
Other non-current liabilities and deferred income	**86,063**	**32,719**

Long-term accounts payable – trade have a maturity beyond one year. The cash flow hedges relate to a floating to fixed interest rate swap for promissory notes with a total value of EUR 200,000 (see Notes (25) and (33)).

In 2010, other long-term financial liabilities mainly consist of the performance based purchase price liability relating to the acquisition of SBT in 2007, which is due in 2012 (see Note (2)). In 2009, this liability was reported in other current liabilities since Telekom Austria Group expected the payment already in 2010 (see Note (23)).

The unamortized balance on the sale of the tax benefit corresponds to the long-term portion of the net present value of the benefit resulting from cross border lease transactions which is amortized over the contractual term (see Note (26)).

Regarding the long term incentive program see Note (31).

(29) Stockholders' Equity

Capital management

The capital structure of Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent, comprising common stock, treasury shares, additional paid-in capital, other reserves and retained earnings as well as translation adjustments as disclosed in the consolidated statements of changes in stockholders' equity.

Telekom Austria Group manages its capital to ensure that Group entities will be able to continue as a going concern while maximizing the return to stockholders through the optimization of the entities' debt and equity balances. Exchange rate risks arising from group entities outside the Euro zone are reduced by appropriate measures.

At Group level, the Management of Telekom Austria Group is committed to achieving a net debt/EBITDA comparable (Earnings before Interest, Taxes, Depreciation and Amortization excluding restructuring and impairment charges) ratio ranging from 2.0 to 2.5, and to keeping the current investment-grade rating stable.

Within these parameters, Management strives to balance growth and return to shareholders by exclusively focusing on profitable growth. If profitable growth projects are not sufficiently available, and the net debt/EBITDA comparable ratio is below 2.0, treasury shares can be purchased.

Telekom Austria Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Management Board monitors both the return on capital, defined by Telekom Austria Group as return on total stockholders' equity and as return on assets, and the level of dividend compared to the free cash flow.

One subsidiary which is a bank complies with minimum equity and reserves requirements. Telekom Austria Group and its further subsidiaries are not subject to externally imposed capital requirements other than minimum capital funding requirements related to the establishment of corporations.

Share capital

As of December 31, 2010 and 2009, the common stock of Telekom Austria AG amounted to EUR 996,183, and was divided into 443 million bearer shares with a par value of zero.

Authorized capital 2006

At the Annual General Meeting on May 23, 2006, the Management Board was authorized to increase the share capital by up to EUR 21,810 (10 million shares) for the purpose of settling employee stock-based compensation plans ending in 2011. As Telekom Austria Group elected to settle all programs in cash, no such authorize capital increase was issued.

Retirement of stock

On August 24, 2009, Telekom Austria AG retired 17 million treasury shares at an average price of Euro 18.80, in total amounting to EUR 319,534. This resulted in a reduction of retained earnings. The retired shares accounted for 3.7% of total share capital. In accordance with section 192 of the Austrian Stock Corporation Act (AktG), the retirement resulted in a reduction of share capital in the amount of EUR 37,077 to EUR 966,183, and a corresponding increase in additional paid-in capital of EUR 37,077. Additionally, the corresponding deferred tax liability resulting from the write-down of the treasury shares for tax purposes from 2008 was released, resulting in an increase in retained earnings of EUR 33,559 (see consolidated statements of changes in stockholders' equity).

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2010 and 2009 are presented below:

At December 31,	2010	2009
Shares authorized	453,000,000	453,000,000
Shares issued	443,000,000	443,000,000
Shares in treasury	−436,031	−436,031
Shares outstanding	442,563,969	442,563,969

The following table provides a reconciliation of the changes of number of shares outstanding in the years ended December 31, 2010 and 2009:

	2010	2009
Outstanding as of January 1	442,563,969	442,398,222
Capital reduction	0	−17,000,000
Retirement of treasury shares	0	17,000,000
Employee Participation Program	0	165,747
Outstanding as of December 31	**442,563,969**	**442,563,969**

Dividend payment

At the Annual General Meeting on May 27, 2010, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on June 4, 2010 amounted to EUR 331,923. At the Annual General Meeting held on May 20, 2009, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 28, 2009 amounted to EUR 331,799.

The net income of Telekom Austria AG according to Austrian GAAP amounts to EUR 1,694,726 and EUR 356,906 in the years 2010 and 2009, respectively. In accordance with section 126 of the Austrian Stock Corporation Act, the Supervisory Board and the Management Board decided to transfer an amount of EUR 1,363,090 and EUR 24,650 from net income to retained earnings for the years ended December 31, 2010 and 2009, resulting in unappropriated retained earnings of EUR 332,000 and EUR 332,287 for the years 2010 and 2009, respectively.

The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute from unappropriated retained earnings a dividend of EUR 0.75 per share.

Treasury shares

At the Annual General Meeting held on May 20, 2009, the Management Board was authorized to acquire treasury shares up to the maximum extent legally permitted. During a period of 30 months, Telekom Austria AG may acquire treasury shares at a minimum price of Euro 1 and at a maximum price of Euro 30 per share, ending November 2011. The Management Board was empowered (i) to use this treasury shares to satisfy obligations under the stock option plans described in Note (31); (ii) to use it to satisfy obligations resulting from the issuance of convertible bonds; (iii) to use it as consideration for acquisitions; (iv) to retire up to 46 million treasury shares to reduce common stock by a maximum of 10% (EUR 100,326) or (v) to sell it on the stock exchange or through a public offering.

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Neither in 2010 nor in 2009 did Telekom Austria Group purchase treasury shares (for information on retirement of stock, see common stock):

Shares held in treasury as of December 31,	2010	2009
Number of treasury shares	436,031	436,031
Average price per share in Euro	18.80	18.80
Deduction in equity	8,196	8,196

In 2009, Telekom Austria Group used 165,747 treasury shares with a total value of EUR 3,115 to serve the employee participation program (see Note (31)).

Additional paid-in capital

The additional paid-in capital results from the incorporation of Telekom Austria Group as well as subsequent reorganization of the group. Furthermore, effects relating to the employee participation program and the retirement of stock are reported in additional paid-in capital.

Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2010 and 2009 are calculated as follows:

	2010	2009
Net income (loss) attributable to owners of the parent	195,350	95,129
Weighted average number of common shares outstanding	442,563,969	442,400,038
Basic and diluted earnings per share (in Euro)	**0.44**	0.22

Due to Management's decision to settle employee stock options granted in the course of the stock option plan in cash, no related dilutive effect occurred in 2010 and 2009.

Revaluation reserve, hedging reserve and translation adjustment

The development of the fair value and hedging reserve as well the translation adjustment are presented in the consolidated statements of comprehensive income and consolidated statements of changes in stockholder's equity. The foreign currency translation adjustment mainly relates to the consolidation of Velcom in Belarus and Vip mobile in Serbia. The currency appreciation of the Belarusian Ruble in 2010 resulted in a positive adjustment of EUR 24,611, and the currency devaluation of the Serbian Dinar resulted in a negative adjustment of EUR 30,029. In 2009 the currency devaluation of the Belarusian Ruble and the Serbian Dinar resulted in a negative adjustment of EUR 316,336 and of EUR 27,815 respectively.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2010 and 2009 consists of the following:

	2010	2009
Current income tax	77,004	67,124
Deferred income tax	−30,540	−55,717
Income tax	**46,465**	11,406

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

	2010	2009
Continuing operations	46,465	11,406
Other comprehensive income	873	−272
Total income taxes	**47,338**	11,134

In 2009, income taxes on equity transactions amounting to EUR 33,886 are reported directly in equity (see Notes (29) and (31)).

The following table shows the major reconciling items between the reported income tax expense and the amount of income tax expense that would have resulted from applying the Austrian statutory income tax rate of 25% to pre-tax income 2010 and 2009:

	2010	2009
Income tax expense (benefit) at statutory rate	60,410	26,578
Foreign tax rate differential	–11,832	6,888
Tax-non-deductible expenses	8,185	8,604
Tax incentives and tax exempted income	–1,259	–2,652
Tax-free income (loss) from investments	180	–195
Change in tax rate	–6,522	101
Tax expense (benefit) previous years	4,055	–3,321
Deferred tax assets not recognized	32,032	322,349
Impairment of goodwill	2,931	72,500
Gain resulting from bargain purchase	0	–913
Impairment of investments in subsidiaries and other intergroup transactions	–40,418	–417,263
Other	–1,296	–1,271
Income tax	**46,465**	**11,406**
Effective income tax rate	19.23%	10.73%

In 2010 and 2009, non-deductible expenses mainly consist of withholding taxes on dividends, tax neutral expenditures resulting from investment in subsidiaries and representation expenses. Tax incentives and tax-exempted income in 2010 and 2009 essentially consist of research, education and investment incentives as well as other government grants.

Starting 2011 Belarus lowered the corporate income tax rate from 26.28% to 24%. The change in corporate income tax rate resulted in a tax benefit of EUR 6,522 in 2010. In 2009, the following changes in tax rates resulted in a tax expense of EUR 101: On November 2, 2006, the Slovenian parliament passed an act gradually reducing the corporate income tax rate from 25% to 23% in 2007, to 22% in 2008, to 21% in 2009 and to 20% in 2010, and allowing indefinite carry forward of tax losses. Furthermore, the corporate income tax rate in Hungary was increased from 16% to 19% for 2010.

The tax expenses for prior periods recognized in 2010 resulted from expected claims from a tax inspection in Austria. This amount is partially compensated by a tax benefit resulting from tax reevaluation of fixed assets in Belarus recorded for tax purposes. The tax benefit for prior periods recorded in 2009 mainly relates to revaluations of fixed assets for tax proposes in Belarus.

Impairment of investments relate to write-downs of investments in associates, which are recognized over a period of seven years for tax purposes and for which deferred tax is calculated (according to the respective guidance in “Effects of tax write-downs according to section 12/3/2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements” issued by the Austrian Financial Reporting and Auditing Committee).

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

At December 31,	2010	2009
Deferred tax assets		
Goodwill	0	12,150
Deferred deduction for impairments of investments in subsidiaries	174,756	187,608
Loss carry-forwards	75,441	44,261
Accounts receivable – trade	6,187	4,656
Deferred income and other liabilities	1,697	875
Other current assets and prepaid expenses	1,388	2,011
Accrued liabilities, long-term	23,331	18,412
Employee benefit obligations	12,810	11,342
Property, plant and equipment	5,280	3,363
Other	10,612	9,603
Deferred tax assets	**311,502**	**294,280**
Deferred tax liabilities		
Goodwill	–9,689	–9,689
Property, plant and equipment	–14,960	–17,023
Other intangible assets	–172,403	–180,005
Accrued liabilities	–35	–386
Write down of treasury shares for tax purposes	–964	–964
Other	–3,012	–2,722
Deferred tax liabilities	**–201,063**	**–210,789**

At December 31,	2010	2009
Deferred taxes, net	110,439	83,491
Deferred tax assets	235,841	227,508
Deferred tax liabilities	– 125,402	–144,017

Telekom Austria Group has established a tax group in Austria, with Telekom Austria AG as the head of the group. Deferred tax receivables and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since income tax is levied by the same tax authority.

Impairments for tax purposes according to Section 9/7 of the Austrian Corporate Tax Act are treated as temporary differences related to investments in subsidiaries. According to IAS 12.39, no deferred tax liabilities are recorded in that case.

Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

As of December 31, 2010 and 2009, Telekom Austria Group did not recognize deferred tax assets amounting to EUR 377,644 and EUR 343,863. In 2010 and 2009, the unrecognized deferred tax assets relate to net operating loss carry-forwards of EUR 201,036 and EUR 165,149, respectively and to temporary differences related to impairments of investments in consolidated subsidiaries of EUR 176,608 and EUR 178,714, respectively, because realization in the near future is not probable according to tax plan.

For information on the reversal of the deferred tax liability in 2009 relating to the write-down of treasury shares for tax purposes, see Notes (29) and (31).

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies when making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, Management believes it is probable that Telekom Austria Group will realize the benefits of the deferred tax assets.

At December 31, 2010, Telekom Austria Group had approximately EUR 1,484,199 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Macedonia and Serbia will expire in the following years:

Year	Amount
2011	61,501
2012	14,545
2013	164
2014	190
2015	1,914
2016	60,119
2017	109,135
2018	99,928
2019	96,974
Total	**444,471**

The remaining amount of net operating loss carry-forwards mainly relates to companies located in Austria and can be carried forward indefinitely. In Austria, the annual usage is limited to 75% of the taxable income for a year.

As of December 31, 2010 and 2009, Telekom Austria Group did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 611 and EUR 100, respectively.

Income tax receivables relate to tax returns for prior years not yet filed. As of December 31, 2010, income tax receivable relate to Austrian companies while receivables as of December 31, 2009 relate to Austrian and Croatian subsidiaries. As of December 31, 2010 and 2009, income taxes payable relate to foreign subsidiaries.

(31) Stock-based Compensation

Long Term Incentive (LTI) Program

Telekom Austria Group introduced a Long Term Incentive Program (LTI) in 2010. Participants are required to invest an amount depending on the annual gross basic salaries and the management-level of the entitled person in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period.

The performance period for meeting the performance targets was determined to be three years. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators. The target values for these key indicators are determined by the Supervisory Board at the beginning of each tranche.

At the vesting date, bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 175% of the shares on a pro rata basis. In case of a significant underperformance no shares will be allocated.

As of the reporting date a liability measured at fair value for the expected future expense of the LTI program, which is already vested, is recorded. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognized over the vesting period (see Note (28)).

