

Annual Financial Report 2011

According to § 82 Para 4 Stock
Exchange Act

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Telekom Austria Group

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Group Management Report 2011

audited pursuant to § 269 of the Austrian Commercial Code

Weak Economic Development in 2011

While 2010 saw a slight recovery, the global financial crisis intensified again in 2011. On the international financial markets it was above all the debt crisis in some of the euro zone countries, weak economic data and poor employment figures in the USA as well as fears of a renewed recession that caused widespread uncertainty. Global economic growth weakened markedly in 2011, but with substantial regional differences.

The Austrian economy grew at a fairly robust pace in the first half of 2011, but lost momentum substantially in the second half of the year. The Austrian Institute of Economic Research (WIFO) estimated 3.0% GDP growth in 2011 compared to 2.0% in the previous year. Unemployment, which is traditionally low in Austria compared to other EU countries, declined from 4.4% in 2010 to 4.1% in 2011. In contrast, inflation rose from 3.0% in 2010 to 3.2% in 2011.

According to the International Monetary Fund, the economies of Central and Eastern Europe were able to post substantial growth in 2011. Real GDP in Bulgaria grew by 2.5% (2010: 0.2%), while Belarus achieved GDP growth of 5.0% (2010: 7.6%) despite hyperinflation and monetary turbulence. Croatia was able to overcome the recession of the previous year and reported a small rise in GDP of 0.8% for 2011 (2010: -1.2%). Economic growth was slightly stronger in Slovenia at 1.9% (2010: 1.2%), in the Republic of Serbia at 2.0% (2010: 1.0%) and in the Republic of Macedonia at 3.0% (2010: 1.8%).

Prompted by the severe sovereign debt crisis, the European Central Bank (ECB) adjusted interest rates several times in 2011, raising the benchmark interest rate twice before the middle of the year from 1.0% to 1.5%, before returning again to the record low of 1.0% at year-end. In December 2011, the US central bank, the Federal Reserve (FED), announced its intention of keeping the target for the federal funds rate at 0.0% – 0.25% in line with the low-interest rate policy it has pursued since 2008.

The leading index of the Vienna Stock Exchange, the ATX, lost some 35% in 2011, the DAX in Germany approximately 15%. Foreign currency markets were also marked by high levels of volatility in 2011. The euro zone debt crisis in conjunction with weaker economic forecasts led to major exchange rate volatility. The euro lost 3% in a year-on-year comparison against the dollar. In the Central and Eastern European markets, it was mainly the Belarusian ruble that came under significant pressure. After devaluing the currency in May 2011, the Belarusian national bank introduced an alternative trading session based on free float in September 2011, which led to a further currency devaluation. Year-on-year, the Belarusian ruble lost 63.2% of its value. Due to the country's acute financial crisis, inflation amounted to 108% at year-end 2011. After having closely monitored the country's economic development, Belarus was classified as a hyperinflationary economy pursuant to IAS 29 (for further details please refer to the Chapter – Application of IAS 29 "Financial Reporting in Hyperinflationary Economies").

The Telekom Austria Group's Market Environment

The Telekom Austria Group operates in a highly competitive environment in both the fixed line and mobile communication markets. Moreover, business performance in all operating markets is negatively impacted by regulatory intervention. This mainly applies to mobile termination rates and roaming tariffs. The Telekom Austria Group seeks to counteract these negative factors with innovative products and services as well as competitive and value-oriented tariff schemes.

In Austria, the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed line and mobile communication solutions. The success of the previous year, which saw an increase in the number of fixed access lines after many years of decline, was repeated in 2011. Since mid 2011, the positioning of fixed line and mobile communication services under the single

brand A1 has been driving demand for convergent product bundles. However, the trend toward fixed-to-mobile voice substitution continues to persist. More than 80% of all voice minutes in Austria are now carried over mobile networks.

According to Eurostat, the proportion of Austrian households with any kind of internet access rose from 73% in 2010 to 75% in 2011. Whilst Slovenia showed a comparable potential after increasing from 68% to 73%, Bulgaria exhibits continued growth of 12 percentage points to 45%. In Croatia, the steady growth in Internet access registered in the previous years continued throughout 2011 leading to an Internet quota of 61%, with the Republic of Macedonia experiencing a similar trend with a rise to 52% (2010: 46%).

Despite the increased use of telecommunication solutions, telecom spending as a percentage of average income is declining. The International Telecommunications Union (ITU) publishes a regular ICT Price Basket, which calculates spending on a defined basket of products comprising fixed line telephony, mobile telephony and fixed broadband services as a percentage of average income levels. Between 2008 and 2010 the index value for Austria decreased from 1.1% to 0.6%. While spending on fixed line telephony remained stable, the index figure for mobile telephony declined from 1.2% to 0.4% and for fixed line broadband from 1.5% to 0.7%. The total index figure for Bulgaria registered a decline from 4.4% in 2008 to 3.7% of average disposable income in 2010. Croatia showed a decrease from 2.0% to 1.5% while the figure for Slovenia fell from 1.4% to 1.2%.

An important indicator for evaluating the development level of each of the Telekom Austria Group's operating markets is provided by the ICT Development Index (IDI) published by the ITU. This index measures, among other things, broadband coverage or access to broadband Internet and the use of information and communication technologies on a scale of 1 to 10 (= 10 being the best score). With an IDI of 7.2, Austria ranked 16th in the most recent global comparison for the year 2010. According to this analysis, the Telekom Austria Group's most highly developed foreign market is Slovenia, with an IDI of 6.8, followed by Croatia with 6.2, Bulgaria with 5.2, the Republic of Serbia with 5.1, Belarus with 5.0 and the Republic of Macedonia with 5.0. All markets showed a significant improvement in their development level compared to the 2008 reference year, with Belarus and the Republic of Macedonia making the greatest advances.

The international comparisons outlined above reflect both the challenges and opportunities of the telecommunications markets. While higher data volumes necessitate continuous investments in the further development and expansion of transmission technologies, competitive pressure and regulatory decisions curtail operators' earning power. While most telecom operators have capitalized an internal cost saving potential via restructuring and efficiency programs during recent years, a trend towards consolidation and increased infrastructure co-operation is to be expected in the medium term.

Due to necessary investments, forthcoming spectrum auctions and potential consolidations, cash use policies of these companies may temporarily change. Before the economic and financial crisis started to unfold, most European telecommunication companies had positioned themselves as dividend-bearing stocks with high, and in some cases, double-digit returns. As a result of changed framework pre-conditions, listed telecommunication companies, including Telekom Austria Aktiengesellschaft, reduced prospective dividends in the second half of 2011.

Regulation – Austrian Fixed Line Telecommunication Market

The new legal framework for the telecommunication sector adopted by the European Commission at the end of 2009 necessitated an amendment to the Austrian Telecommunication Act (TKG), which after a delay was promulgated on November 21, 2011. The new TKG contains a host of administrative changes concerning, for example, the methods used for defining and analyzing markets, significantly stronger protection for consumers and the transfer of powers to issue statutory ordinances away from the Ministry of Transport, Innovation and Technology to the regulatory authority, Rundfunk und Telekom Regulierungs GmbH (RTR GmbH).

The regulatory authority began the statutory fourth round of the market review process in spring 2011 by collecting data from all Austrian telecommunication providers. The purpose of this review is to assess the intensity of competition on the Austrian telecommunication markets. Based on this assessment, a decision is taken within the framework of the market analysis as to what extent regulatory restrictions for companies with significant market power (SMP) have to be defined. Due to the lack of a legal basis it was not possible to start this review process before the end of 2011. The start of the market review and analysis process was announced on January 9, 2012.

Due to regulatory requirements, A1 Telekom Austria AG published a wholesale offer for "virtual unbundling" in next-generation-access expansion areas for the first time in 2011. This will provide alternative network operators with virtual network access in cases where conventional unbundling is either not possible or only with restrictions. This wholesale offer was subject to a public consultation, underwent numerous amendments and has been available since the end of October 2011.

According to a regulatory decision concerning fixed interconnection rates adopted within the framework of the last market analysis, current interconnections rates will be maintained until the end of the next market review. The European Commission's recommendation on the regulatory treatment of fixed and mobile termination rates within the EU as of May 2009 includes guidelines for calculating fixed and mobile termination charges. The main goal is to harmonize and significantly lower these rates throughout Europe. The new cost accounting models developed under these guidelines provide the

basis for the glide paths that are expected to apply to fixed and mobile termination rates as of autumn 2012.

Until the end of November 2011, the European Commission engaged in consultations about the best cost calculation methodology to be applied by national regulatory authorities when calculating access prices to the copper network of incumbent operators for alternative fixed line providers. A method is currently being sought that will create incentives to accelerate investments in the expansion of high-speed Internet.

Regulation – Mobile Communication Markets

The Telekom Austria Group's mobile communication markets are subject to different regulatory systems. Due to their European Union and European Economic Area (EEA) memberships, Austria, Slovenia, Bulgaria and Liechtenstein are subject to regulation of these bodies, which govern 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 show various stages of development. However, in certain areas, they are gradually being harmonized with EU regulation.

The currently valid second EU Roaming Regulation is due to expire on June 30, 2012. In July 2011, the European Commission presented a draft for the next Roaming Regulation, which the European Parliament and the Council of the European Union must put to a vote before July 1, 2012. The main difference between this draft and past regulations is that it envisages a structural solution, which would enable end-users to choose an alternative provider for roaming services irrespective of their own national operator. The assumption is that this would create an incentive for roaming operators to provide more competitive roaming services, thus eliminating the need for continued price regulation.

In a report published in April 2011, the European Commission concluded that at present no further regulatory steps are necessary to ensure network neutrality, as the existing regulations in combination with the current level of competition on the European markets and existing transparency obligations suffice to ensure open Internet access. However, the Commission will continue to monitor market developments and the behavior of Internet providers. In cooperation with the Body of European Regulators for Electronic Communications (BEREC) a new report will be published in early 2012, which will form the basis for a decision on further action.

At the European level, the first Multiannual Radio Spectrum Policy Program for the period 2012 to 2015 was adopted in December 2011 at a meeting of the Council of European Telecommunications Ministers and is expected to come into force in May 2012. One of the most important goals is the use of spectrum for mobile broadband services. By January 1, 2013 all EU member states should free up frequencies in the 790-MHz to 862-MHz band, unless

exceptions are granted, and make them available for electronic communication services.

In Austria, a decision was taken in the second half of 2011 concerning the allocation of frequencies in the 800-MHz, 900-MHz and 1,800-MHz bands. According to a provisional timetable, the submission deadline for tenders will be the end of July 2012, while the frequency auction is scheduled to begin in September 2012, with both the assignment of the 800-MHz band frequencies and the extension of current frequency usage rights in the 900-MHz and 1,800-MHz bands taking place at the same time. In most of the other countries in which the Telekom Austria Group operates, new frequencies will also be awarded and current frequency usage rights in the 900-MHz and 1,800-MHz bands further extended in the next few years.

The Universal Service Obligation guarantees the widespread availability of a minimum set of telecommunication services for the general public. These have to comply with certain quality standards and must be accessible for all end-users at an affordable price irrespective of where they live or work. The scope of the Universal Service regime is laid down in the Universal Service Directive of the EU and is subject to periodic review. In November 2011, the European Commission released a communication setting out the results of the consultation regarding the principles and the third review of the scope of the Universal Service Obligation. At present, the Commission sees no need to change the basic concept of the universal service. Thus, mobile communication and broadband access with a defined transmission speed will remain outside the scope of the Universal Service regime.

On January 30, 2012 the Croatian government announced that it was going to reintroduce the 6% levy on revenues generated from mobile network services as of January 26, 2012, which will remain in place until Croatia joins the EU. The new law overturns an earlier decision to abolish this tax on mobile services as of January 1, 2012, which had been promulgated on October 28, 2011. In addition, the Croatian anti-trust authority initiated proceedings against all three Croatian mobile communication providers for allegedly fixing prices following the introduction of the tax on mobile services.