The following personnel expense is recognized in the consolidated statements of operations:

	2010	2009
LTI 2010	1,309	0
Expense	1,309	0

The following table comprises the main conditions of the first LTI tranche:

	LTI 2010
Start of the program	January 1, 2010
Grant date	September 1, 2010
End of vesting period	December 31, 2012
Vesting date	September 1, 2013
Employee investment (at grant date)	472,770
Thereof Management Board	51,348
Employee investment (at reporting date)	468,922
Expected bonus shares	413,772
Maximum bonus shares	820,614
Fair value of program (in EUR '000s)	3,917

Deviation in the development of relevant parameters from expectations may have a significant impact on the calculation of fair value and accordingly on the liability and the corresponding expense. A change in the applied dividend yield of one percentage point would result in the following fair values:

Expected dividend yield	– 1%	+ 1%
Fair value of program (in EUR '000s)	3,976	3,862

Stock Option Plan 2004 Extension

In 2004, Telekom Austria Group introduced a Stock Option Plan (Stock Option Plan 2004), based on the approval of the stockholders at the Annual General Meeting. In 2006, the Stock Option Plan 2004 (Stock Option Plan 2004 Extension) was extended for another three tranches in the years 2007, 2008 and 2009. Each tranche required separate approval of the Supervisory Board and has a vesting period of twelve months or longer and an exercise period of approximately three years. Each option entitles the holder to receive, at Telekom Austria Group's discretion, either shares at the exercise price or cash equal to the difference between the quoted market price of Telekom Austria AG's shares on the date of the option's exercise and the exercise price.

The exercise price is defined as the average quoted closing price of Telekom Austria AG's stock during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until the options are exercised. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects.

Following the approval by the Supervisory Board on January 8, 2007, the fourth tranche (ESOP 2007+) of "Stock Option Plan 2004 Extension" was granted to the eligible employees. The fair value of the options as of the grant date amounted to EUR 10,523. The performance condition set for the fourth tranche was met as of December 31, 2007.

Following the approval by the Supervisory Board on January 7, 2008, the fifth tranche (ESOP 2008+) of "Stock Option Plan 2004 Extension" was granted to the eligible employees. The fair value of the options as of grant date amounted to EUR 9,198. The performance condition (earnings per share) set for the fifth tranche was neither met as of December 31, 2008, nor as of December 31, 2009.

The options granted in 2008 might be exercised in the event that the performance conditions for 2009 or 2010 are met, provided these are not lower than the performance condition for 2008 (retesting). The vesting period was extended by twelve months in 2008 and by another twelve months in 2009. As of December 31, 2010, the hurdle had not been met and the respective options did not become exercisable. Accordingly, no liability was recorded for this tranche.

Following the approval by the Supervisory Board on January 14, 2009, the sixth tranche (ESOP 2009+) of "Stock Option Plan 2004 Extension" was granted to the eligible employees. The fair value of the options as of grant date amounted to EUR 4,923. The performance condition (earnings per share) set for the sixth tranche was not met as of December 31, 2010 and 2009.

The options granted in 2009 might be exercised in the event that the performance conditions for 2010 or 2011 are met, provided these are not lower than the performance condition for 2009 (retesting). The vesting period was extended by twelve months in 2009 and by another twelve months in 2010. As of December 31, 2010, it is not probable that the hurdle will be met in 2011 and that the options become exercisable. Thus no liability was recorded for this tranche.

The following table sets forth details of the stock option plans as of December 31, 2010:

	Sixth tranche 2009	Fifth tranche 2008	Fourth tranche 2007
Exercise price in Euro	11.06	19.39	20.34
Options granted	4,923,090	4,401,130	4,047,472
Thereof Management Board	360,000	360,000	240,000
Vesting period in months from the grant day	36	36	12
Earliest exercise date	February 22, 2012	conditions not met	February 27, 2008
Expected expiry date	May 31, 2013	May 31, 2012	May 31, 2011
Options outstanding	4,039,075	2,734,745	1,866,536

As the Management Board determined that all employee stock options granted in the course of the "Stock Option Plan 2004 Extension" be settled in cash, a liability was recorded in accordance with IFRS 2.41.

The following table sets forth the income and expenses related to stock-based compensation, based on the fair value of the options at each reporting date. Such income and expenses do not include payroll related taxes and social security contributions. For liabilities relating to stock option plans, see Note (23).

	2010	2009
Second tranche 2005	0	–153
Third tranche 2006	–20	–1,143
Fourth tranche 2007	–628	–1,593
Fifth tranche 2008	0	–2,478
Expense (Benefit)	**–648**	–5,367

The fair value estimation is based on the binomial option pricing model applying the following parameters:

	2010	2009
Expected average dividend per share in Euro	0.76 – 0,80	0.75 – 0,77
Expected volatility	26%	50%
Risk-free interest rate range	0.612% – 2.704%	0.410% – 2.993%
Stock price at December 31 in Euro	10.52	9.95
Fair value per option fourth tranche in Euro	0.00	0.28
Fair value per option fifth tranche in Euro	0.02	0.51
Fair value per option sixth tranche in Euro	0.79	1.00

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Deviation in the development of relevant parameters from expectations may have a significant impact on the calculation of fair value and accordingly on the liability and the expense (benefit) recorded at Telekom Austria Group. A change in the expected volatility of five percentage points would result in the following fair values per option:

Expected volatility	21%	31%
Fair value per option fourth tranche in Euro	0.00	0.00
Fair value per option fifth tranche in Euro	0.00	0.07
Fair value per option sixth tranche in Euro	0.64	0.91

The expected volatility used in the option pricing model is based upon the development of historical volatility for several observation periods and other indicators such as OTC ("over-the-counter") or implied volatility. Telekom Austria Group's valuation model is not based upon an expected term of the option, but rather considers the exercise pattern of employees as a function of the intrinsic value of the options. Telekom Austria Group updates the estimates used in the valuation model annually by incorporating the most recent data about the actual distribution of exercises and forfeitures over the exercise period.

The following tables show the stock option activity and weighted average exercise prices under the 2004 plan:

Personal investment	2010	2009
Outstanding as of January 1	11,680,283	10,623,576
Granted	0	4,923,090
Forfeited	−1,181,303	−3,539,883
Expired	−1,858,624	−326,500
Outstanding as of December 31	**8,640,356**	**11,680,283**
Of which exercisable as of December 31	1,866,536	4,205,007

Weighted-average exercise price	2010	2009
Outstanding as of January 1	19.67	19.45
Granted	0	11.06
Expired/forfeited	16.32	18.24
Outstanding as of December 31	**15.70**	**16.31**
Of which exercisable as of December 31	20.34	19.67

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

At December 31,	2010	2009
Outstanding options		
Weighted average remaining contractual term (in years)	1.7	2.2
Exercisable options		
Total intrinsic value (in 1,000 EUR)	0	0

Employee Participation Program

The Employee Participation Program ("EPP") is a voluntary benefit and does not require the employee to complete a specific period of service or to achieve performance conditions in the future or to render service during a vesting period.

In December 2006, Telekom Austria Group introduced the EPP based on the authorization of the Annual General Meeting held on May 23, 2006. The EPP was granted to active employees in Austria who were not eligible to participate in the stock option plans.

The following tranches were granted to part-time and full-time employees:

Grant date	Fourth tranche December 28, 2009	Third tranche December 30, 2008	Second tranche December 20, 2007	First tranche December 12, 2006
Number of shares	165,747	186,480	86,742	505,503
Price per share at grant date in Euro	9.75	10.30	19.05	20.11
Recorded expense	1,616	1,921	1,652	10,065
Number of employees	10,128	10,952	11,120	11,383
Euro per full-time employee – former Fixed Net	150	150	150	900
Euro per full-time employee – former Mobile Communication	300	300	150	900

The fair value of the shares granted was measured at the grant date – the date of authorization by the Supervisory Board – and was immediately expensed. Telekom Austria Group used treasury shares to serve this program leading to a corresponding increase in shares outstanding and an increase in shareholders' equity. Additionally in 2009, the corresponding deferred tax liability resulting from the write-down of treasury shares for tax purposes from 2008 was reversed, resulting in an increase in retained earnings in the amount of EUR 327 (see consolidated statements of changes in stockholders' equity).

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

	2010	2009
Cash paid for		
Interest	122,253	142,555
Income taxes	58,178	69,144
Cash received for		
Interest	8,121	15,206

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2010 and 2009 (see Note (7)) had already been settled in cash as of December 31.

In 2010 and 2009, the item "Other", which is part of the reconciliation of net income (loss) to the cash flow from operating activities, amounted to EUR 14,871 and EUR 12,209 respectively. In 2010 and 2009, it mainly consists of interest and the hedging expenses related to the purchase price liability of SBT and, in 2009, to the gain resulting from the acquisition of CRI at a bargain purchase price.

Proceeds from sale of subsidiaries mainly pertain to the payment of the deferred consideration for eTel Slovensko, which was sold in 2008.

Cash and cash equivalents acquired in acquisitions totaled EUR 4,101 and EUR 1,093 in 2010 and 2009, respectively. For the acquisition and disposal of subsidiaries, see Notes (2) and (15).

(33) Financial Instruments

Financial risk management

Overview

Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Telekom Austria Group selectively enters into derivative financial instruments to manage the related risk exposures in areas such as foreign exchange rates and interest rate fluctuations. These policies are laid down in the Treasury Guidelines. Telekom Austria Group does not hold or issue derivative financial instruments for trading or speculative purposes.

This Note presents information about Telekom Austria Group's exposure to each of the above risks, as well as the objectives, policies and the processes for measuring these risks. Further quantitative disclosures are included throughout the notes to these consolidated financial statements.

The Chief Financial Officer (CFO) of the holding company has overall responsibility for the implementation and oversight of Telekom Austria Group's risk management and is responsible for monitoring Telekom Austria Group's risk management process.

Telekom Austria Group's risk management policies are established to identify and analyze the risks faced by Telekom Austria Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and Telekom Austria Group's activities. Telekom Austria Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference between incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk).

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is juxtaposed against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested.

On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated. The liquidity plan is discussed periodically within the risk committee. The risk committee is the primary organizational unit of Telekom Austria Group to plan, coordinate and make decisions on active risk management.

An analysis of the structural liquidity risk takes place upon determining the net working capital and the redemption structure of the financing portfolio (risk of concentration of maturities). Individual investment financing is structured in such a way that a balanced redemption schedule can be adhered to in the aggregate portfolio and any concentration of maturities in a single year is avoided.

Telekom Austria Group invests excess liquidity in instruments with counterparties and within limits approved by the CFO and the risk committee. All long-term instruments and derivatives are contracted with counterparties having a rating of "A-" or higher from Standard & Poor's or an equivalent rating from another globally recognized rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

The exposure to liquidity risk, the set targets, the principles and processes to monitor the risk on an ongoing basis as well as the methods used to assess liquidity risk remained unchanged in the current fiscal year.

Funding sources

Telekom Austria Group pursues a central treasury approach in meeting the capital needs of its subsidiaries. Telekom Austria Group's treasury department acts as an internal financial services provider, realizing potential synergies in financing the operations of Telekom Austria Group's subsidiaries. Its primary goal is to assure liquidity in a cost-effective manner by applying the pooling of cash flows and the clearing of Telekom Austria Group's accounts' to enable the management of short-term investments and borrowings at optimal interest rates with minimal administrative effort.

Cash flow from operations is the basis for securing sufficient liquidity. Principal sources of external funding are debt securities issued to the Austrian and international debt capital markets and bank loans. For details of outstanding long-term debt and a description of the different classes of the debt, other than lease obligations, see Note (25).

Other funding sources

In order to diversify its short-term funding sources, Telekom Austria Group implemented a multi-currency short-term and medium-term treasury notes program (multi-currency notes) with a maximum volume of EUR 300,000 in 2007.

As of December 31, 2010 and 2009, Telekom Austria Group had total credit lines of EUR 1,015,600 and EUR 1,090,000 respectively. These credit lines were not utilized. The credit line commitments will expire between January 2011 and July 2013.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the fair values of the derivative financial instruments. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of December 31, 2010 and 2009. Foreign currencies were translated at the rates valid on the reporting date (inflows of cash are shown in negative figures).

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At December 31, 2010						
Financial liabilities						
Bonds and Multi-Currency Note Program	2,638,245	159,574	37,500	106,301	994,688	1,340,182
Bank debt without guarantee	1,479,969	327,866	23,906	806,316	269,145	52,736
Bank debt guaranteed	4,871	4,871	0	0	0	0
Accounts payable – trade	682,104	670,525	5,017	6,155	102	304
Lease obligations	643	168	225	250	0	0
Other financial liabilities	232,398	143,788	8,257	79,426	0	928
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	–22,208	3,060	–11,864	–7,148	–6,256	0
Variable to fixed IRS	12,804	–2,260	9,153	5,911	0	0
Forward exchange contracts						
Notional amount in EUR	–1,000	0	–1,000	0	0	0
Notional amount in BYR	4,095,510	0	4,095,510	0	0	0
At December 31, 2009						
Financial liabilities						
Bonds and Multi-Currency Note Program	3,181,433	595,938	37,500	106,824	1,031,926	1,409,244
Bank debt without guarantee	1,567,152	239,392	28,588	248,979	994,699	55,495
Bank debt guaranteed	9,927	5,097	0	4,830	0	0
Accounts payable – trade	533,380	527,960	4,417	381	225	396
Lease obligations	1,082	212	212	399	258	0
Other financial liabilities	832,194	154,995	676,077	0	0	1,123
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	–35,900	–10,077	–12,105	–6,913	–6,804	0
Variable to fixed IRS	16,536	–2,257	9,349	5,685	3,759	0
Forward exchange contracts						
Notional amount in EUR	640,141	–13,495	653,636	0	0	0
Notional amount in USD	–952,800	0	–952,800	0	0	0
Notional amount in HRK	99,126	99,126	0	0	0	0
Notional amount in BYR	26,228,710	0	26,228,710	0	0	0

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline approved by Telekom Austria

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Group's management. For derivative financial instruments used for risk management purposes, Telekom Austria Group generally applies hedge accounting in accordance with IAS 39.

The calculation of fair values (mark-to-market) is based on contractually agreed future cash flows related to these transactions. For the purpose of determining the fair value of the existing financial instruments, Telekom Austria Group considers the interest rate curve applicable to calculate discount factors of matching maturities.

The exposure to market risk, its origin and the objectives, policies and processes for managing market risk (interest rate risk and exchange rate risk) and the methods used to measure credit risk remain unchanged compared to prior years.

Interest rate risk

Telekom Austria Group considers changing interest rates as its major market risk exposure. Telekom Austria Group's risk management strategy strives to balance the related exposure to fair value and cash flow risks.

Since the majority of Telekom Austria Group's long-term debt has fixed interest rates, the cash flow exposure due to fluctuating interest rates is limited. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans. In line with its risk policy, Telekom Austria Group entered into fixed to floating interest rate swap agreements to create a fix-to-floating mix of its total debt portfolio to support Telekom Austria Group's Value at Risk/Cash Flow at Risk approach. Under the interest rate swap agreements, Telekom Austria Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount.

Exposure to interest rate risk

The risk of changes in interest rates is considered low due to the short-term nature of financial assets.

For details on the risks related to long-term financial liabilities, see Note (25).

Short-term liabilities with exposure to interest rate risk	2010	2009
Short-term borrowings		
Fixed and variable rate carrying amount	111,500	160,032
Average interest rate in %*	0.96%	1.49%
Multi-currency notes program		
Fixed rate carrying amount	90,158	9,986
Average interest rate in %*	1.23%	0.90%

* Weighted average of the year-end interest rates applicable to the outstanding amounts.

Fair value sensitivity analysis for financial instruments

One measure used to express the potential change in the value of a portfolio of financial liabilities in response to a change in interest rates is the modified duration. Modified duration (sensitivity measure) follows the concept that interest rates and the price of fixed rate financial instruments move in opposite directions. The modified duration on the total portfolio was 2.785% in 2010 and 3.245% in 2009. The sensitivity is based on the assumption of a 100 basis points parallel shift in market interest rates for all terms occurring at the reporting date. The methods and assumptions used remained unchanged to those used in prior years.

A change of 100 basis points (bps) in interest rates at the reporting date would have increased (decreased) the fair value of the financial portfolio by the amounts shown below (negative amounts represent decreases in financial liabilities):

At December 31,	Capital amounts	Change of financial portfolio 100 bps increase	100 bps decrease
2010			
Fixed rate financial liabilities	3,080,658		
Sensitivity at 2.785%		– 85,796	85,796
2009			
Fixed rate financial liabilities	3,958,465		
Sensitivity at 3.245%		– 128,452	128,452

Cash flow sensitivity analysis for variable rate financial instruments

A change of 100 basis points (bps) in interest rates at the reporting date would have increased (decreased) net income or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The values presented refer to the variable portion of the total debt portfolio (negative amounts represent positive effects on the consolidated statements of operations):

At December 31,	Capital amounts	100 bps increase	100 bps decrease
2010			
Variable rate financial liabilities	404,724		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		**7,047**	**– 7,047**
2009			
Variable rate financial liabilities	569,480		
EMTN bond with interest rate swap (variable leg)	800,000		
Sensitivity		13,695	– 13,695

Interest rate swap agreements

Telekom Austria Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Telekom Austria Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining term of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining term of the hedged item is less than twelve months. Derivative financial instruments which do not qualify for hedge accounting are classified as current financial assets or financial liabilities.

Within the "EMTN" Program Telekom Austria Group issued a total of three bonds with a face value of EUR 1,750,000, coupons between 3.375% and 5.00%, and maturities between five and twelve years. These bonds are described in Note (25). Telekom Austria Group entered into fixed to floating interest rate swap agreements for Eurobonds with face values of EUR 300,000 and EUR 500,000. In January 2010, the bond with face value of EUR 500,000 and a maturity of 5 years was repaid.

On August 6, 2008, Telekom Austria Group issued promissory notes for a total value of EUR 300,000 (see Note (25)). Telekom Austria Group entered into floating to fixed interest rate swap agreements for a total value of EUR 200,000.

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The following table indicates the types of swaps in use at December 31, 2010 and 2009, and their weighted average interest rates and the weighted average remaining terms of the interest rate swap contracts. The "average pay rate" represents the weighted average interest rate at December 31, 2010 and 2009. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group must pay. "Average receive rate" represents the weighted average interest rate applicable at December 31, 2010 and 2009. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group receives.

The notional amounts under the relevant contracts are the amounts used notionally to calculate the amount of interest to be paid or received as appropriate, and are not actually received by either party and therefore, are not repayable under the terms of the contract:

	2010	2009
Variable to fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	200,000	200,000
Average receive rate	2.11%	3.09%
Average pay rate	5.68%	5.68%
Average maturity in years	1.65	2.65
Fixed to variable swaps in EUR (fair value hedge)		
Notional amount in EUR	300,000	800,000
Average receive rate	5.00%	3.98%
Average pay rate	1.94%	2.51%
Average maturity in years	2.59	1.43

The interest rate swap transactions resulted in a change in effective interest rates of 0.41 percentage points and 0.66 percentage points in 2010 and 2009, respectively.

Information with respect to fair value hedges
Telekom Finanzmanagement GmbH designates interest rate swap agreements as fair value hedges of the interest rate risk attributable to the change of the fair value of the bonds under the EMTN Program.

The critical terms of the interest rate swap agreements and the bonds are identical. Therefore, the following conditions have been met:

a) The formula for computing net settlement under the interest rate swap is the same for each net settlement. Therefore, the fixed rate is the same throughout the term.

b) There is no floor or cap on the variable leg of the interest rate swap.

c) The bonds are not prepayable.

Telekom Austria Group can therefore reasonably conclude, both at the inception and on an ongoing basis, that the hedging relationship is expected to be highly effective in offsetting fair value changes attributable to interest rate variability. Changes in the fair value of the derivative hedging instrument will offset changes in the fair value of the underlying liability due to fluctuations in interest rates (Dollar Offset Method).

According to IAS 39, the hedge effectiveness must be between 80 and 125 percent for a hedge to be considered effective. The effectiveness is calculated by dividing the hedged portion of the change of the fair value of the underlying liability by the corresponding change in the fair value of the derivative hedging instrument or vice versa.

When calculating the hedge effectiveness according to the above mentioned method, the hedge could show a mathematical ineffectiveness even if an economic effectiveness is given. This could be the case when changes in the values of the underlying liability and the corresponding interest rate swap are rather small. In order not to preclude the hedge effectiveness by mathematical ineffectiveness, Telekom Austria Group has set an absolute limit: The difference between the change in value of the interest rate swap and the change in value of the hedged item shall not exceed a limit of 0.5% of the notional amount. As long as this limit is not exceeded, the hedge is considered effective. The analysis (hedge effectiveness test) assumes that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

Hedge Effectiveness Test Fair Value Hedges

At December 31,	Notional amount	Fair value at origination	Fair value at reporting date	Fair value change	Effectiveness
2010					
Hedged items	300,000	299,315	317,730	–18,415	
Hedging instrument (interest rate swap)	300,000	1,265	–17,522	18,787	
Effectiveness in %					–98.02%
Ineffectiveness in EUR					372
2009					
Hedged items	800,000	799,254	818,574	–19,320	
Hedging instrument (interest rate swap)	800,000	1,501	–17,971	19,472	
Effectiveness in %					–99.22%
Ineffectiveness in EUR					152

Information with respect to cash flow hedges

Cash flow hedges are entered into by Telekom Austria Group to reduce its exposure to changes in the cash flows resulting from interest payments with respect to floating interest rate liabilities. Upon issuing the promissory notes, Telekom Austria Group entered into floating to fixed interest rate swap agreements for the part of the notes subject to variable interest rate, amounting to EUR 200,000, for which the conditions essentially correspond to those of the promissory notes (see Note (25)).

At December 31, 2010 and 2009, the derivative financial liability (including deferred interest) amounts to EUR 12,660 and EUR 15,763, respectively. The hedged interest payments will become due on February 6 and August 6 of each year until, presumably, August 6, 2012, and will affect the consolidated statements of operations in the respective reporting periods. In 2010 and 2009, an amount of EUR 2,318, and EUR 2,622, respectively, relating to the change in fair value of the hedge item, was recognized in other comprehensive income (OCI). In 2010 and 2009, no ineffectiveness was recognized.

Exchange rate risk

As of December 31, 2009, Telekom Austria Group reported one variable interest rate liability resulting from the acquisition of SBT in the amount of TUSD 929,969. In October 2010, an amount of 841,791 TUSD (including accrued interest) of this liability was paid (see Note (2)). As of December 31, 2010, the remaining liability amounts to 95,253 TUSD. This liability was not hedged but Telekom Austria Group invested US Dollars, resulting from the initial forward exchange contract, in the similar amount (see Note (8) and (16)).

As of December 31, 2010 and 2009, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities or their subsidiaries (for foreign exchange rates, see Note (1)):

At December 31,		2010			2009	
	EUR	USD	Other	EUR	USD	Other
Accounts receivable – trade	13,476	4,986	13,441	13,022	6,769	24,969
Accounts payable – trade	90,967	14,199	7,106	53,132	10,638	10,736

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by EUR 3,131 and EUR 1,825 in 2010 and 2009, respectively. A change of 10% in the exchange rate of BYR to USD would have increased (decreased) foreign exchange rate differences by EUR 212 and EUR 23 in 2010 and 2009, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by EUR 314 and EUR 163 in 2010 and 2009, respectively. A sensitivity analysis was carried out neither for other accounts receivable, denominated in foreign currencies, nor for accounts payable – trade, denominated in foreign currencies, as there is no substantial risk due to diversification.

The assets and the liabilities relating to the cross border lease transactions are denominated in USD. However, Telekom Austria Group is not exposed to exchange rate risk because the deposits under the cross border lease transactions match the lease obligation. In July 2009, a EUR 100,000 deposit with term until December 2011 serving as collateral for these guarantees was opened(see Note (26)).

in EUR '000s 85

Foreign exchange agreements

Forward exchange contracts entered into by Telekom Austria Group serve as economic hedges of Telekom Austria Group's transactions in foreign currencies. In principle, Telekom Austria Group applies hedge accounting to these contracts.

Telekom Austria Group entered into a series of forward exchange contracts covering TUSD 950,000 serving as hedges of the purchase price payable and of future interest payments related to the acquisition of SBT (see Note (2)). Starting with the second quarter of 2008, the forward purchases of USD are designated as hedging instruments (cash flow hedge accounting according to IAS 39). Effective interest, which is composed of the interest component of the forward rate (interest differential) and the interest accretion on the purchase price liability, was recognized in the financial result until the end of the third quarter 2010.

The difference between the effective and the contracted interest rate of the purchase price liability was recognized in the financial result. As of September 29, 2010 and December 31, 2009, the derivative financial asset (net) amounted to EUR 38,473 and EUR 3,967, respectively.

The following tables indicate the types of foreign exchange agreements in use at December 31, 2009 that were accounted for according to hedge accounting (amounts to be received are stated negative):

At December 31,	2010	2009
Forward exchange contract – USD long		
Notional amount in EUR	0	657,636
Notional amount in USD	0	–950,000
Forward exchange rate (weighted)	0	1.44
Exchange rate as of the reporting date	0	1.44
Maximum term of the contracts	0	September, 2010

As of December 31, 2010 and December 31, 2009 respectively, Telekom Austria Group entered into forward exchange contracts which served as hedges of Telekom Austria Group's operating exposure to fluctuations in foreign currencies, but for which hedge accounting was not applied. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statements of operations as foreign exchange gains or losses.

The following tables indicate the types of foreign exchange agreements in use at December 31, 2010 and December 31, 2009 (amounts to be received are stated negative):

At December 31,	2010	2009
Forward exchange contract – HRK short		
Notional amount in EUR	0	–13,495
Notional amount in HRK	0	99,126
Forward exchange rate (weighted)	0	7.36
Exchange rate as of the reporting date	0	7.30
Maximum term of the contracts	0	February, 2010

At December 31,	2010	2009
Forward exchange contract – EUR long		
Notional amount in BYR	4,095,510	17,386,300
Notional amount in EUR	–1,000	–4,000
Forward exchange rate (weighted)	4,095.51	4,346.58
Exchange rate as of the reporting date	3,972.60	4,106.11
Maximum term of the contracts	August, 2011	July, 2010

At December 31,	2010	2009
Forward exchange contract – USD long		
Notional amount in BYR	0	8,842,410
Notional amount in USD	0	–2,800
Forward exchange rate (weighted)	0	3,158.00
Exchange rate as of the reporting date	0	2,863.00
Maximum term of the contracts	0	July, 2010

Credit risk

Credit risk is the risk of financial loss to Telekom Austria Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Telekom Austria Group's accounts receivable – trade, investment activities and derivative financial instruments.

The exposure to credit risk, its origin and the objectives, policies and processes for managing credit risk as well as the methods used to measure credit risk remain unchanged to prior years.

Telekom Austria Group does not have significant exposure to any individual customer or counterparty, nor does it have any major concentration or credit risk related to any financial instrument other than noted under the section concentration of risk in "Significant Accounting Policies" (Note (1)). Due to internal guidelines and the setting of counterparty limits, Telekom Austria Group does not have significant exposure to credit risk in respect of financial instruments.

Telekom Austria Group does not require collateral in respect of financial assets. In order to reduce the risk of non-performance by the other parties to swap agreements, the contracts are subject to the Swap Dealers' Agreement.

Accounts receivable – trade and other receivables

Telekom Austria Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or customer groups. The demographics of Telekom Austria Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

The Credit Management Department has established a credit policy that requires each new customer to be analyzed individually for credit-worthiness.

Credit risk or the risk of default in payment by contractual partners is continuously monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the consolidated financial statements. Within Telekom Austria Group, operative credit risk management functions are performed at the operating company level.

Telekom Austria Group does not require collateral in respect of accounts receivable – trade and other receivables.

Investments

Telekom Austria Group limits its exposure to credit risk by only investing in fungible financial instruments and by placing deposits only with counterparties that have an appropriate external or internal rating based on quantitative parameters. Given these procedures, Management does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

Guarantees

As of December 31, 2010 and 2009, no guarantees had been provided to third parties.

in EUR '000s 87

Exposure to credit risk

The carrying amount of financial assets and accounts receivable – trade represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

At December 31,	2010	2009
Available-for-sale financial assets	191,870	321,062
Financial investments valued at cost	579	643
Loans and receivables	52,440	51,097
Cash and cash equivalents	120,196	730,054
Deposits under cross border lease	25,480	31,461
Derivatives	18	113
Hedging instruments (fair value hedges)	21,515	34,371
Hedging instruments (cash flow hedges)	0	7,696
Carrying amount of financial assets	**412,096**	**1,176,499**

Available-for-sale financial assets include a EUR 100,000 deposit serving as collateral for guarantees relating to cross border lease transactions (see Notes (16) and (26)).