The European Commission's recommendation on the regulatory treatment of fixed and mobile termination rates within the EU as of May 2009 includes guidelines for calculating fixed and mobile termination charges. The main goal is to harmonize and significantly lower these rates throughout Europe. The new cost accounting models developed under these guidelines provide the basis for the glide paths that are expected to apply to fixed and mobile termination rates as of autumn 2012.

Overview of Mobile Termination Rates

In Austria, mobile termination rates currently amount to EUR 0.0201. The start of the market review and analysis process, which is a key determining factor for the further

development of mobile termination rates in Austria, was announced on January 9, 2012.

At the end of 2011, the Bulgarian regulator presented a draft regulation setting out a new glide path for mobile termination rates for the period until 2013. The draft envisages a reduction of the termination rate for Mobiltel from approximately EUR 0.06 to approximately EUR 0.03 as of April 1, 2012.

In Slovenia, the regulatory authority continued to implement the glide path for mobile termination charges laid down in 2009 and lowered Si.mobil's termination rates to EUR 0.0438 as of January 1, 2011 and to EUR 0.0409 as of July 1, 2011.

In 2011, the Serbian regulatory authority carried out a first market analysis, which established that all mobile communication operators on the market for mobile termination have significant market power and are therefore subject to regulatory requirements. These obligations, which have not yet been specified in greater detail, include the establishment of mobile termination rates by the regulator. On July 1, 2011 mobile number portability was introduced in the Republic of Serbia and was made mandatory throughout the country.

In 2011, the national regulatory authority of the Republic of Macedonia established that all mobile communication operators possess significant market power on the market for SMS delivery. However, the decision regarding the level of the SMS termination rates is still pending, while mobile termination rates were lowered from EUR 0.088 to EUR 0.075 as of September 1, 2011. In a further step, the legal provisions regarding number portability were updated to enable users to switch providers faster and more easily.

Information on Financial Reporting

The Telekom Austria Group reports in five operational segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets. The segment Corporate & Other performs strategic and management functions across segments and acts as an interface to the financial markets.

The Telekom Austria Group uses the financial figures EBITDA comparable and EBITDA including effects from restructuring and impairment tests to better reflect the operational development of individual business units. EBITDA is defined as net result excluding financial result, income tax, depreciation and amortization. EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from reversals of impairment losses.

The restructuring program includes social plans for employees in Austria, whose employment contracts are being terminated in a socially responsible manner, as well as future expenses for civil servants, who no longer provide services to the Telekom Austria Group, but whose employ-

ment contracts cannot be terminated due to their civil servant status. Furthermore, EBITDA comparable includes expenses for the transfer of civil servants to the Austrian government.

There were several changes to the basis of consolidation in the year under review, the effects of which on comparability with previous periods are discussed in detail in the Notes to the Consolidated Financial Statements in Section 1.

The use of automatic calculation programs can lead to rounding differences.

Application of IAS 29

"Financial Reporting in Hyperinflationary Economies"

Following closer monitoring of macroeconomic development, Belarus was classified as a hyperinflationary economy according to the principles of financial reporting in hyperinflationary economies pursuant to IAS 29. IAS 29 defines the following indicators that describe a hyperinflationary economy:

- ✓ Wealth is kept in non-monetary assets and amounts of local currency held are immediately invested to maintain purchasing power
- ✓ Prices are quoted in foreign currencies, prices for sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period
- ✓ Interest rates, wages and prices are linked to a price index
- ✓ The cumulative inflation rate over three years approaches or exceeds 100% and is expected to remain at that high level in following years

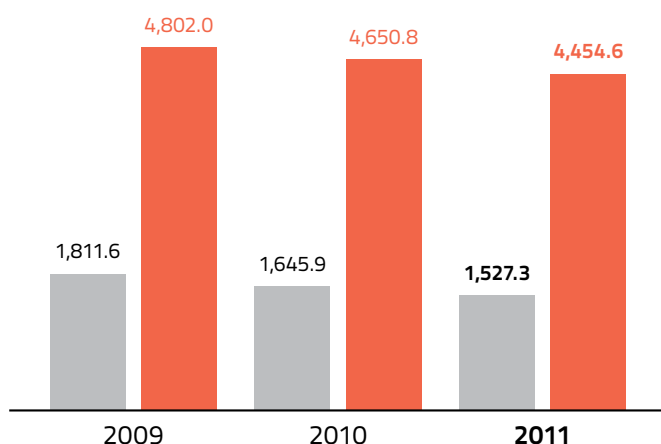
The application of "financial reporting in hyperinflationary economies" has had an impact on several areas of the Consolidated Financial Statements of the Telekom Austria Group as of December 31, 2011 and on subsequent periods. The consolidated financial statements for previous years that have already been published will not be adjusted. For further information please refer to the Notes to the Consolidated Financial Statements in Section 1.

Revenue and Earnings Development

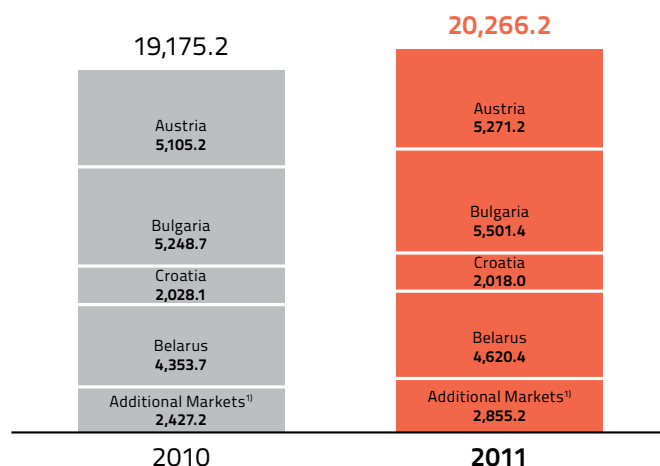
In December 2011, Belarus was classified as a hyperinflationary economy. Therefore, starting from the 2011 business year, the financial reporting standards for hyperinflationary economies will be applied to the Belarusian segment. The impact for the full-year 2011 was recorded in the fourth quarter 2011. The 2010 business year is not to be adjusted.

In addition to a challenging macroeconomic environment and declining prices due to intensive competition, further regulatory cuts of roaming and interconnection tariffs were the main drivers for this development. In the Belarusian segment, the strong operating performance was impacted by drastic devaluations of the Belarusian ruble and the application of the financial reporting standards for hyperinflationary economies.

DEVELOPMENT OF REVENUES AND EBITDA
 in EUR million

 ■ EBITDA¹⁾
 ■ Revenues


1) EBITDA excluding effects from restructuring and impairment tests

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. The persistent decline in fixed access lines over recent years was stopped in 2010 thanks to the success of product bundles and rising demand for fixed line broadband. In 2011, this positive trend continued with a total of 21,300 net additions.

Mobile broadband, smartphones and no-frills products were the main drivers of the development of all mobile communication markets of the Telekom Austria Group, leading to a 5.7% increase of the mobile subscriber base to almost 20.3 million customers group-wide. Belarus and the Republic of Serbia recorded the strongest growth with approximately 266,700 and 283,000 net additions respectively. In addition to putting in place all necessary customer retention and acquisition measures, charges for SIM cards and Internet services were successfully introduced in Austria. An internet service charge was also applied in Slovenia.

In 2011, the Telekom Austria Group reported revenues of EUR 4,454.6 million, a 4.2% decline compared to the previous year. Lower revenues from the Austrian, Bulgarian, Croatian and Belarusian segments could not be compensated for by the revenue growth in Slovenia, the Republic of Serbia and the Republic of Macedonia, which are included in the segment Additional Markets.

The Telekom Austria Group's international activities accounted for 35.3% of total group revenues in 2011 after 35.4% in the previous year (measured on the basis of the consolidated revenues of the international segments as a share of total group revenues excluding the segments Corporate & Other and Eliminations).

TELEKOM AUSTRIA GROUP FINANCIAL FIGURES
 in EUR million

	2011	2010	Change in %
Revenues	4,454.6	4,650.8	-4.2
EBITDA comparable	1,527.3	1,645.9	-7.2
EBITDA comparable – margin	34.3%	35.4%	
EBITDA incl. effects from restructuring and impairment tests	1,044.7	1,503.5	-30.5
Operating income	-7.6	437.9	n.a.
Net result	-252.8	195.2	n.a.
Earnings per share in EUR	-0.57	0.44	n.a.
Free cash flow per share in EUR	1.08	1.46	-25.7
Capital expenditures ¹⁾	739.0	763.6	-3.2
Net debt	3,380.3	3,305.2	2.3

1) Excluding expenditures for asset retirement obligations

TELEKOM AUSTRIA GROUP OPERATING EXPENSES

in EUR million

	2011	2010	Change in %
Material expenses	442.0	403.6	9.5
Employee costs	805.0	806.8	-0.2
Other operating expenses	1,780.6	1,883.7	-5.5
Restructuring costs	233.7	124.1	88.4
Impairment charges and reversals of impairment losses	248.9	18.3	n.m.
Depreciation and amortization	1,052.4	1,065.6	-1.2

FINANCIAL KEY FIGURES BY SEGMENT

in EUR million

Revenues	2011	2010	Change in %
Austria	2,942.1	3,064.2	-4.0
Bulgaria	527.7	564.5	-6.5
Croatia	420.7	451.9	-6.9
Belarus	260.9	343.6	-24.1
Additional Markets	396.4	321.1	23.5
Corporate & Other, Eliminations ¹⁾	-93.1	-94.4	-1.3
Total	4,454.6	4,650.8	-4.2

EBITDA comparable	2011	2010	Change in %
Austria	972.6	1,032.4	-5.8
Bulgaria	261.9	298.6	-12.3
Croatia	134.5	150.5	-10.6
Belarus	106.6	155.6	-31.5
Additional Markets	90.4	41.1	120.0
Corporate & Other, Eliminations ¹⁾	-38.6	-32.3	19.8
Total	1,527.3	1,645.9	-7.2

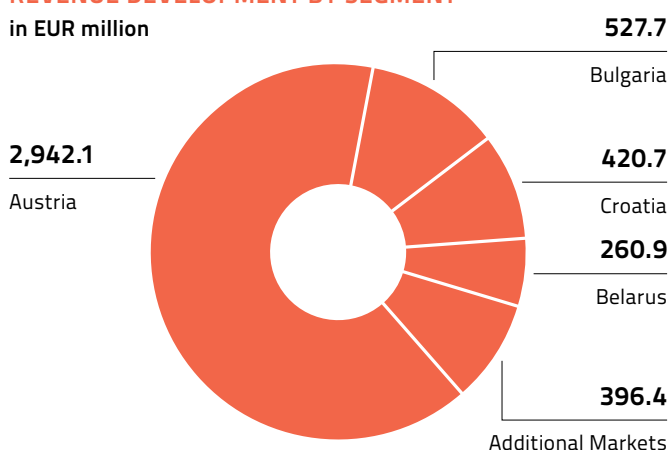
EBITDA incl. effects from restructuring and impairment tests	2011	2010	Change in %
Austria	738.9	890.0	-17.0
Bulgaria	242.6	298.6	-18.8
Croatia	134.5	150.5	-10.6
Belarus	-172.4	155.6	n.a.
Additional Markets	139.8	41.1	240.2
Corporate & Other, Eliminations ¹⁾	-38.6	-32.3	19.8
Total	1,044.7	1,503.5	-30.5

Operating income	2011	2010	Change in %
Austria	129.7	225.0	-42.3
Bulgaria	42.3	124.1	-66.0
Croatia	67.9	82.9	-18.0
Belarus	-255.2	73.4	n.a.
Additional Markets	43.4	-36.1	n.a.
Corporate & Other, Eliminations ¹⁾	-35.8	-31.3	14.2
Total	-7.6	437.9	n.a.

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

REVENUE DEVELOPMENT BY SEGMENT

in EUR million

**Total Group Revenues: EUR 4,454.6 million¹⁾**

1) Corporate & Other, Eliminations: EUR –93.1 million
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.