The following table sets forth the maximum exposure to credit risk for accounts receivable – trade at the reporting date by geographic region:

At December 31,	2010	2009
Domestic	852,633	737,624
Foreign	84,948	87,547
Allowances	–165,345	–156,531
Accounts receivable – trade	**772,236**	**668,640**

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to EUR 8,127 and EUR 8,451 as of December 31, 2010 and 2009, respectively. Thus, no major concentration of credit risk exists. With respect to the aging of accounts receivable – trade and the allowance for doubtful accounts recorded, see Note (5).

Fair value of financial instruments

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial assets:

At December 31,	Carrying amount	Fair value 2010	Carrying amount	Fair value 2009
Financial assets				
Cash and cash equivalents	**120,196**	**120,196**	730,054	730,054
Accounts receivable – trade	772,236	772,236	668,640	668,640
Receivables due from related parties	209	209	3,893	3,893
Other current financial assets	60,751	60,751	52,582	52,582
Other non-current financial assets	8,698	8,698	11,023	11,023
Loans and receivables	**841,893**	**841,893**	736,138	736,138
Long-term investments	70,974	70,974	114,493	114,493
Short-term investments	120,896	120,896	206,570	206,570
Available-for-sale investments	**191,870**	**191,870**	321,062	321,062
Investments at cost	**579**	**579**	643	643
Deposits cross border lease	25,480	25,480	31,461	31,461
Held-to-maturity investments	**25,480**	**25,480**	31,461	31,461
Derivatives	18	18	113	113
Hedging instruments (fair value hedges)	21,515	21,515	34,371	34,371
Hedging instruments (cash flow hedges)	0	0	7,696	7,696
Financial assets carried at fair value	**21,532**	**21,532**	42,181	42,181

Cash and cash equivalents, accounts receivable – trade and other receivables have maturities below one year. Therefore, their carrying amounts at the reporting date approximate the fair values.

The fair values of other non-current receivables due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market and partner-based changes to terms, conditions and expectations.

in EUR '000s

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial liabilities:

At December 31,	Carrying amount	Fair value 2010	Carrying amount	Fair value 2009
Financial liabilities				
Liabilities to financial institutions	111,500	111,500	160,032	160,219
Bonds	1,688,939	1,834,459	1,686,618	1,801,300
Other current financial liabilities	173,590	173,590	827,824	827,824
Multi-Currency Note Program	90,158	90,158	9,986	9,986
Non-current liabilities to financial institutions	1,283,951	1,321,599	1,288,434	1,329,786
Lease obligations and cross border lease	26,084	26,084	32,457	32,457
Other non-current liabilities	57,131	57,131	2,149	2,149
Accounts payable – trade	678,705	678,705	523,646	523,646
Payables due from related parties	13,057	13,057	11,446	11,446
Accrued interest	80,336	80,336	95,962	95,962
Financial liabilities at amortized cost	**4,203,450**	**4,386,619**	**4,638,555**	**4,794,775**
Bonds – hedged item	**316,804**	**318,370**	**817,287**	**815,283**
Derivatives – held for trading	0	0	164	164
Hedging instruments (fair value hedges)	0	0	0	0
Hedging instruments (cash flow hedges)	12,660	12,660	19,493	19,493
Financial liabilities carried at fair value	**12,660**	**12,660**	**19,657**	**19,657**

Accounts payable – trade and other payables, as well as other liabilities, have maturities below one year. Therefore, the values reported approximate the fair values.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of all other unquoted bonds, liabilities to banks, promissory notes and other financial liabilities are measured at the present values of the cash flows associated with the debt, based on the applicable yield curve and credit spread curve for specific currencies.

Telekom Austria Group estimates the fair values of investments in equity instruments and investments in unconsolidated subsidiaries that do not have a quoted market price in an active market in order to approximate the carrying amounts based on the audited financial statements, if available.

Fair value hierarchy of financial instruments

The following table shows financial instruments measured at fair value based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements:

	Level 1	Level 2	Level 3	Total
December 31, 2010				
Available-for-sale & other investments	16,387	175,482	0	191,870
Derivatives	0	18	0	18
Fair value hedges	0	21,515	0	21,515
Financial assets measured at fair value	**16,387**	**197,015**	**0**	**213,402**
Bonds – hedged item	0	316,804	0	316,804
Cash flow hedges	0	12,660	0	12,660
Financial liabilities measured at fair value	**0**	**329,464**	**0**	**329,464**
December 31, 2009				
Available-for-sale & other investments	16,373	304,689	0	321,062
Derivatives	0	113	0	113
Fair value hedges	0	34,371	0	34,371
Cash flow hedges	0	7,696	0	7,696
Financial assets measured at fair value	**16,373**	**346,870**	**0**	**363,243**
Bonds – hedged item	0	817,287	0	817,287
Derivatives	0	164	0	164
Cash flow hedges	0	19,493	0	19,493
Financial liabilities measured at fair value	**0**	**836,943**	**0**	**836,943**

The levels of fair value hierarchy are determined as follows:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: Fair values measured using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly.
- Level 3: Fair values measured using inputs that are not based on observable market data.

Bonds representing hedged items are reported in Level 2 as discounted cash flows based on market data (interest curve) instead of stock exchange quotations were applied to determine the fair value.

in EUR '000s 91

(34) Commitments and Contingencies

As of December 31, 2010 and 2009, Telekom Austria Group has incurred lease obligations totaling EUR 77,543 and EUR 73,484, respectively, in connection with cross border lease transactions (see Note (26)) which were not recorded as a liability in accordance with SIC 27 and the Framework. There are contingent receivables relating to securities and deposits in the same amount.

In the normal course of business, Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at December 31, 2010. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its consolidated financial statements.

(35) Remuneration paid to the Management and Supervisory Board

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

	2010	2009
Compensation Management Board	899	1,002
Performance-based remuneration	704	1,318
Total	**1,603**	**2,320**
Compensation Supervisory Board	179	173

Beginning 2010, Hannes Ametsreiter is a member of the Management Board of Telekom Austria AG, and Chairman of the Management Board of Telekom Austria AG, and Hans Tschuden is Vice Chairman of the Management Board of Telekom Austria AG.

On October 23, 2006, Hans Tschuden was appointed by the Supervisory Board as the new Chief Financial Officer of Telekom Austria AG for a period of five years until March 31, 2012. On January 1, 2009, Hans Tschuden was also appointed Deputy Chairman of Telekom Austria AG.

On January 1, 2009 Hannes Ametsreiter was appointed to the Management Board of Telekom Austria AG and Chairman of the Management Board of Telekom Austria TA AG for the period of five years until December 31, 2013. On April 1, 2009, Hannes Ametsreiter, was appointed by the Supervisory Board as Chief Executive Officer and Chairman of the Board of Telekom Austria Group and as Chief Executive Officer of mobilkom austria AG. Together with the Vice Chairman and Chief Financial Officer Hans Tschuden he manages Telekom Austria Group. Hannes Ametsreiter remained CEO of Telekom Austria Group and A1 Telekom Austria after the merger of mobilkom austria and Telekom Austria in July 2010. On March 31, 2009, Boris Nemsic, Chief Executive Officer of Telekom Austria Group and Chief Executive Officer of mobilkom austria AG, resigned.

(36) Employees

The average number of employees during the years 2010 and 2009 was 16,580 and 16,784, respectively. As of December 31, 2010 and 2009, Telekom Austria Group employed 16,501 and 16,573 employees (full-time equivalents).

(37) Subsequent Events

On February 14, 2011, the Management Board approved the consolidated financial statements for submission to the Supervisory Board. The Supervisory Board will review the consolidated financial statements and report its decision upon approval.

On January 25, 2011 Telekom Austria Group purchased 100% shares of the fixed line provider Spectrum Net AD through its Bulgarian subsidiary Mobiltel. On February 3, 2011, Telekom Austria Group purchased 80% of another fixed line operator, Megalan Network AD and committed to purchase the remaining 20% until March 31, 2012. The purchase price for 100% of the shares in both companies amounts to EUR 83,000 (cash and debt free). This purchase price includes contingent purchase price considerations amounting to EUR 11,500, which are contingent on the fulfillment of certain targets. Both companies will be included in the consolidated financial statements in the first quarter 2011 and will be presented in the segment Bulgaria. A purchase price allocation is not yet available.

For the purpose of managing personnel expenses in the segment Austria, the Management Board and the labor union agreed on new social plans for employees and civil servants. The new social plans became effective January 19, 2011 and are valid until December 31, 2011. They provide for early retirement, special severance packages and golden handshake options. The social plans are a measurement of the Telekom Austria Group to stabilize personnel expenses in a social responsible way.

in EUR '000s

(38) Affiliated Companies

Fully consolidated companies

Name and company domicile	Share in capital as of December 31, 2010 in %
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
Mass Response Service GmbH, Vienna	100.00
Cable Runner GmbH, Vienna	76.00
Cable Runner Austria GmbH & Co KG, Vienna	76.00
Cable Runner Iberica S.L., Madrid	66.00
Fast Global Telekommunication S.A., Madrid	100.00
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00
MK Logistik GmbH, Vienna	100.00
JetStream Hungary Kft, Budapest	100.00
JetStream Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
JetStream RO s.r.l., Bucharest	100.00
JetStream Bulgaria EOOD, Sofia	100.00
JetStream Croatia Ltd., Zagreb	100.00
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00
JetStream Switzerland GmbH, Zurich	100.00
World-Direct eBusiness Solutions GmbH, Vienna	100.00
ÖFEG GmbH, Vienna	100.00
A1 Bank AG, Vienna	100.00
paybox austria GmbH, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00
Vip mobile d.o.o., Belgrade	100.00
Vip operator DOOEL, Skopje-Zentar	100.00
Vip operator uslugi DOOEL, Skopje-Zentar	100.00
Vip operator prodazba DOOEL, Skopje-Zentar	100.00
Alabin 48 EOOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
M repair and service EAD, Sofia	100.00
M Support Services EOOD, Sofia	100.00
M Game EOOD, Sofia	100.00
M-Network EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria EAD, Sofia	100.00
SB Telecom Ltd., Limassol	100.00
FE VELCOM, Minsk	100.00
FE TA-Engineering, Minsk	100.00
FE TA-Installation, Minsk	100.00

Affiliated companies consolidated using the equity method

Name and company domicile	Share in capital as of December 31, 2010 in %
Omnimedia Werbegesellschaft mbH, Vienna	26.00
netdoktor.at GmbH, Vienna	40.00
Marx Media Vienna GmbH, Vienna	25.029

Affiliated company not consolidated

Name and company domicile	Share in capital as of December 31, 2010 in %
Mass Response Deutschland GmbH, Cologne	100.00

Companies not consolidated are not significant to the consolidated financial statements.

All affiliated companies have December 31 as reporting date except for Omnimedia and netdoktor.at which have June 30 as reporting date.

Vienna, February 14, 2011

Hannes Ametsreiter

Hans Tschuden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

Telekom Austria Aktiengesellschaft,Vienna,

for the **year from 1 January 2010 to 31 December 2010**. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2010, the consolidated statement of operations, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in stockholders' equity for the year ended 31 December 2010 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2010 and of its financial performance and its cash flows for the year from 1 January to 31 December 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 14 February 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

DDr. Martin Wagner	Mag. Rainer Hassler
Wirtschaftsprüfer	Wirtschaftsprüfer
(Austrian Chartered Accountants)	

Declaration of the Management Board

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

The Management Board

Hannes Ametsreiter, CEO since January 1, 2009, Chairman of the Management Board of Telekom Austria AG since April 1, 2009, appointed until December 31, 2013

Hans Tschuden, Vice Chairman of the Management Board since January 1, 2009 and Chief Financial Officer since April 1, 2007, appointed until March 31, 2012

Financial Statements Telekom Austria AG

According to Austrian Commercial Code - UGB

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ANNEX I/1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Balance Sheet as of December 31, 2010

	31.12.2010 EUR	31.12.2009 TEUR
ASSETS		
A. Fixed assets		
Financial assets		
1. Investments in affiliated companies	7,731,940,269.56	4,222,948
2. Investments	543,341.86	543
	7,732,483,611.42	4,223,492
B. Current assets		
I. Accounts receivable		
1. Accounts receivable – trade	10,626.77	0
2. Accounts receivable – affiliated companies	1,371,297,673.17	510,328
3. Other receivables and assets	30,808,690.74	29,627
	1,402,116,990.68	539,955
II. Treasury stock	4,338,508.45	4,339
III. Cash and cash equivalents	1,072.60	0
	1,406,456,571.73	544,294
C. Prepaid expenses	8,774,274.03	5,240
	9,147,714,457.18	4,773,025

The use of calculators may result in rounding differences when rounded amounts are aggregated.

ANNEX I/2

Telekom Austria Aktiengesellschaft, Vienna, Austria

	31.12.2010 EUR	31.12.2009 TEUR
LIABILITIES AND STOCKHOLDERS' EQUITY		
A. Stockholders' equity		
I. Common stock	**966,183,000.00**	**966,183**
II. Additional paid-in capital		
Appropriated	1,052,317,856.33	1,052,318
III. Taxed reserves		
1. Reserve for treasury stock	4,338,508.45	4,339
2. Other reserves (unrestricted reserves)	1,999,587,456.22	636,498
	2,003,925,964.67	**640,836**
IV. Net income	**332,000,000.00**	**332,287**
thereof profit carryforward	363,940.93	31
	4,354,426,821.00	**2,991,624**
B. Accrued liabilities		
1. Accrued severance payments	2,434,386.00	990
2. Accrued taxes	396,344,640.64	189,961
3. Other accruals	3,285,898.69	3,160
	402,064,925.33	**194,112**
C. Liabilities		
1. Bank loans and overdrafts	42.00	0
2. Accounts payable – trade	7,002,646.37	546
3. Accounts payable – affiliated companies	4,383,781,319.29	1,586,733
4. Other liabilities	438,703.19	10
thereof due to social security	275,021.00	10
	4,391,222,710.85	**1,587,289**
	9,147,714,457.18	**4,773,025**
Contingent liabilities	4,890,003,843.00	5,565,000

The use of calculators may result in rounding differences when rounded amounts are aggregated.