In the year under review, the Telekom Austria Group continued to adopt extensive and group-wide measures to optimize operating expenses with a view to improving operational excellence. Supported by strict cost management, these optimization measures led to a total decline in operating expenses by 2.1% to EUR 3,027.7 million in 2011, while material expenses increased by 9.5% compared to the previous year's level due to higher average prices for handsets. Employee costs fell by 0.2% to EUR 805.0 million in 2011, as headcount reduction in Austria following the successful adoption of social plans overcompensated for the increase in the number of employees in the Bulgarian and Croatian segments as a result of the acquisitions of fiber-optic operators, i.e. cable providers in these countries.

Other operating expenses fell by 5.5% to EUR 1,780.6 million in the year under review. This development was mainly driven by lower interconnection expenses and declining costs for services received due to lower termination rates and roaming tariffs as well as by a reduction of expenses for advertising, repair and maintenance.

EBITDA comparable declined by 7.2% from EUR 1,645.9 million in 2010 to EUR 1,527.3 million in 2011. While the segment Additional Markets showed an EBITDA comparable growth of 120.0%, lower revenues in the Austrian, Bulgarian, Croatian and Belarusian segments could only be partly offset by lower expenses. Combined with a revenue decline of 4.2%, all these unfavorable developments led to a reduction of the EBITDA comparable margin from 35.4% in the previous year to 34.3% in the year under review.

Restructuring charges, which are entirely attributable to the Austrian segment, amounted to EUR 233.7 million in 2011 compared to EUR 124.1 million in the previous year and encompass costs that were incurred in connection with the company's personnel restructuring program. Impair-

ment charges totaled EUR 248.9 million in the year under review after EUR 18.3 million in the previous year. In 2011, an impairment charge of EUR 19.3 million for the corporate brand of the Bulgarian segment and an impairment charge totaling EUR 279.0 million for the company goodwill in the Belarusian segment were recorded. In the segment Additional Markets, a reversal of impairment losses of EUR 49.4 million for the mobile license acquired in the Republic of Serbia was recognized, resulting in the reversal of the impairment charge of EUR 62.0 million from the 2009 business year including amortized costs.

Owing to these one-off effects, EBITDA including effects from restructuring and impairment tests, declined by 30.5% from EUR 1,503.5 million in 2010 to EUR 1,044.7 million in 2011. Due to lower capital expenditures in the Austrian segment in previous years, amortization and depreciation charges decreased by 1.2% to EUR 1,052.4 million year-on-year. This decline led to a negative operating result of EUR 7.6 million in the year under review compared to a positive operating result of EUR 437.9 in the previous year.

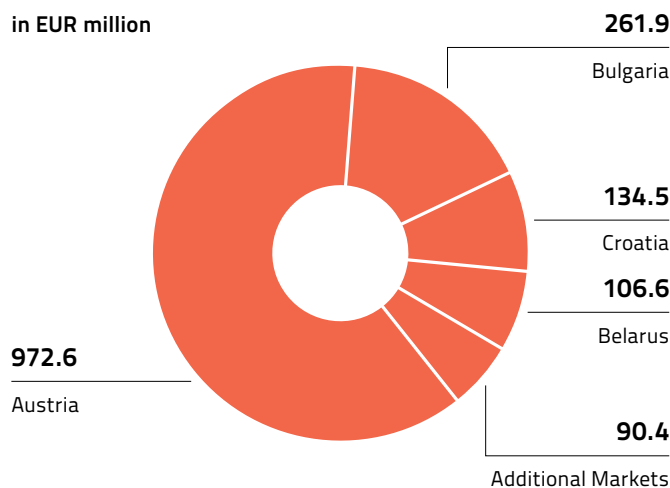
The financial result of the Telekom Austria Group decreased by 25.8% from a loss of EUR 196.3 million in 2010 to a loss of EUR 246.8 million in 2011 mainly due to the devaluation of the Belarusian ruble in a year-on-year comparison. Total interest expenses increased by 4.7% to EUR 216.8 million, while interest income rose from EUR 13.1 million in 2010 to EUR 16.9 million in 2011.

In the year under review, a tax income of EUR 1.7 million was recorded, whereas in 2010 a tax expense of EUR 46.5 million was recognized.

For the full year 2011, the Telekom Austria Group reported a net loss of EUR 252.8 million compared to a net income of EUR 195.2 million in the previous year.

EBITDA COMPARABLE BY SEGMENT

in EUR million

**Total Group EBITDA comparable: EUR 1,527.3 million¹⁾**

1) Corporate & Other, Eliminations: EUR –38.6 million

	2011	2010	2009
Earnings per share in EUR	-0.57	0.44	0.22
Dividend per share in EUR	0.38 ¹⁾	0.75	0.75
Free cash flow per share in EUR ²⁾	1.08	1.46	1.52
ROE	-21.4%	12.6%	5.0%
ROIC	-0.1%	6.2%	4.8%

1) Proposal to the 2011 Annual General Meeting, which will take place on May 23, 2012

2) The calculation of the free cash flow was changed and the previous year's figures were adjusted accordingly

Balance Sheet Structure

The Telekom Austria Group's balance sheet total amounted to EUR 7,448.8 million as of December 31, 2011, a decrease of 1.4% compared to previous year's level. While in 2010 current assets declined due to the repayment of liabilities, in the year under review current assets increased by 21.8% due to higher cash and cash equivalents. In 2011, amortization and depreciation charges were higher than fixed asset additions. As a result, fixed assets declined by 3.4% to EUR 2,462.2 million. Goodwill fell by 13.4% to EUR 1,289.7 million due to the impairment of goodwill in the Belarusian segment. Other intangible assets decreased by 5.7% to EUR 1,619.3 million as amortization and depreciation charges were higher than fixed asset additions.

Current liabilities increased in 2011 mainly due to a reclassification of maturing long-term debt. As a result of this

reclassification, long term debt decreased by 4.6%. Long-term provisions increased to EUR 888.2 million due to the personnel restructuring programs in Austria.

Dividend payments for the 2010 financial year amounted to EUR 331.9 million. The decline in stockholders' equity by 40.2% to EUR 883.1 million is attributable, on the one hand, to the negative result for the full year 2011 as a result of the restructuring and impairment charges, and, on the other hand, to dividend payments for the 2010 business year. As a consequence, the equity ratio fell to 11.9% as of December 31, 2011 after 19.5% as of December 31, 2010.

BALANCE SHEET STRUCTURE

in EUR million

	Dec. 31, 2011	As % of the Balance Sheet Total	Dec. 31, 2010	As % of the Balance Sheet Total
Current assets	1,751.4	23.5	1,437.7	19.0
Property, plant and equipment	2,462.2	33.1	2,549.0	33.7
Goodwill	1,289.7	17.3	1,489.2	19.7
Other intangible assets	1,619.3	21.7	1,718.1	22.7
Other assets	326.1	4.4	361.8	4.8
ASSETS	7,448.8	100.0	7,555.8	100.0
Current liabilities	2,412.0	32.4	1,883.0	24.9
Long-term debt	2,934.9	39.4	3,077.2	40.7
Employee benefit obligation	129.0	1.7	131.6	1.7
Long-term provisions	888.2	11.9	761.8	10.1
Other long-term liabilities	201.6	2.7	225.3	3.0
Stockholders' equity	883.1	11.9	1,476.9	19.5
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	7,448.8	100.0	7,555.8	100.0

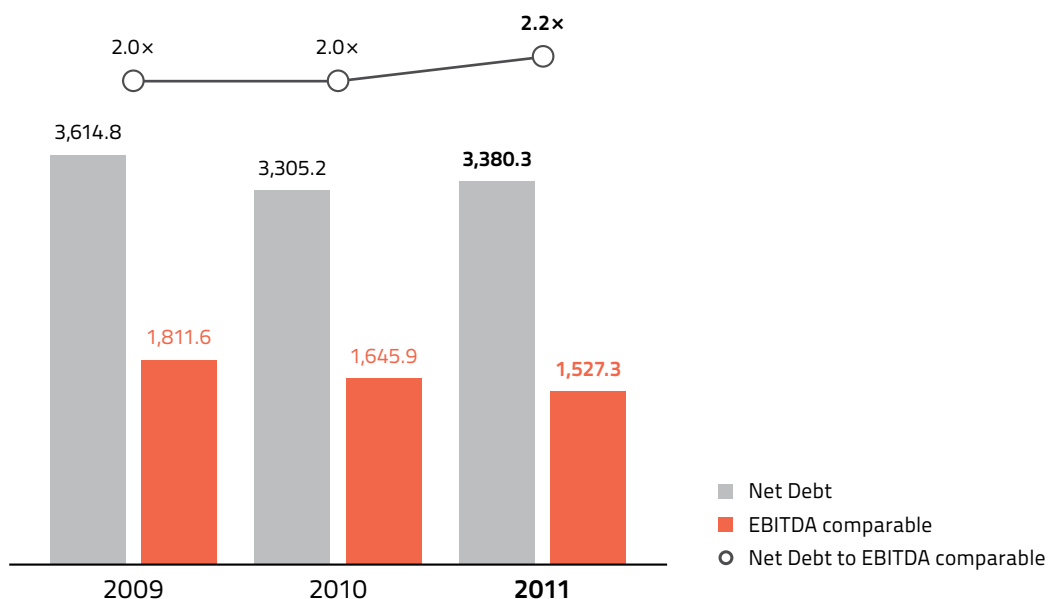
Net Debt

In the year under review, the Telekom Austria Group's net debt increased by 2.3% to EUR 3,380.3 million. Combined with the decline in EBITDA comparable by 7.2% to

EUR 1,527.3 million, the Net debt to EBITDA comparable ratio was 2.2x in 2011 after 2.0x in the previous year.

NET DEBT AND EBITDA COMPARABLE

in EUR million

**NET DEBT¹⁾**

in EUR million

	Dec. 31, 2011	Dec. 31, 2010
Long-term debt	2,960.4	3,146.4
Short-term borrowings	1,052.4	522.6
Cash and cash equivalents, short-term and long-term investments, financing with related parties	-657.7	-355.0
Derivative financial instruments for hedging purposes	25.2	-8.9
Net debt Telekom Austria Group	3,380.3	3,305.2
Net debt/EBITDA comparable	2.2x	2.0x

1) Cross-border leases, which were terminated in April 2011, and finance lease obligations were included in long-term debt and short-term borrowings. Deposits for cross-border leases were 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.

Development of Cash Flow

In the year under review, cash flow generated from operations declined by 13.2% to EUR 1,213.3 million due to a lower cash inflow from the 2011 operating results as well as to a higher cash outflow following changes in assets and liabilities. The latter is mainly attributable to the reduction of accounts payable in 2011 compared to an increase in 2010. Cash outflow used in investing activities increased by 38.5% to EUR 854.8 million in the year under review as a result of a net cash outflow of EUR 68.8 million for the acquisition of the two fiber-optic operators in Bulgaria in January and February 2011 as well as for

the acquisition of the cable provider B.net in Croatia of EUR 66.9 million in August 2011.

The cash outflow used in financing activities decreased from EUR 1,388.4 million in 2010 to EUR 3.7 million in the year under review, after incurring financial liabilities in 2011 as opposed to 2010, which saw the redemption of a EUR 500 million bond and the payment of the remaining purchasing price for SBT (velcom) of EUR 582.7 million. This resulted in an increase in cash and cash equivalents of EUR 339.8 million as of year-end 2011.

CASH FLOW

in EUR million

	2011	2010	Change in %
Cash flow generated from operations	1,213.3	1,397.5	-13.2
Cash flow used in investing activities	-854.8	-616.9	38.5
Cash flow generated from (used in) financing activities	-3.7	-1,388.4	-99.7
Effects of exchange rate changes	1.3	-2.0	n.a.
Loss of purchasing power on cash and cash equivalents	-16.4	0.0	n.a.
Change in cash and cash equivalents	339.8	-609.9	n.a.

Capital Expenditures

Total capital expenditures decreased by 3.2% to EUR 739.0 million on a year-on-year basis. The increase in capital expenditures for tangible assets by 3.5% to EUR 592.8 million is mainly attributable to investments in the network infrastructure in Bulgaria and in the segment Additional Markets. In the Belarusian segment, investments in local currency increased in the year under review. However, due to the currency devaluation, a decline in capital expenditures denominated in Euros was registered in Belarus in 2011.