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ANNEX II

Telekom Austria Aktiengesellschaft, Vienna, Austria

Statement of Operations for Financial Year 2010

		2010 EUR		2009 TEUR
1. Revenues		17,425,383.40		6,802
2. Other operating income				
a) Income from reversal of accrued liabilities	3,431.22		18	
b) Other	727,934.33	731,365.55	11	30
3. Employee costs				
a) Salaries	8,287,048.96		1,564	
b) Severance expense	340,962.38		160	
c) Pension expense	339,287.43		119	
d) Expenses for statutory social security and payroll related taxes and contributions	1,480,489.04		175	
e) Other social benefits	51,878.27	–10,499,666.08	5	–2,023
4. Other operating expenses				
a) Taxes	378,776.92		293	
b) Other	35,660,632.11	–36,039,409.03	23,597	–23,890
5. Subtotal from line 1 to 4 (EBIT)		**–28,382,326.16**		**–19,081**
6. Income from investments		1,277,930,000.00		477,000
thereof from affiliated companies		1,277,860,000.00		477,000
7. Other interest and similar income		189,883.91		3
thereof from affiliated companies		189,883.91		3
8. Expenses for financial assets and short-term securities		–284,185,105.87		–67,992
thereof depreciation		–260,410,000.00		–761
thereof from affiliated companies		–284,185,105.87		–67,387
9. Interest and similar expenses		–104,005,889.37		–54,482
thereof for affiliated companies		–103,087,981.56		–53,567
10. Subtotal from line 6 to 9 (Financial result)		**889,928,888.67**		**354,528**
11. Ordinary business result		**861,546,562.51**		**335,447**
12. Extraordinary income		1,018,061,496.25		0
13. Income tax expense		–184,882,131.51		21,458
14. Net income		**1,694,725,927.25**		**356,906**
15. Allocation to taxed reserves		–1,363,089,868.18		–24,650
16. Profit carried forward from prior year		363,940.93		31
17. Net income		**332,000,000.00**		**332,287**

The use of calculators may result in rounding differences when rounded amounts are aggregated.

ANNEX III

Notes to the Financial Statements for Financial Year 2010

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1 Restructuring measures in the Group

The share of mobilkom austria group services GmbH was sold by Mobilkom Beteiligungsgesellschaft mbH as the sole shareholder to Telekom Austria Aktiengesellschaft (Telekom Austria AG) by means of the purchase and assignment agreement dated April 27, 2010. In the merger agreement dated June 30, 2010, mobilkom austria group services GmbH (Commercial Register No. 250168 w), as the assigning company, assigned its entire assets by universal succession retrospectively to December 31, 2009 to Telekom Austria AG, Vienna, as the receiving company, excluding the granting of share rights in the receiving company in accordance with Section 224 of the Austrian Stock Corporation Act and applying the preferential treatment permitted in Article I of the Austrian Law on the Taxation of Corporate Restructurings.

In the merger agreement dated June 30, 2010, mobilkom austria Aktiengesellschaft (Commercial Register No. 207022 w), as the assigning company, assigned its entire assets by universal succession retrospectively to December 31, 2010 to Telekom Austria TA Aktiengesellschaft (Telekom Austria TA AG), Vienna, as the receiving company excluding the granting of share rights in the receiving company in accordance with Section 224 of the Austrian Stock Corporation Act and applying the preferential treatment permitted in Article I of the Austrian Law on the Taxation of Corporate Restructurings. On registration in the Commercial Register on July 8, 2010, the company's name was changed from "Telekom Austria TA Aktiengesellschaft" to "A1 Telekom Austria Aktiengesellschaft" (A1 Telekom Austria AG).

In a further step, the 100% investments in mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna, mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna and mobilkom Beteiligungsgesellschaft mbH, Vienna, including the purchasing liabilities directly held with the investments at the split date December 31, 2009, were assigned by A1 Telekom Austria AG, as the assigning company, to Telekom Austria AG (Commercial Register No. 144477 t), as the receiving company, by universal succession in accordance with Section 17 of the Austrian Demerger Act without granting any shares and making use of the preferential treatment permitted under Article VI of the Austrian Law on the Taxation of Corporate Restructurings by means of the split and takeover agreement dated June 30, 2010. Registration in the Commercial Register took place on August 14, 2010.

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. Impairments of TEUR 260,410 (31.12.2009: TEUR 347) for mobilkom Mazedonien Geschäftsentwicklungs GmbH, mobilkom CEE Geschäftsentwicklungs GmbH and mobilkom Belarus Geschäftsentwicklungs GmbH (31.12.2009: for Telekom Projektentwicklungs GmbH, Vienna) were recorded in the financial year 2010.

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.

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Treasury shares recognized in current assets are stated at acquisition cost or the lower fair value in accordance with the strict lower of cost or market principle. There were no write-downs in financial year 2010 (31.12.2009: TEUR 414).

2.4 Accruals

Accruals for severance payments are recorded for the legal and contractual obligations to members of the Management Board, and for employees, who started working for the Telekom Austria Group before January 1, 2003. The calculation is based on the principles of financial mathematics using the partial value method and applying an interest rate of 3.5% (2009: 3.5%) as well as a deduction for staff turnover of 0% (2009: 4%).

Accruals for anniversary payments are created similar to those for severance payments. They are calculated in the same way as accruals for severance payments.

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 AG's shares in affiliated companies with a share of at least 20% of the relevant company's equity:

Name and company domicile	Share in the capital as of December 31, 2010 %	Book value of equity as of December 31, 2010 TEUR	Net income/loss 2010 TEUR
Affiliated companies			
A1 Telekom Austria Aktiengesellschaft, Vienna	100.0	959,370	46,239
Telekom Projektentwicklungs GmbH, Vienna	99.0	389	–23,775
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.0	698,786	–5
Mobilkom Beteiligungs GmbH, Vienna	100.0	992,546	637,709
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.0	308,088	–58,173
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.0	971,290	120,063
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.0	46,029	–71,003
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.0	1,349,180	112,647

A1 Telekom Austria GmbH was established on February 22, 2010. The company's name was changed from "A1 Telekom Austria GmbH" to "A1 Kroatien Geschäftsentwicklungs GmbH" on registration in the Commercial Register on July 9, 2010.

Through the purchase and assignment agreement dated August 18, 2010, A1 Telekom Austria AG sold mobilkom Belarus Geschäftsentwicklungs GmbH, assigning its entire share, to Telekom Austria AG for EUR 974,700,000.00. A1 Telekom Austria AG also sold mobilkom CEE Geschäftsentwicklungs GmbH, assigning its entire share, to Telekom Austria AG for EUR 346,000,000.00 through the purchase and assignment agreement dated August 18, 2010.

On April 1, 2009, Telekom Austria AG, which holds 99% of the shares in Telekom Projektentwicklungs GmbH, first concluded a profit and loss exclusion agreement with Telekom Finanzmanagement GmbH and then with Telekom Projektentwicklungs GmbH, the sole shareholder in Telekom Finanzmanagement GmbH, with the consent of Telekom Austria TA AG, which holds 1% of Telekom Projektentwicklungs GmbH. This agreement came into effect on January 1, 2009 and can be cancelled in writing by any of the parties to the agreement subject to a three-month notice period to the end of a financial year.

3.2 Receivables and other assets

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

Other receivables include earnings of TEUR 3,822 (31.12.2009: TEUR 3,275), 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 discounts (EMTN program) and loans granted within the Group.

3.4 Shareholders' equity

The common stock of Telekom Austria AG amounts to TEUR 966,183 and is divided into 443,000,000 bearer shares (unit shares). ÖIAG holds 28.42%, 71.48% of the shares represent a free float while the remaining 0.10% is held as treasury stock by the Company.

At the Annual General Meeting on May 20, 2009, the Management Board was authorized to reduce the Company's shareholders' equity by up to EUR 100,326,000.00 by calling in up to 46 million bearer shares 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 Dividend payment

The Management Board will ask the Annual General Meeting on May 19, 2011 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.

3.6 Authorized capital

The Management Board is authorized, with the consent of the Supervisory Board and 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 contribution 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 five 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.

3.7 Accruals

Accrued tax liabilities as of December 31, 2010 relate to a deferred tax liability of TEUR 396,338 (31.12.2009: TEUR 189,961). An accrued liability for deferred taxes was created on temporary differences between the valuations of investments calculated in accordance with the Austrian Commercial Code and the valuations calculated in accordance with the Austrian Fiscal Code on the basis of the corporate restructurings. After netting all temporary differences in profits, a figure of TEUR 396,338 for accrued deferred tax liabilities was produced.

Other accruals include provisions for

Amounts in TEUR	December 31, 2010	December 31, 2009
Outstanding purchase invoices	0	2,334
Stock options	0	20
Long Term Incentive Program (LTI)	282	0
Personnel	2,811	643
Miscellaneous accruals	193	163
Total other accruals	**3,286**	**3,160**

Other accruals were reduced by the item for "accruals for outstanding purchase invoices" of TEUR 2,476 (31.12.2009: TEUR 2,334), which is now recognized in liabilities.

3.8 Liabilities

The maturity and structure of liabilities are shown in the table of liabilities (Annex 3). Other liabilities contain expenditure of TEUR 439 (31.12.2009: TEUR 10), which is not payable until after the reporting date.

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3.9 Other financial obligations

Commitments and contingencies

	December 31, 2010	December 31, .2009
Guarantee in connection with the EMTN program	1,250,000	1,750,000
Guarantee in connection with Bond 2009	750,000	750,000
Bank guarantees	2,890,004	3,065,000
	4,890,004	**5,565,000**

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

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%. The first bond was redeemed as agreed in January 2010.

On January 29, 2009, TFG successfully launched and placed a bond which raised TEUR 750,000 with a 7-year maturity and a coupon of 6.375%. The notes were issued at a re-offer price of 99.238% and used to refinance existing debt. Both Telekom Austria AG and A1 Telekom Austria AG have issued an irrevocable and unconditional guarantee in favor of the bond creditors.

In its guarantee of November 10, 2008, the Company guaranteed that Telekom Austria TA AG would fulfill its obligations resulting from the profit and loss exclusion agreement to Telekom Austria Personalmanagement GmbH.

4 Notes to the Statement of Operations

4.1 Revenues

Revenues of TEUR 17,425 (2009: TEUR 6,802) relate to services such as publicity, public relations and communication, coordination of product development, running the technical infrastructure for the two Fixed Line and Mobile Communication business areas, legal and fiscal advice as well as controlling investments, lobbying and services in connection with the Department of Human Resources and the Civil Service Regulations (Beamtendienstrecht), together with salary and collective agreement negotiations, which are charged by Telekom Austria AG to A1 Telekom Austria AG, MobilTel EAD and VIPnet usluge d.o.o. on the basis of intercompany agreements.

4.2 Other operating income

In essence, other operating income is made up of income from passing on expenditure within the Group of TEUR 722 (2009: income from the reversal of accruals TEUR 18).

4.3 Personnel expenses

Personnel expenses are made up as follows

	2010	2009
Salaries	8,287	1,564
Severance expense	341	160
Pension expense	339	119
Expenses for statutory social security		
and payroll related taxes and contribution	1,480	175
Other social benefits	52	5
	10,500	**2,023**

The average number of full-time employees was 62 (2009: 0). The average number of civil servants was five (2009: 0).

In 2010, the Management Board had two members (2009: three members until March 31, 2009 three, subsequently two).

4.4 Severance and pension expense

Severance and pension expense was made up as follows

	2010	2009
Members of the Management Board	229	279
Top-level management	33	0
Other employees	418	0
	680	**279**

4.5 Other operating expenses

	2010	2009
Other operating taxes	379	293
Other	36,038	23,597
	36,417	**23,890**

Other operating expenses contain payments to A1 Telekom Austria AG of TEUR 12,799 (2009: TEUR 13,203).

4.6 Income from investments

Income from investments contains dividend payments from CEE Stock Exchange Group amounting to TEUR 70 (2009: TEUR 0).

It also includes dividend payments from A1 Telekom Austria AG of TEUR 240,000 (2009: mobilkom austria AG TEUR 405,000, Telekom Austria TA AG TEUR 72,000), mobilkom Bulgarien GeschäftsentwicklungsgmbH of TEUR 112,640, mobilkom Belarus GeschäftsentwicklungsgmbH of TEUR 143,020 and Mobilkom BeteiligungsgmbH of TEUR 782,200.

4.7 Expenses for financial assets

Expenses for affiliated companies of TEUR 23,775 (2009: TEUR 67,041) are the result of the profit and loss exclusion agreement with Telekom Projektentwicklungs GmbH and write-downs of mobilkom Belarus Geschäftsentwicklung GmbH, mobilkom CEE Geschäftsentwicklungs GmbH and mobilkom Mazedonien Geschäftsentwicklungs GmbH of TEUR 260,410 which were required on the basis of current valuations.

4.8 Extraordinary income

Extraordinary income consists entirely of income resulting from the restructuring measures within the Group described in item 1.

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4.9 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, A1 Telekom Austria AG, Telekom Projektentwicklungs GmbH, Telekom Finanzmanagement GmbH, ÖFEG GmbH, World-Direct eBusiness solutions Gesellschaft m.b.H, Telekom Austria Beteiligungen GmbH, A1 Bank AG and mk Logistik GmbH (as of December 31, 2010). Mass Response Service GmbH left the Group in financial year 2010 and was rescinded, effective until 2008.

Since there is a profit and loss exclusion agreement between the Company and Telekom Finanzmanagement GmbH as well as Telekom Projektentwicklungs GmbH, there has been no settlement of a tax apportionment in relation to Telekom Projektentwicklungs GmbH.

	2010	2009
Apportionment group members*)	–21,159	–21,975
Apportionment group members previous years	–336	437
Corporate income tax for tax-group*)	**–21,495**	**–21,538**
Deferred tax liability	206,377	79
Total income tax expense/benefit*)	**184,882**	**–21,459**

*) In the above summary of income taxes, expenses are shown with a plus while income is shown with a minus.

Of the figure for income taxes, TEUR 0 relates to the results of the top-tier corporation, TEUR 336 to income from group apportionments in prior periods and TEUR 206,377 to the change in deferred taxes. The vast majority of the deferred tax liability is long-term.

5 Other information

5.1 Management Board remuneration

	2010	2009
Compensation Management Board	2,320	2,320
Compensation Supervisory Board	179	173
	2,499	**2,492**

The remuneration paid to members of the Management Board does not include benefits from the stock option program or the LTI program; see “Stock Option and LTI programs”.