The decline in capital expenditures for intangible assets by 23.3% to EUR 146.2 million in the year under review is mainly attributable to lower software investments in the Austrian and Bulgarian segments. Furthermore, the previous year's figure included expenses for the acquisition of frequency blocks at a 2.6 GHz auction totaling EUR 13.2 million.

CAPITAL EXPENDITURES¹⁾

in EUR million

	2011	2010	Change in %
Tangible Austria	383.4	382.4	0.3
Tangible Bulgaria	50.8	42.2	20.5
Tangible Croatia	45.5	41.4	9.8
Tangible Belarus	41.6	54.1	-23.1
Tangible Additional Markets	71.5	52.9	35.3
Total tangible	592.8	573.0	3.5
Intangible Austria	101.7	133.3	-23.7
Intangible Bulgaria	19.7	24.1	-18.2
Intangible Croatia	5.0	6.9	-27.1
Intangible Belarus	3.3	8.8	-61.9
Intangible Additional Markets	16.4	17.4	-6.2
Total intangible	146.2	190.6	-23.3
Total capital expenditures¹⁾	739.0	763.6	-3.2

1) Excluding capital expenditures arising from asset retirement obligations

Segment Austria

In 2011, the Austrian market was characterized by a further intensification of competition, far-reaching regulatory measures, in particular a reduction of mobile termination rates by more than 30%, and continued fixed-to-mobile substitution. Competition was focused on smartphone offerings and attractive mobile package tariffs, which combined with the continuing trend toward no-frills brands led to decreasing price levels. The introduction of charges for SIM cards and Internet services was able to partly offset this trend.

To meet the continued strong demand for product bundles and convergent services from a single source, the Telekom Austria Group took the next logical step toward integration when it relaunched the single "A1" brand on June 14, 2011, following the legal merger of its domestic fixed line and mobile communication operations in the previous year. Attractive product and pricing structures boosted demand for fixed broadband lines in both the residential and

business customer segments. Due to the sustained success of product bundles, the previous year's upward trend was continued and the company was able to report a further increase in the number of fixed access lines. However, notwithstanding this success, fixed-to-mobile substitution led to a 12.1% decline in fixed line voice minutes. The number of A1TV customers grew by 31.2% to almost 200,000 subscribers in the year under review.

Higher numbers of mobile broadband subscribers and no-frills customers led to an increase in the mobile customer base of 3.3% to approximately 5.3 million. However, at the same time, severe competition in the mobile communication business led to a slight decline in market share. As growth in the number of fixed line and mobile customers was unable to compensate for the negative effects of regulation and competition-driven price reductions, revenues in the Austrian segment declined by 4.0% to EUR 2,942.1 million in the year under review.

KEY PERFORMANCE INDICATORS AUSTRIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	2,942.1	3,064.2	-4.0
of which Monthly Fee and Traffic	2,027.4	2,085.7	-2.8
of which Data and ICT Solutions	202.3	215.8	-6.3
of which Wholesale (incl. Roaming)	203.6	200.4	1.6
of which Interconnection	341.7	397.6	-14.1
of which Equipment	126.1	107.2	17.7
of which Other	41.0	57.4	-28.6
EBITDA comparable	972.6	1,032.4	-5.8
EBITDA comparable – margin	33.1%	33.7%	
EBITDA incl. effects from restructuring and impairment tests	738.9	890.0	-17.0
Operating income	129.7	225.0	-42.3
Capital expenditures	485.1	515.8	-5.9
Fixed Line			
ARPL in EUR	32.2	33.3	-3.3
Average voice telephony tariff in EUR/minute	0.080	0.082	-2.4
Total access lines (in '000)	2,336.2	2,315.0	0.9
of which fixed broadband lines (in '000)	1,273.4	1,161.0	9.7
of which retail	1,230.5	1,115.5	10.3
of which wholesale	42.9	45.5	-5.8
Unbundled lines (in '000)	271.5	278.1	-2.4
Fixed line voice traffic (in million minutes)	2,612.2	2,972.7	-12.1
of which domestic traffic	1,749.4	2,031.5	-13.9
of which fixed-to-mobile traffic	586.5	631.6	-7.1
of which international fixed line traffic	276.4	309.6	-10.7
Broadband penetration in Austria in % of households	111.7%	102.9%	
Mobile Communication			
Mobile communication subscribers (in '000)	5,271.2	5,105.2	3.3
Share of contract customers	77.6%	76.0%	
Market share	40.0%	41.4%	
Penetration	156.6%	146.7%	
Mobile broadband customers	744,941	653,748	13.9
ARPU in EUR	20.0	22.0	-9.3
Human resources (full-time employees as of Dec. 31)	9,292	9,717	-4.4

Monthly fee and traffic revenues decreased by 2.8% to EUR 2,027.4 million due to the migration of existing customers to cheaper tariffs and declining fixed line voice minutes. Revenues from data and ICT solutions declined by 6.3% to EUR 202.3 million due to weaker demand for data cash solutions, while wholesale revenues (including roaming) increased by 1.6% to EUR 203.6 million. A reduction in national and international mobile termination rates was a major driver for the 14.1% decline in interconnection revenues to EUR 341.7 million. Equipment revenues rose by 17.7% to EUR 126.1 million in 2011 as a result of the demand for higher-value handsets.

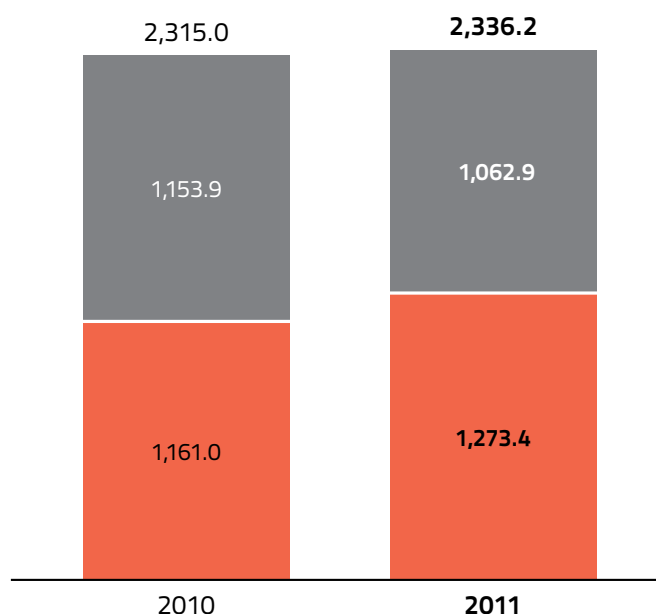
Other revenues dropped by 28.6% to EUR 41.0 million.

In 2011, average revenues per fixed access line (ARPL) declined by 3.3% to EUR 32.2 due to fixed-to-mobile substitution effects. Average revenues per mobile communication customer (ARPU) fell by 9.3% to EUR 20.0 due to competition-driven price reductions and lower interconnection charges. This trend is attributable to customers switching to lower-priced package tariffs and the higher proportion of no-frills customers.

FIXED ACCESS LINES IN AUSTRIA

in '000

- Fixed access lines – voice telephony
- Fixed broadband lines wholesale & retail



OPERATING EXPENSES AUSTRIA

in EUR million

	2011	2010	Change in %
Material expenses	272.0	245.4	10.9
Employee costs	653.1	670.5	-2.6
Other operating expenses	1,140.1	1,221.7	-6.7
Restructuring	233.7	124.1	88.4
Impairments and reversals of impairment losses	0.0	-18.3	n.a.
Depreciation and amortization	609.2	665.0	-8.4

Supported by strict cost management, operating expenses in 2011 decreased by 3.4% to EUR 2,065.3 million. While material expenses rose by 10.9% to EUR 272.0 million due to strong demand for smartphones, other expenses declined. As a result of the restructuring program, the company's headcount was reduced by 4.4% to 9,292 employees at the end of the period under review resulting in a decrease in employee costs by 2.6% to EUR 653.1 million despite adjustments to the collective bargaining agreement.

In the year under review, EBITDA comparable fell by 5.8% to EUR 972.6 million compared to the previous year. Combined with a 4.0% decline in revenues, the EBITDA comparable margin decreased from 33.7% to 33.1%.

Restructuring charges totaling EUR 233.7 million were recorded in the Austrian segment for the 2011 business year and comprised expenses relating to the transfer of employees with civil servant status to government agencies, expenses in connection with social plans and an adjustment to the provision for the restructuring program. EBITDA incl. effects from restructuring and impairment tests thus amounted to EUR 738.9 million in the year under review, a 17.0% decline compared to the previous year.

Total depreciation and amortization declined by 8.4% to EUR 609.2 million. Overall, the developments described above resulted in a 42.3% decline in operating income in the Austrian segment to EUR 129.7 million.

Segment Bulgaria

The market environment in Bulgaria in 2011 was characterized by a weak domestic economy and fierce competition. Despite these challenges Mobitel, the country's leading mobile communication provider, succeeded in expanding its subscriber base by 4.8% to over 5.5 million customers. Continued strong demand for mobile data solutions enabled Mobitel to increase its mobile broadband subscriber base by 52.1% to more than 192,000 customers.

The trend towards convergent products and integrated telecommunication solutions continued in the year under review. Mobitel responded to this trend with the acquisitions of two Bulgarian fiber-optic providers, which were completed in January and February 2011. Both companies have been consolidated in the Bulgarian segment since February 2011. Supported by strong demand for fixed line broadband, the number of fixed access lines rose from 99,100 to more than 128,800 lines after the companies were fully consolidated.

The competition-driven decline in prices for voice telephony, which were reflected in lower monthly fees and traffic charges, together with lower mobile termination rates led to a 6.5% drop in revenues to EUR 527.7 million despite operational successes. Higher operating expenses incurred in connection with the acquisitions of the fiber-optic providers resulted in a reduction in EBITDA comparable of 12.3% to EUR 261.9 million and, consequently, in a decrease of the EBITDA comparable margin from 52.9% to 49.6%, with the Bulgarian segment still showing the highest EBITDA margin in the Telekom Austria Group. In combination with an impairment charge for the corporate brand amounting to EUR 19.3 million, the developments described above led to a 66.0% drop in operating income to EUR 42.3 million.

KEY PERFORMANCE INDICATORS BULGARIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	527.7	564.5	-6.5
EBITDA comparable	261.9	298.6	-12.3
EBITDA comparable – margin	49.6%	52.9%	
EBITDA incl. effects from restructuring and impairment tests	242.6	298.6	-18.8
Operating income	42.3	124.1	-66.0
Capital expenditures	70.5	66.3	6.4
Fixed Line			
ARPL in EUR	15.4	n.a.	n.a.
Total access lines (in '000)	128.8	n.a.	n.a.
of which fixed broadband lines (in '000)	123.1	n.a.	n.a.
Mobile Communication			
Mobile communication subscribers (in '000)	5,501.4	5,248.7	4.8
Share of contract customers	67.4%	64.2%	
Market share	48.6%	49.6%	
Penetration	151.4%	140.8%	
Mobile broadband customers	192,012	126,217	52.1
ARPU in EUR	7.2	8.3	-13.1
Human resources (full-time employees as of Dec. 31)	3,380	2,453	37.8

Segment Croatia

In the year under review, the Croatian market was characterized by a weak economic backdrop, regulatory burdens as well as fierce competition. In this challenging environment, Vipnet acquired B.net, Croatia's biggest cable operator, in August 2011 to benefit from the strong demand for convergent products. B.net was consolidated in the Croatian segment as of August 2011.

Business development in 2011 was affected by intense price pressure and lower roaming and interconnection revenues, which were only partly offset by higher monthly fees, as a result of the increased number of contract customers, and the first-time contribution to revenues from B.net. All in all, revenues declined by 6.9% to EUR 420.7 million. This includes a negative effect from foreign currency translations amounting to EUR 8.6 million.

Thanks to strict cost management, operating expenses were cut by 4.8% to EUR 289.0 million, largely due to savings in other operating expenses and a reduction of interconnection costs. The increase in employee costs in the year under review was attributable to the acquisition of B.net and expenses incurred in connection with the headcount reduction. EBITDA comparable fell by 10.6% to EUR 134.5 million in the year under review and the EBITDA comparable margin decline from 33.3% to 32.0%. The negative effect from foreign currency translations on EBITDA comparable amounted to EUR 2.8 million. Due to the aforementioned effects, operating income dropped by 18.0% to EUR 67.9 million in the year under review.

KEY PERFORMANCE INDICATORS CROATIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	420.7	451.9	-6.9
EBITDA comparable	134.5	150.5	-10.6
EBITDA comparable – margin	32.0%	33.3%	
EBITDA incl. effects from restructuring and impairment tests	134.5	150.5	-10.6
Operating income	67.9	82.9	-18.0
Capital expenditures	50.5	48.3	4.6
Fixed Line			
ARPL in EUR	27.9	n.a.	n.a.
Total access lines (in '000)	143.7	n.a.	n.a.
of which fixed broadband lines (in '000)	68.6	n.a.	n.a.
Mobile Communication¹⁾			
Mobile communication subscribers (in '000)	2,018.0	2,028.1	-0.5
Share of contract customers	37.8%	34.6%	
Market share	39.2%	39.0%	
Penetration	119.9%	118.0%	
Mobile broadband customers	170,617	144,753	17.9
ARPU in EUR	12.9	14.5	-10.9
Human resources (full-time employees as of Dec. 31)	1,144	1,059	8.0

1) Due to a new definition of prepaid subscribers, the method of counting active prepaid subscribers was changed from a 15-month rolling average to a 90-day active method. Following the implementation of this new counting method, the historic KPIs were adjusted retrospectively as of the first quarter of 2010.

Segment Belarus

The Belarusian market continued to face difficult macro-economic conditions, which resulted in two devaluations of the Belarusian Ruble against the Euro in 2011. After a first devaluation in May 2011, the introduction of a floating exchange rate in September 2011 triggered a second devaluation. Furthermore, a decision was taken to apply the financial reporting standard for hyperinflationary economies to the Belarusian segment's results for the full year 2011 as of the fourth quarter.

Notwithstanding these financial and economic challenges, velcom reported a strong operational performance in 2011, countering these negative external factors with the ongoing optimization of tariffs and its handset portfolio and with strict cost management.

Revenues in the year under review totaled EUR 260.9 million, down 24.1% compared to the previous year. Measured

in local currency revenues rose due to steady growth in customer numbers, optimized tariff structures and higher data usage.

Operating expenses in 2011 totaled EUR 159.5 million, a decline of EUR 33.8 million on the previous year. Operating expenses denominated in local currency increased, driven by higher material expenses and expenses for services received. EBITDA comparable declined from EUR 155.6 million to EUR 106.6 million in the year under review, mainly due to the currency translation effects described above.

As a result of inflation-related adjustment of segment assets, an impairment charge of EUR 279.0 million was recorded in the year under review. This was largely responsible for the Belarusian segment's operating loss of EUR 255.2 million in 2011 compared to an operating income of EUR 73.4 million in 2010.

KEY PERFORMANCE INDICATORS BELARUS

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	260.9	343.6	-24.1
EBITDA comparable	106.6	155.6	-31.5
EBITDA comparable – margin	40.9%	45.3%	
EBITDA incl. effects from restructuring and impairment tests	-172.4	155.6	n.a.
Operating income/loss	-255.2	73.4	n.a.
Capital expenditures	44.9	62.9	-28.5
Mobile Communication			
Mobile communication subscribers (in '000)	4,620.4	4,353.7	6.1
Share of contract customers	79.7%	78.2%	
Market share	41.1%	41.9%	
Penetration	118.8%	109.6%	
Mobile broadband customers	453,054	143,532	215.6
ARPU in EUR	4.2	6.2	-31.8
Human resources (full-time employees as of Dec. 31)			
	1,784	1,770	0.8

Segment Additional Markets

Slovenia

In 2011, Si.mobil, the second-largest mobile communication operator in Slovenia, successfully focused on high-value market segments with attractive smartphone offers and all-inclusive packages. Despite fierce competition, Si.mobil grew its subscriber base in 2011 to almost 640,000 customers, increasing both the proportion of contract customers and market share.

On the back of this operational success, monthly fee and traffic revenues grew, contributing to a 10.7% increase in

total revenues to EUR 192.7 million. Due to a disproportionately small increase in operating expenses, EBITDA comparable rose by 14.6% to EUR 51.7 million, improving the EBITDA comparable margin from 25.9% in the previous year to 26.8% in 2011. After depreciation and amortization charges, which amounted to EUR 21.4 million, Si.mobil reported an operating income of EUR 30.2 million for 2011 compared to EUR 24.0 million in the previous year.

KEY PERFORMANCE INDICATORS SLOVENIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	192.7	174.0	10.7
EBITDA comparable	51.7	45.1	14.6
EBITDA comparable – margin	26.8%	25.9%	
EBITDA incl. effects from restructuring and impairment tests	51.7	45.1	14.6
Operating income	30.2	24.0	26.2
Capital expenditures	19.5	15.1	29.2
Mobile Communication			
Mobile communication subscribers (in '000)	639.7	618.9	3.4
Share of contract customers	74.5%	71.2%	
Market share	29.7%	29.2%	
Penetration	105.6%	102.7%	
Mobile broadband customers	15,935	14,559	9.5
ARPU in EUR	20.9	20.5	2.0
Human resources (full-time employees as of Dec. 31)			
	347	331	4.8

Republic of Serbia

Vip mobile successfully continued its growth trend in 2011, increasing the number of mobile customers to more than 1.6 million and expanding the proportion of contract customers. As a result, market share grew from 13.7% to 15.7% and average monthly revenues per user (ARPU) from EUR 6.2 to EUR 7.2. Higher usage also led to an increase in Interconnection revenues. Driven by these developments revenues grew by approximately 36.7% to EUR 143.1 million. Foreign currency translations had a positive impact of EUR 1.4 million on revenues.

higher interconnection expenses. In the 2011 business year, Vip mobile reported an EBITDA comparable of EUR 31.5 million, after reaching the break-even point in the previous year. The EBITDA comparable margin in 2011 was 22.0%. After depreciation and amortization charges in the amount of EUR 59.8 million and the reversal of impairment losses in the amount of EUR 49.4 million for the mobile license, operating income totaled EUR 21.1 million after an operating loss of EUR 47.1 million in the previous year.

The increase in operating expenses in the year under review by 7.5% to EUR 116.9 million is largely attributable to

KEY PERFORMANCE INDICATORS REPUBLIC OF SERBIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	143.1	104.7	36.7
EBITDA comparable	31.5	0.0	n.a.
EBITDA comparable – margin	22.0%	0.0%	
EBITDA incl. effects from restructuring and impairment tests	80.9	0.0	n.a.
Operating income	21.1	–47.1	n.a.
Capital expenditures	55.9	47.5	17.6%
Mobile Communication			
Mobile communication subscribers (in '000)	1,642.7	1,359.7	20.8
Market share	15.7%	13.7%	
Penetration	141.3%	134.1%	
ARPU in EUR	7.2	6.2	15.5
Human resources (full-time employees as of Dec. 31)			
	889	811	9.6

Republic of Macedonia

After expanding its subscriber base by 28.1% to approximately 566,600 mobile customers, Vip operator in the Republic of Macedonia increased its market share from 19.9% to 24.9% at year-end 2011.

Revenues rose by 49.3% to EUR 53.4 million in a year-on-year comparison. The steadily growing subscriber base and higher traffic volumes led to higher monthly fees and traffic revenues. Stronger usage also resulted in an increase

in interconnection revenues and related interconnection expenses. At EUR 47.9 million, operating expenses showed an increase of 15.6% compared to the previous year.

After a negative EBITDA comparable of EUR 5.2 million in the previous year, Vip operator recorded a positive EBITDA comparable of EUR 6.3 million for the first time in the year under review. Operating loss was reduced from EUR 14.3 million in 2010 to EUR 10.3 million.

KEY PERFORMANCE INDICATORS REPUBLIC OF MACEDONIA

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	53.4	35.8	49.3
EBITDA comparable	6.3	-5.2	n.a.
EBITDA comparable – margin	11.8%	n.a.	
EBITDA incl. effects from restructuring and impairment tests	6.3	-5.2	n.a.
Operating income	-10.3	-14.3	-28.0
Capital expenditures	11.8	7.6	55.9
Mobile Communication			
Mobile communication subscribers (in '000)	566.6	442.2	28.1
Market share	24.9%	19.9%	
Penetration	111.0%	108.2%	
ARPU in EUR	7.5	6.8	10.0
Human resources (full-time employees as of Dec. 31)			
	203	196	3.6

Liechtenstein

At year-end 2011, mobikom liechtenstein had approximately 6,200 customers, a decline of 3.5% compared to the previous year. Revenues in the year under review rose by 8.9% to EUR 7.6 million. Rising revenues led to an increase in

EBITDA comparable from EUR 1.3 million to EUR 1.9 million. After EUR 0.5 million in the previous year, operating income in the year under review totaled EUR 1.0 million.

KEY PERFORMANCE INDICATORS LIECHTENSTEIN

Key Financials (in EUR million)	2011	2010	Change in %
Revenues	7.6	7.0	8.9
EBITDA comparable	1.9	1.3	47.0
EBITDA comparable – margin	24,4%	18,0%	
EBITDA incl. effects from restructuring and impairment tests	1.9	1.3	47.0
Operating income	1.0	0.5	108.0
Capital expenditures	0.7	0.4	75.7
Mobile Communication			
Mobile communication subscribers (in '000)	6.2	6.4	-3.5
Market share	16.5%	20.2%	
Penetration	102.8%	91.5%	
ARPU in EUR	54.9	56.2	-2.2
Human resources (full-time employees as of Dec. 31)			
	13	15	-12.7

Employees

On December 31, 2011, the Telekom Austria Group had 17,217 employees, 4.3% more than on the same date in the previous year. As part of the multi-year restructuring program, the headcount of the Austrian segment was reduced by 4.4% to 9,292; approximately 53% of these employees have civil servant status. The international segments reported a 17.0% rise in the number of employees to 7,761 largely due to the acquisition of fixed line operators in Bulgaria and Croatia.

With a view to maintaining its competitiveness and innovative strength, the Telekom Austria Group continuously

invests in needs-based further education and professional training for its staff. In fall 2010, the Telekom Austria Group Business School was set up as a centralized in-house training and educational institution for the Group. At the same time, the individual subsidiaries also developed their own further education and training programs that are tailored to the needs of their respective markets.

Total spending on further education and professional training in the year under review amounted to some EUR 11.9 million (2010: EUR 12.4 million), an average of EUR 691 per employee (2010: EUR 754).

EMPLOYEES AT YEAR-END¹⁾

	2011	2010	Change in %
Austria	9,292	9,717	-4.4
Bulgaria	3,380	2,453	37.8
Croatia	1,144	1,059	8.0
Belarus	1,784	1,770	0.8
Additional Markets	1,454	1,352	7.5
Corporate	164	150	9.2
Total	17,217	16,501	4.3

1) Full-time equivalents

Changes to the Management and Supervisory Boards

Following the resignation of Peter Michaelis and Rainer Wieltch from the Supervisory Board of Telekom Austria AG, Markus Beyrer and Franz Geiger were elected to the Supervisory Board at the Annual General Meeting on May 19, 2011. The members of the Supervisory Board delegated by the Works Council changed as follows in 2011: Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and resumed his mandate on January 11, 2011. On May 6, 2011 Walter Hotz was nominated by the Group Works Council to replace Wilhelm Eidenberger, who resigned from the Supervisory Board on May 5, 2011.

Innovation and Technology

The numerous research and development activities of the Telekom Austria Group are centered upon the market-oriented development of products and services as well as the further technological development of network infrastructures. Group-wide coordination and a knowledge-sharing R&D culture create cost-efficient added value for the customer. In the year under review, the Group spent a total of EUR 36.8 million on research and development (2010: EUR 38.4 million).