5.2 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 AG were issued on January 12, 2006. In view of the fact that 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 up to the end of March 2010. 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 could be converted up to the end of May 2010 (maturity). No options were exercised in either the Company or in subsidiaries in 2010.

5.3 Stock Option Program 2007 (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. 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. In view of the fact that the hurdle was reached in March 2008 and in line with the Company’s decision, participants are solely entitled to exercise their options in the form of a cash payment. The earliest date on which options could be exercised was February 27, 2008. The exercise period will end on May 31, 2011. The options are not transferable.

The options were valued using an option valuation model at EUR 0.00 (2009: EUR 0.28) per unit, as of the reporting date December 31, 2010 and form the basis for calculating Telekom Austria AG's obligation to Management Board members.

In the financial year, the stock option program led to employee income of TEUR 33 (2009: TEUR 55).

The options granted were allocated as follows:

ESOP 2007+	Options granted 2007	Options exercised 2010	Outstanding options
Management Board members			
Boris Nemsic	120,000	0	0
Rudolf Fischer	120,000	0	0
Hannes Ametsreiter	0	0	70,000
Top-level management	0	0	37,680
Other employees	46,605	0	236,260
Total Telekom Austria AG	**286,605**	**0**	**343,940**
Executive bodies and eligible employees in affiliated companies	1,956,286	0	1,522,596

5.4 Stock Option Program 2008 (ESOP 2008+)

In the course of the second tranche of the Stock Option Program ESOP 2007-2009 (ESOP 2008+), 4,401,130 options in the Telekom Austria Group were issued on January 7, 2008, of which 360,000 were in Telekom Austria AG. In line with the decision by the Company, participants are solely entitled to exercise their options in the form of a cash payment. The earliest date on which options can be exercised is February 23, 2011. The exercise period will end on May 31, 2012. The options are not transferable.

The exercise price of EUR 19.39 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 7, 2008).

As was the case with ESOP 2004+, ESOP 2005+, ESOP 2006+ and ESOP 2007+, ESOP 2008+ is based on the profitability of the Telekom Austria Group. The exercise of options that were allocated in 2008 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2008 has been reached. If this EPS target value set for financial year 2008 is not reached, options may still be exercised if an EPS target value set by the Supervisory Board for financial year 2009 or for financial year 2010, which must be at least equal to the 2008 target value, is reached. So far the EPS target value has not been reached. The Company assumes that the EPS target value will not be reached for the financial years 2009 and 2010 either, which means the liability no longer has to be reported.

The options were valued using an option valuation model at EUR 0.02 (2009: EUR 0.51) per unit, as of the reporting date December 31, 2010 and form the basis for calculating Telekom Austria AG's obligation to the Management Board members. However, the Company assumes that the EPS target value set will not be reached for the financial years 2009 and 2010, which means that the liability no longer has to be reported. In the financial year, employee income of TEUR 0 (2009: TEUR 156) arose in connection with ESOP 2008+.

The options granted were allocated as follows:

ESOP 2008+	Options granted 2008	Options exercised 2010	Outstanding options
Management Board members			
Boris Nemsic	120,000	0	0
Rudolf Fischer	120,000	0	0
Johann Tschuden	120,000	0	120,000
Hannes Ametsreiter	0	0	120,000
Top-level management	0	0	55,650
Other employees	56,340	0	267,435
Total Telekom Austria AG	**416,340**	**0**	**563,085**
Executive bodies and eligible employees in affiliated companies	2,593,695	0	2,171,660

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5.5 Stock Option Program 2009 (ESOP 2009+)

In the course of the third tranche of the Stock Option Program ESOP 2007-2009 (ESOP 2009+), 4,923,090 options in the Telekom Austria Group were issued on January 14, 2009, of which 360,000 were in Telekom Austria AG. In line with the decision by the Company, participants are solely entitled to exercise their options in the form of a cash payment. The earliest date on which the options can be exercised is February 23, 2011. The exercise period will end on May 31, 2013.

The exercise price of EUR 11.06 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 14, 2009).

ESOP 2009+ is based, as were the prior years' programs, on the profitability of the Telekom Austria Group. The exercise of options that were allocated in 2009 presupposes that the EPS target value (EPS = earnings per share) set by the Supervisory Board for financial year 2009 has been reached. If this EPS target set for financial year 2009 is not reached, options may still be exercised if an EPS target value set by the Supervisory Board for financial year 2010 or financial year 2011, which must be at least equal to the 2009 target value, is reached.

The tranche of ESOP 2009+ allocated on January 14, 2009 can be converted up to the end of May 2013 (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 2010. The options are not transferable.

The options were valued using an option valuation model at EUR 0.79 (2009: EUR 1.00) per unit, as of the reporting date December 31, 2010 and form the basis for calculating Telekom Austria AG's obligation to Management Board members. However, the Company assumes that the EPS target value set will not be reached for the financial years 2009, 2010 and 2011, which means that the liability does not have to be reported.

ESOP 2009+	Options granted 2009	Options exercised 2010	Outstanding options
Management Board members			
Boris Nemsic	120,000	0	0
Hannes Ametsreiter	120,000	0	120,000
Johann Tschuden	120,000	0	120,000
Top-level management	0	0	108,150
Other employees	114,240	0	326,700
Total Telekom Austria AG	**474,240**	**0**	**674,850**
Executive bodies and eligible employees in affiliated companies	3,991,001	0	3,364,225

5.6 Additional information on the stock option programs

The fair value of the options was set on the basis of the binominal options pricing model using the following parameters.

	2010	2009
Expected average dividend per share in EUR	0.76 - 0.80	0.75 - 0.77
Expected volatility	26 %	50 %
Risk-free interest rate range	0.612 % - 2.704 %	0.410 % - 2.993 %
Share price used as of 31.12. in EUR	10.52	9.95

There have been the following changes to the options granted under the stock option programs and the average weighted exercise prices:

Number of options	2010	2009
Outstanding on January 1	800,141	480,000
Issued	0	360,000
Forfeited	69,776	0
Exercised	0	0
Transfer	–869,795	–242,780
Expired	18,285	480,000
Outstanding on December 31	1,581,875	117,220
of which can be exercised on 31.12.	343,940	122,780

Average weighted exercise price	2010	2009
Outstanding on January 1	16.14	19.51
Issued	0.00	11.06
Expired/forfeited	19.85	17.43
Exercised	0.00	0.00
Outstanding on December 31	16.04	16.14
of which can be exercised on 31.12.	20.34	19.73

5.7 Long Term Incentive (LTI) Program

On December 9, 2009, the Supervisory Board of Telekom Austria AG approved the LTI program, in particular the first tranche 2010. Additional tranches were promised. Participants must deposit their own investments in Telekom Austria shares, depending on their annual, gross fixed salary and the management level of the eligible persons, at least until the end of the retention period. The number of shares granted accordingly will be calculated separately for each tranche with the average price of the Telekom Austria share over a defined period. This right is not transferable.

Three years was specified in each case as the period in which the targets are to be achieved. Free cash flow, total shareholder return and EBITDA were determined as key indicators. The target values for these key indicators will be set at the beginning of each tranche. On the vesting date, bonus shares will be allocated to the participants in the same amount as their own investments if the targets are met in full, payment will be made in cash. If the targets are met by more than 100%, proportionally more shares will be allocated accordingly, however, subject to a maximum of 175% of the number of shares subscribed in the event of 100% achievement of targets. However, at least 25% of the number of shares subscribed will be allocated in the event of 100% achievement of targets.

On the reporting date, there is a liability for the share of the future anticipated expense of the LTI program already earned, which was calculated on the basis of fair values. The fair values were established by using the expected achievement of the performance criteria and the expected share price, which is based on a binominal tree process. Expected dividends were also included in the calculation. The liability will be built up over the period in which the targets are to be achieved.

LTI-Program 2010	
Start of the period in which targets are to be achieved	January 1, 2010
Date on which shares are granted	September 1, 2010
End of the period in which targets are to be achieved	December 31, 2012
Vesting date	August 31, 2013

in EUR '000s 113

LTI-Program 2010	Own investment at the time shares are granted in shares	Own investment on 31.12.2010 in shares
Management Board members		
Hannes Ametsreiter	25,674	25,674
Johann Tschuden	25,674	25,674
Top-level management	17,900	17,900
Other employees	34,480	32,180
Total Telekom Austria AG	**103,728**	**101,428**
Executive bodies and eligible employees in subsidiaries	369,042	367,494

	LTI 2010
Expected bonus shares	89,499
Maximum bonus shares	177,499
Fair value in TEUR	847

5.8 Employee Participation Program

The Employee Participation Program (MAB) 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. No Employee Participation Program was adopted in 2010.

In financial year 2010, the Company did not incur any expenses (2009: TEUR 1,616).

5.9 Corporate relations

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.

5.10 Other disclosures

In accordance with Section 237 Clause 8b final sentence of the Austrian Commercial Code, the Company makes use of the exemption regarding the disclosure of transactions with related parties.

The Company is a large joint stock company as defined in Section 221 of the Austrian Commercial Code.

In accordance with Section 237 Clause 14 of the Austrian Commercial Code, the Company makes use of the exemption regarding disclosures on the expenses for auditors.

6 Members of the Management Board and Supervisory Board

Management Board
Hannes Ametsreiter
Johann Tschuden

Supervisory Board	
Peter Michaelis	Chairman of the Supervisory Board
Edith Hlawati	Deputy Chairwoman
Silvia Bauer	until November 3, 2010
Henrietta Egerth-Stadlhuber	
Wilhelm Eidenberger	
Markus Hinker	from February 18, 2010 to December 31, 2010
Michael Kolek	until February 2, 2010
Stephan Koren	until May 27, 2010
Werner Luksch	until October 20, 2010; from January 11, 2011
Peter J. Oswald	
Wolfgang Ruttenstorfer	since May 27, 2010
Alexander Sollak	since November 3, 2010
Wilfried Stadler	
Harald Stöber	
Rainer Wieltsch	
Gottfried Zehetleitner	since October 27, 2010

Vienna, February 14, 2011

The Management Board

Dr. Hannes Ametsreiter

Chairman of the Management Board

Mag. Johann Tschuden

Vice Chairman of the Management Board

in EUR '000s

Exhibit 1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Development of fixed assets

Amounts in TEUR	Cost of acquisition As of Jan 1, 2010	Additions	Disposals	As of Dec. 31, 2010	Accumulated depreciation	Carrying amount Dec. 31, 2010	Carrying amount Dec. 31, 2009	Depreciation Financial year 2010
Financial assets								
1. Investments in affiliated companies	6,012,202	2,055,525	70,035	7,997,694	265,753	7,731,940	4,222,948	260,410
2. Investments	543	0	0	543	0	543	543	0
	6,012,746	**2,055,525**	**70,035**	**7,998,237**	**265,753**	**7,732,484**	**4,223,492**	**260,410**

Exhibit 2

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table December 31, 2010

Amounts in TEUR	Carrying amount	up to 1 year	maturity exceeding 1 year
1. Accounts receivable – trade	11	11	
2. Accounts receivable – affiliated companies			
- Trade	6,430	6,430	0
- Financial	0	0	0
- Other receivables and assets	1,364,867	1,364,867	0
	1,371,298	**1,371,298**	**0**
3. Other receivables and assets	30,809	30,809	0
Receivables	**1,402,117**	**1,402,117**	**0**

Accounts receivable table December 31, 2009

Amounts in TEUR	carrying amount	up to 1 year	maturity exceeding 1 year
1. Accounts receivable – affiliated companies			
- Trade	796	796	0
- Financial	0	0	0
- Other receivables and assets	509,531	509,531	0
	510,328	**510,328**	**0**
2. Other receivables and assets	29,627	29,627	0
Receivables	**539,955**	**539,955**	**0**

in EUR '000s 117

Exhibit 3

Telekom Austria Aktiengesellschaft, Vienna, Austria

Table of liabilities December 31, 2010

Amounts in TEUR	balance sheet value	up to 1 year	1-5 years	maturity exceeding 5 years
1. Bank loans and overdrafts	0	0	0	0
2. Accounts payable – trade	7,003	7,003	0	0
3. Accounts payable – affiliated companies				
- Trade	1,708	1,708	0	0
- Financial	4,356,477	1,231,427	1,650,350	1,474,700
- Others	25,596	25,596	0	0
	4,383,781	**1,258,731**	**1,650,350**	**1,474,700**
4. Other liabilities	439	439	0	0
Accounts payable	**4,391,223**	**1,266,173**	**1,650,350**	**1,474,700**

Table of liabilities December 31, 2009

Amounts in TEUR	Carrying amount	up to 1 year	1-5 years	maturity exceeding 5 years
1. Accounts payable - trade	546	546	0	0
2. Accounts payable – affiliated companies				
- Trade	1,120	1,120	0	0
- Financial	1,504,664	474,664	530,000	500,000
- Others	80,948	80,948	0	0
	1,586,733	**556,733**	**530,000**	**500,000**
3. Other liabilities	10	10	0	0
Accounts payable	**1,587,289**	**557,289**	**530,000**	**500,000**

EXHIBIT IV

Management Report

of Telekom Austria Aktiengesellschaft for the Period January 1 to December 31, 2010

Recovery of Global Economic and Financial Markets

Following a deep-seated economic and financial crisis, which started to unfold in 2008 and peaked in mid 2009, the 2010 business year was characterized by a perceptible economic recovery that varied in intensity across countries. While in some of the EU member states like Germany, Austria and Finland the recovery clearly started to gather momentum in the year under review, the economies of Spain, Greece and Ireland labored under the strains of a persistent recession and national debt crises. Both Greece and Ireland applied for financial assistance from the European Financial Stability Facility (EFSF), triggering off widespread uncertainty on the financial markets and leading to substantial depreciation of the euro by the middle of the year. Economic trends in Austria benefited from export growth and a greater willingness to invest. According to preliminary estimates by the Austrian Institute of Economic Research (WIFO), real GDP in Austria rose by 2.0%, the unemployment rate declined from 4.8% to 4.4% well below the EU 27 average of 9.6%, while inflation increased from 0.5% to 1.9%.