The focus on the product side was upon innovative applications for the newly established subsidiary M2M (Machine2Machine) and the development of a uniform strategy for all cloud computing activities, which allow customers to store all their programs and files on a central server. In the year under review, investments were made in all markets to maintain the excellent quality of the network. In Austria, for example, the expansion of the fiber-optic network was continued in selected areas and the mobile communication network was further improved on the basis of Long-Term-Evolution Technology (LTE) and by upgrading the existing HSPA+ base stations. In Croatia and Bulgaria, LTE was successfully tested, and in Slovenia, the network infrastructure was upgraded on the basis of HSPA+ technology and by using the UMTS 900-MHz frequency.

Research partnerships with organizations from science and industry enable the Telekom Austria Group to integrate different ICT approaches with a view to developing application and market-oriented communication solutions. The Telekom Austria Group currently has research partnerships with the University of Vienna, the Vienna University of Technology, the Technical University Sofia and the Research Center for Telecommunications in Vienna.

Sustainable Corporate Management

The Telekom Austria Group seeks to achieve a sustainable increase in corporate value by integrating economic, ecological and social aspects. Commitment to compliance with the Austrian Corporate Governance Code and the application of the Internal Control System, the Code of Conduct and of compliance guidelines support this objective. A group-wide integrated CSR management system, group-wide standards and defined CSR structures and processes ensure the further development of strategies and corporate goals and the involvement of all business units and hierarchies.

State-of-the-art information and communication technologies have the potential to help replace CO₂-intensive products and services. Innovative products and services for business and residential customers alike as well as e-government solutions aim to raise awareness for energy efficiency and resource optimization in an increasingly mobile society. The Telekom Austria Group seeks to enhance its internal energy efficiency by deploying new technologies and the Group's operating companies also actively participate in various national and international initiatives to lower CO₂ emissions.

Social responsibility focuses on initiating and promoting social and educational campaigns that facilitate access to the knowledge-based society and to new technologies.

Cash Use Policy

Telekom Austria AG plans to distribute a dividend of EUR 0.38 per share for the years 2011 and 2012. As of 2013, the dividend payout ratio will amount to 55% of free cash flow, provided that the dividends do not lead to a reduction in the Group's equity. Maintaining a stable investment grade of at least BBB (stable outlook) remains central to the Telekom Austria Group's financial strategy.

A leverage corridor of 2.0x to 2.5x Net debt to EBITDA comparable offers sufficient financial flexibility. Potential growth projects will be benchmarked against share buybacks on the basis of the cash flow they can generate per share. 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

On December 31, 2011, 56.56% or 250.6 million Telekom Austria AG shares were classified as free-float compared to 71.48% or 316.6 million shares in the past year. 0.1% or 0.4 million shares were held by the company as in the previous year. The remaining stake amounting to 43.44% or 192.4 million shares was held by the Republic of Austria through ÖIAG (28.42%) and RPR Privatstiftung (15.018%).

As of June 21, 2011 Capital Research & Management declared that its stake had been decreased to 7.94%, which was further reduced to 4.99% as of September 5, 2011.

As of October 14, 2011 RPR Privatstiftung reported that it indirectly held call options through its wholly-owned subsidiary Marathon Beteiligungs GmbH and the latter's wholly-owned subsidiary Marathon Zwei Beteiligungs GmbH, which enable Marathon Zwei Beteiligungs GmbH to acquire shares representing up to 5.4% of Telekom Austria AG's share capital until June 2012. In addition, as of October 14, 2001, RPR Privatstiftung and its subsidiaries held 64,721 and 310,000 Telekom Austria AG shares respectively, bringing the RPR Privatstiftung's total shareholding to approximately 5.485% on this date.

On November 25, 2011 RPR Privatstiftung announced that it had increased its direct and indirect shareholding in Telekom Austria AG to 15.018%. In addition, RPR also indirectly held call options for 0.79% of Telekom Austria AG's share capital on this date. Thus, as of November 25, 2011 RPR held a total shareholding of 15.81% in Telekom Austria AG directly and indirectly in the form of shares and options. In January 2012, RPR announced that it had again increased its shareholding to 20.118% of Telekom Austria AG shares. For further details in this regard please refer to the chapter "Subsequent Events". These stakes are not classified as free float.

The Management Board was authorized in accordance with Section 65 Paragraph 1 No. 8 of the Austrian Stock Corporation Act, to acquire treasury shares registered in the name of the holders or bearer shares representing up to 5 percent of the share capital at a price ranging from EUR 1 to EUR 30 per share during a period of 18 months starting from May 19, 2011. Besides, the Management Board was authorized without further shareholder resolution to decrease the share capital of the company by up to EUR 48,309,150 by withdrawing up to 22,150,000 treasury shares registered in the name of the holders or bearer shares without par value pursuant to Section 65 Paragraph 1 No. 8 last sentence in conjunction with Section 192 of the Stock Corporation Act.

Several financing 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, and which are held in a collective custody account, are exercised by a notary.

Risk Management

Risk management at the Telekom Austria Group focuses on market and competitive risks, interventions by regulators and uncertain legal situations, which could influence the company's success. Maintaining a high level of availability and security of the products and services offered is also a key aspect of risk management. Risks and opportunities are regularly analyzed at Group level and effective measures are implemented to reduce or identify them. The effects of deviation from plan are evaluated using, among other things, scenario and probability calculations. The Telekom Austria Group's overall risk situation 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 has also a leading position in seven other international telecommunication markets, which ensures both sectoral and broad geographical diversity. As the individual markets of the Telekom Austria Group are exposed to risks of a diverse nature, risk management is not a centrally steered process but falls under the responsibility of the respective operating units. Group-wide monitoring and coordination is guaranteed by a central risk manager. In structured interviews and workshops with top management, risks are identified, assessed and then compiled in a risk report, on the basis of which measures are drawn up and put in place to reduce 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 on the basis of a risk catalogue. 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. 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. In 2011, the Telekom Austria Group also implemented a group-wide compliance risk management process.

Market and Competitive Risks

A high level of competition, a trend, which is also increasingly affecting the Group's foreign markets, is leading to sharp price cuts in both voice telephony and data traffic. There is therefore a risk that growth in traffic volumes will not be able to offset these price declines. Falling prices for mobile communication are also accelerating fixed-to-mobile substitution. However, the Group is successfully countering this risk with attractive product bundles and by expanding its convergent corporate strategy to include certain foreign markets.

The economic and financial crisis created a volatile macro-economic environment on the Telekom Austria Group's operating markets. The monitoring of key macro-economic

indicators to evaluate potential changes in customer behavior is therefore an important aspect of risk management, strategic pricing and product design.

Regulatory and Legal Risks

Telecommunication services offered by a provider with significant market power are subject to extensive network access and price regulation. In Austria, the Telekom Austria Group is considered to fall into this category in several sub-markets; its foreign subsidiaries are also subject to the regulatory frameworks of their own countries. Regulation at both the retail and wholesale levels restricts operational flexibility for both pure fixed line and bundled products as does the obligation to open up access to fixed line network infrastructure and services. Furthermore, regulatory decisions to reduce termination rates can also negatively impact the Telekom Austria Group's result development. In 2007, the European Parliament and the European Council decided to introduce comprehensive regulation of intra-Community roaming tariffs, which in 2009 was extended to cover SMS roaming and data services. These regulations affect the Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria, and will become effective in Croatia as soon as the country joins the EU.

Telekom Austria Aktiengesellschaft and its subsidiaries are 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. In the interests of clearing up compliance violations from the past, an independent panel of experts has been commissioned to carry out forensic investigations. The results of this investigation will be taken into due consideration within the framework of the company's compliance risk management.

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 therefore held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility. The Telekom Austria Group's financing company, Telekom Finanzmanagement GmbH (TFG), uses derivative financial instruments to manage sustained fluctuations in interest rates and minimize the risk of currency translation effects. The company has established a control environment, which includes guidelines and procedures for the assessment of risks, the approval, reporting and monitoring of the applied 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 of long-term debt and derivative

instruments is quantified using value-at-risk models. In 2003, 2008 and 2011, Telekom Finanzmanagement GmbH entered into interest rate swaps. Business activities in Belarus, which in 2011 was classified as a hyperinflationary economy, as well as in Bulgaria, Croatia, the Republic of Serbia and the Republic of Macedonia imply that foreign currency losses cannot be ruled out in the future.

Credit Risks

The Telekom Austria Group regularly monitors its exposure to credit risk; no business partner or individual financial instrument poses a significant credit risk. To reduce the non-performance risk relating to contractual obligations from derivatives, 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

Almost 53% of the workforce in the Austrian segment has civil servant status. To address the structure of personnel costs, the Austrian segment has in cooperation with workforce representatives not only drawn up a number of social plans, it has also developed models that enable employees with civil servant status to transfer to government service (Ministry of the Interior, Ministry of Finance and the Ministry of Justice).

Technical and Geographical Risks

Maintaining a high level of availability and reliability for the services and products offered by the Telekom Austria Group is a key aspect of risk management, as a host of risk factors, such as natural disasters, major disruptions, third-party construction work, hidden faults or criminal activities, can all negatively affect their quality. Long-term planning takes technological developments into account, while redundancy of critical components ensures fault tolerance, and efficient operating and security processes safeguard high quality standards.

Due to its expansion into Eastern and South Eastern Europe, the Group operates in markets that are undergoing 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, Telekom Austria Group has retained its Internal Control System for financial reporting (ICS) and thus complies with relevant legal requirements. The Internal Control System should ensure adequate certainty regarding the reliability and correctness of external financial reporting in compliance with international and national standards. Regular

internal reporting to management and internal audits of the Internal Control System also ensure that weaknesses are promptly identified 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, management evaluates the companies under scrutiny in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management declared the Internal Control System effective as of December 31, 2011.

Subsequent Events

On January 19, 2012 the rating agency Moody's Investors Service downgraded the long-term rating of Telekom Austria AG from A3 to Baa1 (stable outlook). Telekom Austria AG's short-term issuer rating of P-2 was confirmed by Moody's Investors Service.

On January 19, 2012 RPR Privatstiftung, Vienna, reported that it directly and indirectly held 20.118% of the shares of Telekom Austria AG.

On January 30, 2012 the Croatian government announced the reintroduction of the 6% tax on revenues from mobile network services as of January 26, 2012. The tax is expected to remain in force until Croatia joins the European Union.

On February 3, 2012 the company reached an agreement with Orange Austria Telecommunication GmbH to acquire assets comprising base stations, frequencies, the mobile operator YESS! Telekommunikation GmbH and certain intangible property rights for a total amount of up to EUR 390.0 million. The transaction is contingent upon the approval of the regulator and competition authority.

Outlook

Several negative external factors continue to shape the market environment of the Telekom Austria Group. The ongoing price pressure and the unabated fixed-to-mobile substitution pose key challenges. Furthermore, regulatory burden such as lower roaming charges as well as cuts of national and international mobile termination rates will continue to impact the Group in 2012.

Economic headwinds are anticipated to remain strong in Telekom Austria Group's major markets in the CEE region in 2012. This will continue to impact customer demand and pricing levels. In addition a continuation of increased foreign exchange fluctuations is expected. Belarus, which was classified as a hyperinflation economy in 2011, is anticipated to endure high inflation also in 2012.

To mitigate these challenges, the management of Telekom Austria Group has introduced a program to intensify the focus on the long-term stabilization of operating free cash flow. Via clear focus on customer service, innovative and convergent products this program targets revenue generation, operating expense control and capital expenditure efficiency.

For the full year 2012, management expects Group revenues to amount to approximately EUR 4.4 billion. Group EBITDA comparable, which does not include effects from impairment and restructuring tests, is expected to amount to approximately EUR 1.5 billion. Capital expenditures of Telekom Austria Group are anticipated to amount to approximately EUR 0.75 billion and do not include any investments for licenses and spectrum acquisitions. Operating free cash flow (operating free cash flow = EBITDA comparable minus capital expenditures in existing businesses) will remain a key priority for Telekom Austria Group's management and is expected to amount to approximately EUR 0.75 billion.

For 2012, the management intends to distribute a dividend of EUR 0.38 per share. As of 2013, the payout ratio will amount to 55% of free cash flow (free cash flow = cash flow from operating activities minus capital expenditures in existing businesses) to the extent that the dividend does not lead to a deterioration of Group equity.

Maintaining a stable investment grade rating of at least BBB (stable outlook) remains central to the Telekom Austria Group's financial profile.

A leverage corridor of 2.0x to 2.5x Net debt/EBITDA comparable provides ample flexibility. Potential growth projects will be benchmarked to share buybacks based on the potential cash flow generation per share. Share buybacks will take place if leverage falls below 2.0x Net debt/EBITDA comparable. A stable business and currency environment remains a prerequisite for share buybacks.

The outlook for the full year 2012 is based on a stable currency development for all markets of the Telekom Austria Group and does not include any effects of hyperinflation accounting in the Belarusian segment.

Vienna, February 13, 2012

The Management Board



Hannes Ametsreiter



Hans Tschuden

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TELEKOM AUSTRIA AG – Consolidated Statements of Operations

Notes		2011	2010
(4)	Operating revenues	4,454,626	4,650,843
(5)	Other operating income	100,379	89,161
	Operating expenses		
	Materials	–442,044	–403,617
	Employee expenses, including benefits and taxes	–805,042	–806,836
(6)	Other operating expenses	–1,780,575	–1,883,659
	EBITDA comparable	1,527,343	1,645,892
(22)	Restructuring	–233,703	–124,061
(17)(18)(19)	Impairment and reversal of impairment	–248,906	–18,342
	EBITDA incl. effects from restructuring and impairment tests	1,044,735	1,503,489
(18)(19)	Depreciation and amortization	–1,052,376	–1,065,585
	OPERATING INCOME	–7,641	437,903
	Financial result		
(7)	Interest income	16,942	13,078
(7)	Interest expense	–216,773	–207,093
(7)	Foreign exchange differences	–43,533	–1,665
(7)	Other financial result	–4,544	205
(15)	Equity in earnings of affiliates	1,089	–790
	EARNINGS BEFORE TAXES	–254,460	241,638
(30)	Income taxes	1,654	–46,465
	NET RESULT	–252,806	195,173
	Attributable to:		
	Owners of the parent	–251,972	195,350
	Non-controlling interests	–834	–177
(29)	Basic and fully diluted earnings per share	–0.57	0.44

See accompanying notes to the consolidated financial statements.

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

TELEKOM AUSTRIA AG – Consolidated Statement of Comprehensive Income

Notes		2011	2010
	Net result	–252,806	195,173
(8)(16)	Unrealized result on securities available-for-sale	–647	363
	Income tax benefit (expense)	163	–91
(7)	Realized result on securities available-for-sale	18	39
	Income tax benefit (expense)	–5	–10
(33)	Unrealized result on hedging activities	–27,365	8,292
	Income tax benefit (expense)	6,841	–773
(29)	Foreign currency translation adjustment	–5,096	–8,293
	Other comprehensive (loss) income	–26,090	–471
	Total comprehensive (loss) income	–278,896	194,702
	Attributable to:		
	Owners of the parent	–278,062	194,879
	Non-controlling interests	–834	–177

See accompanying notes to the consolidated financial statements.

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

TELEKOM AUSTRIA AG – Consolidated Statement of Financial Position

Notes		December 31, 2011	December 31, 2010
	ASSETS		
	Current assets		
	Cash and cash equivalents	459,952	120,196
(8)	Short-term investments	165,972	127,555
(9)	Accounts receivable – trade, net of allowances	708,297	772,236
(10)	Receivables due from related parties	85	82
(11)	Inventories	157,706	150,238
(12)	Prepaid expenses	130,334	128,358
(30)	Income tax receivable	40,633	40,718
(13)	Non-current assets held for sale	134	0
(14)	Other current assets	88,333	98,324
	TOTAL CURRENT ASSETS	1,751,446	1,437,707
	Non-current assets		
(15)	Investments in associates	3,699	4,298
(16)	Financial assets long-term	13,897	90,374
(17)	Goodwill	1,289,714	1,489,219
(18)	Other intangible assets, net	1,619,339	1,718,085
(19)	Property, plant and equipment, net	2,462,174	2,548,970
(20)	Other non-current assets	34,521	31,199
(30)	Deferred tax assets	273,908	235,841
(10)	Receivables due from related parties, long-term finance	106	127
	TOTAL NON-CURRENT ASSETS	5,697,359	6,118,113
	TOTAL ASSETS	7,448,804	7,555,820
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	–1,014,185	–506,653
	Accounts payable – trade	–642,177	–678,705
(22)	Current provisions and accrued liabilities	–311,573	–258,014
(10)	Payables due to related parties	–9,816	–13,057
(30)	Income tax payable	–41,259	–41,720
(23)	Other current liabilities	–226,490	–221,851
(24)	Deferred income	–166,517	–162,966
	TOTAL CURRENT LIABILITIES	–2,412,018	–1,882,965
	Non-current liabilities		
(25)	Long-term debt	–2,934,929	–3,077,240
(26)	Lease obligations and Cross Border Lease	–124	–13,879
(27)	Employee benefit obligations	–128,976	–131,576
(22)	Non-current provisions	–888,208	–761,771
(30)	Deferred tax liabilities	–127,260	–125,402
(28)	Other non-current liabilities and deferred income	–74,178	–86,063
	TOTAL NON-CURRENT LIABILITIES	–4,153,675	–4,195,929
	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	219,772	–346,341
(29)	Available-for-sale reserve	805	335
(29)	Hedging reserve	27,887	7,363
(29)	Translation adjustments	410,243	405,146
	Equity attributable to equity holders of the parent	–882,177	–1,474,379
	Non-controlling interests	–934	–2,546
	TOTAL STOCKHOLDERS' EQUITY	–883,111	–1,476,925
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	–7,448,804	–7,555,820

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

TELEKOM AUSTRIA AG – Consolidated Statement of Cash Flows

Notes		2011	2010
	Cash flow from operating activities		
	Net result	-252,806	195,173
	Adjustments to reconcile net result to cash flow		
(18)(19)	Depreciation, amortization,		
(17)	impairment and reversal of impairment	1,301,282	1,083,927
	Write-offs from investments	20	0
(27)	Employee benefit obligation – non-cash	7,633	13,645
(6)	Bad debt expenses	65,667	47,456
(30)	Change in deferred taxes	-51,886	-27,082
(15)	Equity in earnings of affiliates – non-cash	599	790
(31)	Share-based compensation	1,713	661
(22)	Change in asset retirement obligation – non-cash	7,039	5,848
(22)	Provision for restructuring – non-cash	222,070	139,439
(7)	Result on sale of investments	3,970	-135
(6)	Result on disposal/retirement of equipment	7,117	3,986
(7)	Gain/loss on monetary items – non-cash	-30,431	0
(32)	Other	57,648	14,871
	Gross cash flow	1,339,633	1,478,580
	Changes in assets and liabilities		
(9)	Accounts receivable – trade	-13,936	-148,402
(10)	Receivables due from related parties	-18	1,106
(11)	Inventories	-9,959	-22,670
(12)(14)	Prepaid expenses and other assets	-1,716	-13,405
	Accounts payable – trade	-23,871	151,697
(27)	Employee benefit obligation	-8,099	-5,612
(22)	Provisions and accrued liabilities	-53,550	-39,467
(23)(24)	Other liabilities and deferred income	-11,854	-6,704
(10)	Payables due to related parties	-3,355	2,412
		-126,358	-81,045
	Cash flow from operating activities	1,213,275	1,397,535
	Cash flow from investing activities		
(18)(19)	Capital expenditures	-738,979	-763,572
(2)(15)	Acquisitions of subsidiaries, net of cash acquired	-135,749	3,501
(2)(15)	Sale of subsidiaries, net of cash disposed	928	3,846
(18)(19)	Proceeds from sale of property, plant and equipment and intangible assets	4,940	11,043
(8)(16)	Purchase of investments	-111,323	-294,483
(8)(16)	Proceeds from sale of investments	125,431	422,736
	Cash flow from investing activities	-854,751	-616,930
	Cash flow from financing activities		
(25)	Proceeds from issuance of long-term debt	755,274	75,000
(25)	Principal payments on long-term debt	-224,095	-579,724
(21)	Change in short-term borrowings	-185,162	30,900
(29)	Dividends paid	-331,923	-331,923
(2)	Deferred consideration paid for business combinations	-17,767	-582,694
	Cash flow from financing activities	-3,673	-1,388,441
	Effect of exchange rate changes	1,274	-2,023
	Monetary loss on cash and cash equivalents	-16,367	0
	Change in cash and cash equivalents	339,756	-609,858
	Cash and cash equivalents at beginning of the year	120,196	730,054
	Cash and cash equivalents at end of the year	459,952	120,196

See accompanying notes to the consolidated financial statements.

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

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

	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Retained earnings
Balance at January 1, 2010	966,183	–8,196	582,896	482,913
Net result	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
Net result	0	0	0	–251,972
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	–251,972
Distribution of dividends	0	0	0	–331,923
Hyperinflation adjustment	0	0	0	17,783
Acquisition of minority interests	0	0	0	0
Balance at December 31, 2011	966,183	–8,196	582,896	–219,772

See accompanying notes to the consolidated financial statements.

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

CONSOLIDATED FINANCIAL STATEMENTS

Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
-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
0	0	0	-251,972	-834	-252,806
-483	0	0	-483	0	-483
14	0	0	14	0	14
0	-20,524	0	-20,524	0	-20,524
0	0	-5,096	-5,096	0	-5,096
-470	-20,524	-5,096	-26,090	0	-26,090
-470	-20,524	-5,096	-278,062	-834	-278,896
0	0	0	-331,923	0	-331,923
0	0	0	17,783	0	17,783
0	0	0	0	-777	-777
-805	-27,887	-410,243	882,177	934	883,111

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

Consolidated Segment Reporting

2011	Austria	Bulgaria	Croatia
External revenues	2,919,434	500,021	403,046
Intersegmental revenues	22,630	27,670	17,685
Total revenues	2,942,064	527,692	420,731
Other operating income	95,825	19,069	2,770
Segment expenses	-2,065,304	-284,865	-288,982
EBITDA comparable	972,584	261,896	134,519
Restructuring	-233,703	0	0
Impairment and reversal of impairment	0	-19,300	0
EBITDA incl. effects from restructuring and impairment tests	738,881	242,596	134,519
Depreciation and amortization	-609,175	-200,343	-66,576
Operating income	129,706	42,253	67,943
Interest income	10,661	2,465	1,242
Interest expense	-57,056	-7,515	-4,063
Equity in earnings of affiliates	1,089	0	0
Other financial income	-5,195	-46	-1,909
Earnings before income taxes	79,205	37,157	63,212
Income taxes			
Net result			
Segment assets	4,308,424	1,513,857	516,776
Segment liabilities	-2,737,458	-270,628	-264,837
Capex other intangible assets	101,701	19,723	5,030
Capex property, plant and equipment	383,371	50,788	45,506
Total capital expenditures	485,073	70,511	50,536
Cost to acquire property, plant and equipment and intangible assets	489,439	71,111	51,171
Other non-cash items	260,049	48,300	7,283
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 and reversal of impairment	-18,342	0	0
EBITDA incl. effects from restructuring and impairment tests	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 financial income	107,452	-33	1,201
Earnings before income taxes	276,819	125,264	84,196
Income taxes			
Net result			
Segment assets	4,376,238	1,576,930	486,029
Segment liabilities	-2,653,947	-110,297	-146,802
Capex other intangible assets	133,341	24,119	6,900
Capex property, plant and equipment	382,410	42,162	41,430
Total capital expenditures	515,752	66,281	48,331
Cost to acquire property, plant and equipment and intangible assets	525,579	75,982	48,736
Other non-cash items	195,143	12,005	9,744

See accompanying notes to the consolidated financial statements, Note (3).