In 2010, Central and Eastern Europe profited from a stronger economic performance in Western Europe and were able to generate growth from the export sector. However, in Southeastern Europe, impetus for growth was significantly weaker due to subdued foreign investment. The development of currencies in Central and Eastern Europe was marked by increasing stabilization, which in Croatia and the Republic of Serbia was mainly attributable to central bank intervention.

In the year under review, the economic recovery in large parts of Europe and the US along with the sustained growth of the Asian economies went hand in hand with the stabilization of the international financial markets. This favorable development was supported by liquidity injections from central banks and companies' improved profitability. At the Vienna Stock Exchange, the leading index ATX recorded a plus of 14.5% and the DAX in Germany an increase of approximately 16%. Both the European Central Bank and the US Federal Reserve Bank continued to pursue a low interest-rate policy in the year under review. As a result, the key interest rate of the ECB has been stable at a level of 1.0% since May 2009 and that of the FED has remained unchanged at 0.25% since October 2008

Telekom Industry Trends

The Telekom Austria Group operates in a highly competitive environment both in the fixed line and mobile communication markets. The resulting negative impact on pricing levels is further intensified by regulatory measures in all segments. Continuous scrutiny of cost structures and improvements to productivity and operating efficiency are therefore essential for the success of the Telekom Austria Group.

In Austria, continued fixed-to-mobile substitution reflects the dynamics of current technological change. At the same time, the trend towards convergent products and customer demand for one-stop-shop communication services are increasingly gathering momentum. For this reason, in 2010 the Group's domestic fixed line and mobile communication operations were merged into a convergent telecom provider under the name A1 Telekom Austria AG. Competitiveness is safeguarded by a market-oriented product portfolio and attractive pricing schemes

In the Central and Eastern European region, the development of the telecommunication industry continues to be shaped by a challenging macro-economic environment, additional fiscal levies in Croatia and the Republic of Serbia (the levy in Serbia was abolished in January 2011) as well as a high level of competition. Moreover, convergent bundles and innovative premium products are gaining increasing importance and are influencing customer usage patterns.

Regulatory measures, especially the reduction of mobile termination charges and roaming tariffs, are negatively impacting the Group's operational performance across all segments.

Change in the Reporting Structure

The Telekom Austria Group has realigned its management structure to reflect the increasing demand for convergent products. As a result, segment reporting is now based on geographical markets instead of the segmentation in fixed line and mobile communication businesses. The Telekom Austria Group reports separately on five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets

In the course of these organizational changes, Telekom Austria Aktiengesellschaft (Telekom Austria AG) was restructured into a management holding company.

Financial Performance Indicators

Due to the restructuring of Telekom Austria AG from a purely financial holding company into a management holding company, it is not possible to compare the figures below with those of the previous year. Further explanations regarding this organizational restructuring are provided in the Notes.

The balance sheet total rose to EUR 9,147.7 million in 2010 compared to EUR 4,773.0 million in 2009. Due to the increased share in affiliated companies, non-current assets increased to EUR 7,732.5 million. On December 31, 2010 current assets totaled EUR 1.406,5 million due to higher accounts receivable from affiliated companies.

At year-end 2010 stockholders' equity amounted to EUR 4,354.4 million (2009: EUR 2,991.6 million). The increase in accruals from EUR 194.1 million in the previous year to EUR 402.1 million in 2010 was mainly attributable to higher deferred tax liabilities as a result of the restructuring. Liabilities increased to EUR 4,391.2 million due to a rise in accounts payable to affiliated companies.

The services rendered by the management holding company in 2010 led to an increase in revenues from EUR 6.8 million in 2009 to EUR 17.4 million. Extraordinary earnings rose to EUR 1,018.1 million owing to the restructuring.

Due to the restructuring other operating expenses increased by a total of EUR 12.1 million to EUR 36.0 million. The operating loss changed from EUR 19.1 million in 2009 to EUR 28.4 million in 2010.

Income from investments rose by EUR 800.9 million from EUR 477.0 million in 2009 to EUR 1,277.9 million in 2010, with A1 Telekom Austria AG contributing EUR 240.0 million to the income from investments of the management holding.

The financial result in 2010 continued to be influenced by lower interest rates. Interest expenses, mainly owed to affiliated companies, rose by rose by 90.9% from EUR 54.5 million in 2009 to EUR 104.0 million due to the restructuring.

In the year under review, the result from ordinary business activities rose to EUR 861.5 million compared to EUR 335.4 million in the previous year due to the restructuring.

Tax expenses totaling EUR 184.9 million resulted on the one hand from tax income apportionments for 2010 amounting to EUR 21.2 million and tax income apportionments from prior periods amounting to EUR 0.3 million. An increase in deferred taxes as a result of the restructuring also contributed to higher tax expenses.

This led to net income of EUR 1,694.7 million for the 2010 financial year.

The Management Board will ask the Annual General Meeting 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.

The equity ratio, the fictitious debt repayment period and ROI (Return on Investments) of Telekom Austria AG as well as the method according to which they are calculated are explained in brief below:

At year-end 2010 the equity ratio pursuant to § 23 of the Business Reorganization Act (URG) amounted to 47.6 % (2009: 62.7 %). This ratio is calculated from total equity divided by total assets.

The fictitious debt repayment period as of December 31, 2010 was 4.2 years (2009: 5 years) and indicates how many years it would take to discharge debts based on surplus funds.

The return on investment (ROI) increased from 8.2% in 2009 to 10.6 % in 2010. This figure shows the return on equity and borrowed capital and is calculated by dividing earnings before interest and taxes by total capital.

Affiliated Companies

Telekom Austria AG is successfully positioned on international markets. At year-end 2010, the mobile subscriber base amounted to 19.9 million customers, while fixed access lines totaled 2.3 million lines.

In 2010 A1 Telekom Austria grew its mobile customer base by 5.6% to 5.1 million customers. The market share amounted to 41.4% in the reporting year compared to 42.6% in the previous year. The mobile penetration rate was 146.7%. Average revenues per mobile communication user (ARPU) amounted to EUR 22.0. Due to the continuing success of product bundles, the decline in fixed access lines was stopped in the year under review and 1,400 net additions registered after a loss of 23,300 lines in 2009. Average revenues per fixed access line (ARPL) amounted to EUR 33.3.

At year-end 2010 Mobiltel, the leading mobile communication provider in Bulgaria, had 5.3 million customers, a slight decline of 1.9% compared to the previous year, while in the same period its market share remained stable at around 50%. The penetration rate in Bulgaria reached 140.8%.

Vipnet, the second-largest mobile communication provider in Croatia, expanded its subscriber base by 5.6% to 2.8 million customers at year-end 2010. Vipnet's market share rose to 43.1% at the end of the fourth quarter 2010. The penetration rate in Croatia was 144.5%.

velcom, the second-largest mobile communication operator in Belarus, expanded its customer base by 6.1% from 4.1 million customers at year-end 2009 to 4.4 million at the end of 2010. As of December 31, 2009 velcom held a market share of 42.7% compared to 42.0% at the end of December 2010. The penetration rate in Belarus was 109.6%.

In 2010 Si.mobil, the second-largest mobile communication operator in Slovenia grew its subscriber base by 5.0% to 618,900 customers, improving its market share from 28.2% to 29.2% in a year-on-year comparison. At year-end 2010 the penetration rate in Slovenia was 102.7% compared to 102.9% at year-end 2009.

Vip mobile, the third-largest mobile communication operator in the Republic of Serbia, expanded its customer base by 17.8% to 1.4 million customers, and at year-end 2010 held a market share of 13.7%. By the end of 2010 the penetration rate in the Republic of Serbia had reached 134.1%.

Vip operator, the third-largest mobile communication operator in the Republic of Macedonia, had 442,200 customers at the end of 2010, compared to 303,700 customers at the end of 2009, an increase of 45.6% year-on-year. Vip operator increased its market share from 15.9% at the end of 2009 to 19.9% at the end of 2010. As of December 31, 2010 the Republic of Macedonia had a penetration rate of 108.2%.

In 2010 mobilkom liechtenstein expanded its customer base by 1.6% from 6,300 to 6,400 subscribers. Market share was 20.2%.

Changes to the Management Board and the Supervisory Board

Following the resignation of Stephan Koren from the Supervisory Board of Telekom Austria AG, Wolfgang Ruttenstorfer was elected to the Supervisory Board at the Annual General Meeting held on May 27, 2010. Due to the restructuring of the Group and Works Council elections, several members of the Supervisory Board delegated by the Works Council were replaced. Following the resignation of Michael Kolek from the Supervisory Board on February 10, 2010, Markus Hinker was delegated to the Supervisory Board from February 18 to December 31, 2010. Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and reassumed his mandate on January 11, 2011. Gottfried Zehetleitner has been a member of the Supervisory Board since October 27, 2010. Silvia Bauer resigned from the Supervisory Board on November 3, 2010. Alexander Sollak was appointed to the Supervisory Board as of the same date.

Innovation and Technology

The Telekom Austria Group's wide range of research and development activities focus on the creation of market-oriented products and services as well as the further technological development of network infrastructures

In Austria, the rollout of the Next Generation Network (NGN) was continued in 2010. In addition to the continued upgrading of switching centers on the basis of VDSL technology (FTTEx – Fiber To The Exchange), four fiber-optic pilot projects were initiated. The second of the four pilot projects was completed in 2010, providing valuable experience in terms of costs and customer acceptance. Parallel to this, the further development and gradual migration of the existing infrastructure to a state-of-the-art All-IP service platform was pushed ahead. Investments in mobile communication networks were continued in 2010 to ensure adequate transmission capacity for the rising volume of data traffic and excellent quality in all networks.

Thus, four paired frequency blocks with 2x5 MHz each and five unpaired frequency blocks with 5 MHz each were acquired for the Austrian market at a 2.6 GHz frequency auction in September 2010. These frequency blocks provide the basis for the introduction of the Long Term Evolution technology. The commercial launch of the UMTS network in Belarus took place at the start of the reporting year.

Sustainable Corporate Management

The Telekom Austria Group's prime strategic objective is to sustainably enhance shareholder value. This goal is also reflected in the company's cash use policy. The focus is on integrating and striking a balance between economic, ecological and social aspects. The instruments used at Group level such as the Internal Control system, the Code of Conduct, compliance guidelines together with the commitment to comply with the Austrian Corporate Governance Code underline this corporate orientation.

Innovative solutions provided by information and communication technologies offer significant potential for climate protection. The virtualization and digitalization of processes reduces the impact on the environment. Video-conferencing and teleworking help eliminate travel, thus reducing CO_2 emissions. Increased use of e-government, e-health, e-studying etc. also offers savings potential.

The Telekom Austria Group companies are active participants in a range of national and international environmental protection initiatives. By joining the WWF Climate Group A1 Telekom Austria undertook to reduce its CO2 emissions by at least 15.0% before 2012. A department for energy management ensures continuous improvements to energy efficiency and the systematic optimization of energy flows. In 2009 the energy management system was certified according to the new Austrian Standard ÖNORM EN 16001. To combat rising electricity consumption at computer centers, A1 Telekom Austria has also signed up to the Code of Conduct on Data Centres Energy Efficiency and the Code of Conduct on Energy Consumption of Broadband Equipment of the European Union.

Shareholder Structure and Disclosure about Share Capital

At year-end 2010, 71.48% or 316.6 million Telekom Austria AG shares were free-float. A further 0.1% or 0.4 million shares were held by the company itself. The remaining stake amounting to 28.42% or 125.9 million shares was held by the Republic of Austria through ÖIAG. As of January 20, 2009 Capital Research & Management, California, announced that it had increased its stake to 15.13% or 67.0 million of the 443 million shares originally issued. 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.

At the Annual General Meeting on May 20, 2009, the Management Board was authorized without further shareholder resolution to decrease the share capital of the company by up to EUR 100,326,000 by withdrawing up to 46 million treasury registered or bearer shares without par value pursuant to § 65 para. 1 No. 8 last sentence of the Stock Corporation Act as amended. There were no share buybacks in the year under review.

Several finance agreements contain Change of Control clauses, which can ultimately lead to termination of contract. Apart from these, the company has entered into no significant agreements that will become effective, change or be terminated upon a change of control in the company or a takeover bid.

The voting rights attached to shares belonging to the Telekom Austria Group's employees, which are held in a collective custody account, are exercised by a notary.

Risk Management

Risk management at the Telekom Austria Group systematically identifies possible events and trends, and regulates procedures for dealing with both potential risks and opportunities. The main focus of activities is on market and competitive risks, interventions by regulators and uncertain legal situations, which could influence the company's success. The quality and technical reliability of infrastructure facilities and the security of data networks are also key areas of risk management, as weather conditions, human error or force majeure can have a negative impact on their performance. Risks and opportunities are regularly analyzed at both the segment and the Group level and effective measures are implemented to reduce or identify them. The effects of deviations from plan are established using, inter alia, scenario and probability calculations. The Telekom Austria Group's overall risk is calculated on the basis of the sum of individual risks. In addition to the Austrian fixed line and mobile communication markets, the Telekom Austria Group holds a leading position in the telecommunication markets of seven other countries, which provide the basis for both sectoral and broad geographical diversification.

As the operating markets of the Telekom Austria Group are exposed to risks of a diverse nature, risk management implementation is not a centrally steered process but falls under the responsibility of the designated managers. Segment-wide monitoring and coordination is carried out by a central risk manager. In structured interviews and workshops with top management, risks are identified, evaluated and then compiled in a risk report, on the basis of which, measures are drawn up and put in place to mitigate and avoid risks. Their effectiveness is then monitored in a second step.

Proper risk control is achieved by dovetailing business planning and risk management. Risk management at the Telekom Austria Group is monitored by the Audit Committee of the Supervisory Board on the basis of a risk catalogue, which defines regional and segment-related risks. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. A regular status report is sent to management as a controlling instrument.

Action was taken to counter risks arising from the integration of mobilkom austria Aktiengesellschaft and Telekom Austria TA AG by establishing an Integration Office and appointing a Chief Integration Officer to manage the integration process in 2010. In addition, a crisis intervention center was set up to offer anonymous telephone and personal counseling to help employees cope with acute psychosocial crises.

The most important risk categories and individual risks, which could have a significant impact on the financial, assets and earnings position of the Telekom Austria Group, are explained below. This complies with the requirement of the Austrian Corporate Governance Code on the publication of risks and uncertainties.

Market and Competitive Risks

A high level of competition, which also increasingly affects the foreign markets, is leading to sharp falls in prices in voice telephony and data traffic. There is therefore a risk that volume growth will not be able to offset price declines. Although falling prices for mobile communication also accelerate fixed-to-mobile substitution, attractive product packages and a convergent corporate strategy led to a slight increase in the number of fixed access lines in Austria in 2010.

Regulatory and Legal Risks

Telecommunication services offered by a provider with significant market power are subject to network access and price regulation. The Telekom Austria Group is categorized as such in Austria in several submarkets; the foreign subsidiaries are also subject to the regulatory frameworks of their own countries. Operational flexibility with regard to fixed line and bundled products is curtailed by regulation at both the retail and wholesale levels as well as by the obligation to open up access to fixed infrastructure and services. Furthermore, regulatory decisions to reduce termination charges can also negatively impact the results of the Telekom Austria Group.

In 2007 the European Parliament and the European Council passed a resolution for the introduction of comprehensive regulation of roaming tariffs for calls within the European Union. In 2009 the validity of this Regulation was extended until 2012 and its scope expanded to cover roaming SMS and data services on the basis of a subsequent provision. This provision affects the Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria.

The Telekom Austria Group is party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the company, enable the Group to identify problems early on and develop measures to counteract them.

Financial and Economic Risks

The Telekom Austria Group is exposed to liquidity, loss, currency, transfer and interest-rate risks. Medium- and short-term financing instruments in a variety of currencies and with different legal frameworks can only limit these risks. A liquidity reserve is held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility. Details of the financial and economic risks are described in the Notes to the Consolidated Financial Statements under the heading Financial Instruments.

The Telekom Austria Group's financing company, Telekom Finanzmanagement GmbH (TFG), uses derivative financial instruments to manage sustained fluctuations in interest rates and to minimize the risk of currency translation effects. The company has established a control environment, which includes policies and procedures for risk assessment, approval, reporting and monitoring of derivative financial instruments. The company is not a party to leveraged derivatives and corporate policies prohibit the holding or issuing of financial instruments for speculative purposes.

The market risk pertaining to long-term debt and derivative instruments is quantified using value-at-risk models. In 2003 and 2008 TFG entered into interest rate swaps.

Exposure to Credit Risks

The Telekom Austria Group regularly monitors its exposure to credit risk; there is no significant credit risk exposure with regard to any individual business partner or any individual financial instrument. To reduce the non-performance risk relating to contractual obligation in derivatives, the swap contracts are subject to Swap Dealer Agreements.

Safeguarding the Value of Assets

Each year the Telekom Austria Group tests assets, in particular equity stakes in other companies, for impairment. In the course of the impairment tests, which are carried out at least once a year, but also whenever internal or external events make it necessary, each company is subjected to detailed scrutiny on the basis of the business plan.

Personnel

On December 31, 2010 Telekom Austria AG had 150 employees.

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 speed with which the infrastructure reaches its end-of-life. Effective measures to ensure maximum network reliability and fault tolerance encompass redundant critical network components, firewalls, self-defending networks and the implementation of the highest safety standards.

Due to its expansion into Eastern and Southeastern Europe, the Group operates in markets that have been experiencing political and economic changes, which could affect the business activities of the Telekom Austria Group.

Internal Control System for Financial Reporting

Even after delisting from the New York Stock Exchange, the Telekom Austria Group has retained its internal control system for financial reporting (ICS) and thus complies with the EU standards, which have been mandatory since 2009. The internal control system should ensure adequate certainty regarding the reliability and correctness of the external financial reporting in compliance with national and international standards. The most important content and principles apply to all Telekom Austria Group companies. Each important financial transaction has a risk and control matrix behind it to ensure that financial reporting is correct and complete. The effectiveness of this system is surveyed, analyzed and evaluated at regular intervals. Additional measures such as the Compliance Guidelines, Code of Conduct and the commitment to comply with the Austrian Corporate Governance Code also ensure the effectiveness of the internal control system. At the end of the year, a management evaluation of the companies under scrutiny is carried out in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management confirmed the effectiveness of the internal control system as of December 31, 2010.

Major Subsequent Events

There were no major events subsequent to the balance sheet date.

Outlook

The Telekom Austria Group expects that the market environment in 2011 will continue to be shaped by negative external effects, strong competition and a slow recovery. These negative external effects mainly encompass unabated fixed-to-mobile substitution in Austria, continued price pressure in all the Group's major markets and the impact of regulatory-induced lower roaming prices and mobile termination charges. A levy on certain mobile communication services in Croatia also constitutes an additional burden.

For the 2011 financial year, revenues are expected to amount to up to EUR 4.60 billion and EBITDA comparable to up to EUR 1.60 billion. Capital expenditures are forecast to reach up to EUR 800 million although this figure does not include investments in licenses or the acquisition of additional frequencies. Operating free cash flow, which is defined as EBITDA comparable less capital expenditures, is expected to amount to approximately EUR 800 million in 2011.

The Telekom Austria Group intends to distribute 55% of free cash flow as a dividend. For the years 2011 and 2012 a dividend floor of EUR 0.76 per share will apply. Maintaining a stable investment grade rating of at least "BBB" (stable outlook) will remain central to the Group's financial profile. A higher leverage corridor of 2.0x – 2.5x net debt/EBITDA comparable provides increased flexibility to balance share buybacks with growth projects. The start of share buybacks depends on the potential volume of growth projects. However, cash will always be returned to shareholders via share buybacks if leverage falls below 2.0x net debt/EBITDA comparable. A stable business and currency environment remains a general prerequisite for share buybacks.

Vienna, February 14, 2011

The Management Board

Hannes Ametsreiter	Johann Tschuden
Chairman of the Management Board	Vice Chairman of the Management Board

Report on the Financial Statements

We have audited the accompanying financial statements, including the accounting system, of

Telekom Austria Aktiengesellschaft,Vienna,

for the fiscal year from 1 January 2010 to 31 December 2010. These financial statements comprise the balance sheet as of 31 December 2010, the income statement for the fiscal year ended 31 December 2010, and the notes.

Management's Responsibility for the Financial Statements and for the Accounting System

The Company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of Type and Scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance for the year from 1 January 2010 to 31 December 2010 in accordance with Austrian Generally Accepted Accounting Principles.

Report on Other Legal Requirements (Management Report)

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 14 February 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

DDr. Martin Wagner	Mag. Rainer Hassler
Wirtschaftsprüfer	Wirtschaftsprüfer
(Austrian Chartered Accountants)	

Report by the Supervisory Board

Ladies and Gentlemen,

With the integration of the fixed line and mobile communication activities on the domestic market in 2010 and the group-wide reorientation of Corporate Governance, the Telekom Austria Group is well-prepared to meet future customer demand for convergent solutions and higher bandwidths. In the year under review, the Telekom Austria Group continued to respond to the challenges presented by its highly competitive, increasingly saturated markets and the persistently difficult macroeconomic environment with a marketing and technology offensive combined with measures to enhance operational excellence.

In the 2010 financial year, the Supervisory Board held extensive discussions on the strategic orientation and business development of the Telekom Austria Group and the individual operating companies at seven meetings of the Supervisory Board and at one strategy workshop. The Supervisory Board also oversaw the integration of fixed line and mobile communication activities in Austria and the implementation of effective corporate governance structures in the new Group structure. Other activities involved assessing valueaccretive growth opportunities to strengthen the Telekom Austria Group's position as an integrated, convergent provider of smart information and communication solutions, as well as evaluating market consolidation possibilities. In spring 2010, the Supervisory Board also dealt with the systemic basis and effectiveness of the compliance management system in greater detail.

Together with the Management Board, the Supervisory Board drew up resolutions to be put before the Annual General Meeting on May 27, 2010. The legal requirements of the amendment to the Stock Corporation Act necessitated an extensive revision of the Articles of Association. Furthermore, following the resignation of Stephan Koren, who has been on the company's Supervisory Board for many years, the Nomination Committee and the Supervisory Board prepared a nomination proposal for this vacant seat. With Wolfgang Ruttenstorfer, who has recently joined the company's Supervisory Board, Telekom Austria AG has been able to attract an executive with many years of experience as the head of one of the largest companies listed on the ATX and who has extensive market expertise in Eastern Europe.

Due to the restructuring of the Group and Works Council elections, several members of the Supervisory Board delegated by the Works Council were replaced. Following the resignation of Michael Kolek in February 2010, Markus Hinker was delegated to the Supervisory Board until the end of the year. Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and reassumed his mandate on January 11, 2011. Gottfried Zehetleitner joined the Supervisory Board on October 27, 2010. Silvia Bauer, who resigned from the Supervisory Board in early November 2010, was replaced by Alexander Sollak.

I would therefore like to offer my warmest thanks to all former members of the Supervisory Board, and in particular to Stephan Koren, for the constructive contribution they have made to the successful development of the Telekom Austria Group.

At its meeting in August 2010 in Bulgaria, the Supervisory Board had the opportunity to gain a first-hand impression of the strategic orientation of the Bulgarian subsidiary Mobiltel, and to discuss with the local management the acquisitions that have been made with the aim of repositioning the company on the basis of an expanded, convergent portfolio.

The strategy workshop dealt in detail with the framework conditions, future challenges and the resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented growth going forward. The 2011 budget and the business plan for the period 2011 to 2014 were the main topics of discussion at the meeting of the Supervisory Board in December 2010. At this meeting the Supervisory Board also analyzed the effectiveness of its activities pursuant to Rule 36 of the Austrian Corporate Governance Code on the basis of the results of the self-evaluation questionnaire.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code and to a responsible company management and control aimed at generating sustainable corporate value. The Supervisory Board has, therefore, laid down criteria for determining the independence of its members. All shareholder representatives on the Board declared their independence pursuant to Rule 53 of the Austrian Corporate Governance Code, while seven out of eight members of the Supervisory Board declared their independence pursuant to Rule 54 of the Code.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria AG's compliance with the provisions of the Code and the correctness of its public reporting are externally evaluated on a three-year basis. The most recent evaluation, which was carried out by

KPMG in early 2011, discovered no facts that conflicted with the declaration made by the Management Board and Supervisory Board regarding observance and compliance with the Comply or Explain Rules or the recommendations of the Austrian Corporate Governance Code for the 2010 business year.

At five meetings in 2010 the Audit Committee of the Supervisory Board dealt intensively with financial reporting during the preparation of the annual financial statements and the quarterly reports as well as carrying out its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system. During the audit of the annual financial statements and the consolidated financial statements for 2010, the Audit Committee also received regular reports on the results of the auditing procedure for both reports. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee, in particular with regard to reporting pursuant to Article 270 para. 1a of the Austrian Commercial Code. The outcome of the Audit Committee meetings was communicated to the Supervisory Board on a regular basis.

The Nomination Committee of the Supervisory Board prepared the selection of a candidate to fill the seat on the Supervisory Board that had become vacant.

The Chairing Committee of the Supervisory Board confers regularly with the CEO regarding strategy, business development and risk management, and also prepares the meetings of the Supervisory Board.

The annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2010 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 the consolidated financial statements. After prior consultation with the Audit Committee, and extensive discussion and review, the Supervisory Board approved the 2010 financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee, and detailed discussion and review, it also approved the consolidated financial statements pursuant to Article 245a of the Austrian Commercial Code and IFRS, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board’s proposal to distribute a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to thank the members of the Management Board and all our employees for the commitment they have shown in 2010 and ask both our growing number of customers in Austria and abroad as well as the shareholders of Telekom Austria AG to remain loyal to us in the years to come.

Peter Michaelis

Chairman of the Supervisory Board

Vienna, February 2011

in EUR '000s 129

Members and Committees of the Supervisory Board

Members of the Supervisory Board

Name (First Appointed)	Other Supervisory Board Positions and Comparable Functions	Independent Pursuant to Rule 53 of the Austrian Corporate Governance Code	Annual General Meeting at which Mandate Ends
Peter Michaelis (June 28, 2001) Chairman	OMV AG	Independent pursuant to Rule 53 but not Rule 54 of the Austrian Corporate Governance Code	2013
	Österreichische Post AG		
	APK-Pensionskasse AG		
Edith Hlawati (June 28, 2001) Vice Chairwoman	Österreichische Post AG	yes	2013
Henrietta Egerth-Stadlhuber (May 20, 2008)		yes	2013
Peter J. Oswald (May 20, 2008)	Mondi Swiecie SA	yes	2013
Wolfgang Ruttensdorfer (May 27, 2010)	CA Immobilien Anlagen AG		2013
	OMV Exploration & Production GmbH		
	OMV Gas & Power GmbH		
	OMV Refining & Marketing GmbH		
	OMV Solutions GmbH		
	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe		
Wilfried Stadler (July 15, 2005)	Konos Mittelstandsfinanzierungs Aktiengesellschaft	yes	2013
	ATP Planungs- und Beteiligungs AG		
	Bundestheater-Holding GmbH		
	East Centro Capital Management AG		
	Österreichische Staatsdruckerei Holding AG		
	Quadriga Capital Management GmbH		
	TRODAT Holding GmbH		
	WIENSTROM GmbH		
Harald Stöber (June 4, 2003)	Deutsche Messe AG Hannover	-	2013
	Arcor & Co KG		
	Vodafone D2 GmbH		
	Vodafone Holding Gmbh		
Rainer Wieltsch (June 12, 2002)			2013

Members of the Supervisory Board Delegated by the Works' Council

Wilhelm Eidenberger (April 30, 2001)	
Markus Hinker (July 15, 2005)	Within the Group: Österreichische Industrieholding AG, Telekom Austria Personalmanagement GmbH, Telekom Austria TA AG
Alexander Sollak (November 3, 2010)	
Gottfried Zehetleitner (October 27, 2010)	

Statement of the Management Board

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

The Management Board

Hannes Ametsreiter, CEO since January 1, 2009, Chairman of the Management Board of Telekom Austria AG since April 1, 2009, appointed until December 31, 2013

Hans Tschuden, Vice Chairman of the Management Board since January 1, 2009 and Chief Financial Officer since April 1, 2007, appointed until March 31, 2012