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

CONSOLIDATED FINANCIAL STATEMENTS

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
260,774	371,351	0	0	4,454,626
99	25,004	0	-93,089	0
260,873	396,355	0	-93,089	4,454,626
5,252	6,219	20,790	-49,545	100,379
-159,546	-312,171	-59,172	142,379	-3,027,662
106,580	90,403	-38,383	-255	1,527,343
0	0	0	0	-233,703
-278,985	49,379	0	0	-248,906
-172,405	139,782	-38,383	-255	1,044,735
-82,782	-96,351	0	2,851	-1,052,376
-255,188	43,431	-38,383	2,596	-7,641
4,129	2,004	30,678	-34,237	16,942
-3,024	-987	-178,832	34,703	-216,773
0	0	0	0	1,089
-7,886	93	481,709	-514,842	-48,077
-261,968	44,541	295,173	-511,779	-254,460
				1,654
				-252,806
560,105	834,065	7,693,395	-7,977,817	7,448,804
-88,855	-165,517	-5,147,829	2,109,430	-6,565,693
3,347	16,365	0	0	146,166
41,603	71,545	0	0	592,813
44,950	87,910	0	0	738,979
48,268	88,805	0	0	748,794
276,402	-44,335	33,144	0	580,843
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

Table of Other Intangible Assets

	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
Balance at January 1, 2010	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 adjustment	-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
Hyperinflation adjustment	1,860	4,170	46	14,850	-1,865	103	19,164
Additions	9	0	78,198	1,025	58,547	8,388	146,166
Disposals	-131	0	-151,772	-30,277	0	-7,361	-189,541
Transfers	2,892	0	73,294	51	-68,303	5,507	13,441
Translation adjustment	1,523	-533	-1,281	-813	23	-23	-1,105
Changes in reporting entities	269	9,244	-6,010	64,056	0	-3,261	64,297
Balance at December 31, 2011	1,034,268	538,060	1,080,556	1,082,075	54,914	236,077	4,025,949
Accumulated amortization							
Balance at January 1, 2010	-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
Impairment	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 adjustment	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
Hyperinflation adjustment	-695	0	-1,112	-5,362	0	-143	-7,313
Additions	-51,555	-1,037	-177,247	-113,859	0	-19,529	-363,228
Impairment	0	-19,300	0	0	0	0	-19,300
Reversal of impairment	49,379	0	0	0	0	0	49,379
Disposals	131	0	151,751	30,277	0	7,134	189,294
Transfers	0	0	-5,643	0	0	-61	-5,704
Translation adjustment	-1,605	6	1,223	627	0	31	282
Changes in reporting entities	-139	-1,612	7,623	-5,431	0	4,979	5,421
Balance at December 31, 2011	-621,223	-26,744	-762,175	-827,907	0	-168,562	-2,406,610
Carrying amount at							
December 31, 2011	413,046	511,316	318,381	254,168	54,914	67,516	1,619,339
December 31, 2010	411,107	520,379	349,309	299,024	66,512	71,754	1,718,085

See accompanying notes to the consolidated financial statements, Note (r8).

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

Impairments charges and their reversals are disclosed in the consolidated statement of operations in the line "Impairment and reversal of impairment".

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, 2010	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 adjustment	-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
Hyperinflation adjustment	-245	1,319	0	-6,343	-5,269
Additions	11,725	414,774	0	176,128	602,628
Disposals	-5,130	-596,522	-1,042	-2,649	-605,343
Transfers	31,433	150,796	0	-195,817	-13,588
Translation adjustment	-1,069	-10,823	0	-309	-12,201
Changes in reporting entities	627	66,666	0	1,424	68,717
Balance at December 31, 2011	869,559	11,120,892	390	194,008	12,184,850
Accumulated depreciation					
Balance at January 1, 2010	-485,745	-8,840,003	-1,042	0	-9,326,790
Additions	-40,553	-662,397	-147	0	-703,097
Impairment	0	-653	0	0	-653
Disposals	4,648	422,899	0	0	427,547
Transfers	-66	78	0	0	12
Translation adjustment	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
Hyperinflation adjustment	-10	-8,708	0	0	-8,719
Additions	-38,068	-651,023	-57	0	-689,148
Disposals	4,758	584,723	1,042	0	590,523
Transfers	-40	5,744	0	0	5,704
Translation adjustment	411	10,419	0	0	10,830
Changes in reporting entities	-416	-30,515	0	0	-30,930
Balance at December 31, 2011	-554,788	-9,167,684	-204	0	-9,722,676
Carrying amount at					
December 31, 2011	314,771	1,953,208	186	194,008	2,462,174
December 31, 2010	310,795	2,016,357	243	221,575	2,548,970

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

(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. ÖIAG’s stake in Telekom Austria Group is disclosed in Note (29).

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. In addition, the government holds the taxing authority for the Austrian operations of Telekom Austria Group and imposes taxes such as corporate income tax 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, 2011 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, 2011 and as endorsed by the European Union.

The IASB issued the following amendments to 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, 2011.

IAS 24	Related Party Disclosures
IAS 32	Classification of Rights Issue
IFRS 1	Additional Exemptions for First Time Adopters in connection with IFRS 7
IFRIC 14	Minimum Funding Requirements and their Interaction (revised)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
	Amendments as a Result of Improvements Project 2010

For information on the first time application of IAS 24 see Note (10). The initial application of the remaining IFRS and IFRIC mentioned above had an insignificant impact on the consolidated financial statement as of December 31, 2011 since the amendments and revisions were not fully applicable. Thus, the initial application did not result in any changes in accounting principles.

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2011. 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 1	Presentation of Financial Statements (amended)	July 1, 2012	not endorsed
IAS 19	Employee Benefits (amended)	January 1, 2013	not endorsed
IAS 27	Separate Financial Statements (amended)	January 1, 2013	not endorsed
IFRS 7	Financial Instruments: Disclosures (amended)	July 1, 2011	July 1, 2011
IFRS 9	Financial Instruments	January 1, 2015	not endorsed
IAS 28	Investments in Associates and Joint Ventures (amended)	January 1, 2013	not endorsed
IAS 32	Financial instruments: Disclosures (amended December 2011)	January 1, 2014	not endorsed
IAS 12	Income Taxes (amended)	January 1, 2012	not endorsed
IFRS 1	Regulations for Hyperinflationary Economies	July 1, 2011	not endorsed
IFRS 10	Consolidation	January 1, 2013	not endorsed
IFRS 11	Joint Arrangements	January 1, 2013	not endorsed
IFRS 12	Disclosures of Interests in Other Entities	January 1, 2013	not endorsed
IFRS 13	Fair Value Measurement	January 1, 2013	not endorsed
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	not endorsed

* 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 26 (2010: 25) subsidiaries in Austria and 37 (2010: 31) 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 fair value of the consideration transferred as of the acquisition date, the amount of any non-controlling interest, and in a business combination achieved in stages, the fair value of the acquirer's previously-held equity interest in the acquiree less the fair value of the identifiable assets acquired and the liabilities assumed. Non-controlling interest may be measured at fair value (full-goodwill method). Goodwill is not adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the resulting gain is recognized in profit and loss. Transaction costs are expensed as incurred. In case of an 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 directly 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. In both years reported, the consolidated financial statements include three investments accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to these equity investees are included in the consolidated statement of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of operations. In the consolidated statement of cash flows only dividends, loans or cash received from or paid to the investee are included.

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 except for subsidiaries located in a hyperinflationary economy for which the year-end exchange rates are applied. All items of shareholders' equity are 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).

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,	
	2011	2010	2011	2010
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.5370	7.3830	7.4387	7.2889
Hungarian Forint (HUF)	314.5800	277.9500	279.3587	275.4534
Serbian Dinar (CSD)	104.6409	105.4982	101.9674	103.0016
Swiss Franc (CHF)	1.2156	1.2504	1.2330	1.3799
Rumanian Leu (RON)	4.3233	4.2620	4.2381	4.2121
Turkish Lira (TRY)	2.4432	2.0694	2.3374	1.9965
Macedonian Denar (MKD)	61.5050	61.5085	61.5292	61.5181
Belarusian Ruble (BYR)*	10,800.0000	3,972.6000	10,800.0000	3,951.7641
US Dollar (USD)	1.2939	1.3362	1.3921	1.3257

*Year-end rates are used for the translation of revenues and expenses if IAS 29 "Financial Reporting in Hyperinflationary Economies" is applied.

Financial reporting in hyperinflationary economies

Financial statements of subsidiaries located in hyperinflationary economies are restated before translation to the reporting currency of the group and before consolidation in order to reflect the same value of money for all items. Items recognized in the statement of financial position which are not measured at the applicable year-end measuring unit are restated based on the general price index. All non-monetary items measured at cost or amortized cost are restated for the changes in the general price index from the date of transaction to the reporting date. Monetary items are not restated. All items of shareholders' equity are restated for the changes in the general price index since their addition until the end of the reporting period. All items of comprehensive income are restated for the change in a general price index from the date of initial recognition to the reporting date. Gains and losses resulting from the net-position of monetary items are reported in the consolidated statement of operations in financial result in exchange differences. In accordance with IAS 21.42 (b) prior year financial statements were not restated.

The financial statements of the subsidiary in Belarus are generally based on historic cost. In 2011, this basis had to be restated due to changes in the value of money of its functional currency. The financial statements of the subsidiary in Belarus are therefore reported at the applicable measuring unit at the reporting date. The consumer price indexes published by the Belarusian "National Statistical Committee" were applied. The following table provides the inflation rates used in the calculation:

Years	Inflation %
2008	13.4
2009	9.8
2010	10.1
2011	108.7

2011 – monthly	Inflation %
January	1.4
February	2.7
March	1.9
April	4.5
May	13.1
June	8.6
July	3.5
August	8.9
September	13.6
October	8.2
November	8.1
December	2.3

Assets and liabilities as well as revenues and expenses of these foreign subsidiaries are translated using the year-end exchange rates for the purpose of consolidation.

Format of the consolidated statements of operations

In 2010, the format of the consolidated statement 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. effects from restructuring and impairment tests are used to better evaluate trends in the Company's underlying operations. EBITDA comparable comprises EBITDA adjusted for effects from the restructuring program described in Note (22) and from impairment testing, 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 laid off 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 EBITDA comparable.

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 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 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 deferred and 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 bonus points (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 minimum 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 36,756 and EUR 38,400 for the years ended December 31, 2011 and 2010, respectively, and are classified based on their origination as employee expenses, depreciation and amortization 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 or loss 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 2011 and 2010 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 unrestricted cash and cash equivalents reported in the consolidated statement 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 current 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 recognizes an impairment loss in other financial result. Furthermore, Telekom Austria Group 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 determined. 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 statement 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 measured 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 in the statement of financial position as assets held for sale. The net gains or losses on the sale of

assets held for sale are recorded together with gains and losses from retirement of property, plant and equipment either in other operating expenses or other operating income. The net gains or losses on the sale of investments held for sale are 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 finite 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 over 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 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 goodwill is allocated shall: (a) represent the lowest level within the entity at which 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 management's best estimates about future developments. Significant assumptions to determine the value in use comprise EBITDA, capital expenditure, 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 cash-generating unit exceeds its carrying amount, the cash-generating unit and the goodwill allocated to that cash-generating unit shall be regarded as not impaired. If the carrying amount of the cash-generating unit exceeds its recoverable amount, the entity shall recognize an impairment loss. The impairment loss shall first be allocated to the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit, provided that the recoverable amount is less than the carrying amount of the cash-generating unit. These reductions in the carrying amounts represent impairment losses on individual assets.

Intangible assets with a finite 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	1–30
Patents and proprietary rights	1–30
Subscriber base	3–13
Software	1–10
Other	2–30

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. If management intends to discontinue the use of a brand name in the foreseeable future, an impairment test is performed and the excess of the carrying amount over the recoverable amount is recognized as an impairment charge. The remaining carrying amount is amortized over the remaining estimated useful life.

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs, 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 property, plant and equipment. 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	5–10
Cables and wires	15–20
Communications equipment	3–10
Furniture, fixtures and other	1–20
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 statement of operations.

Impairment of property, plant and equipment and intangible assets

In the event that facts and circumstances indicate that Telekom Austria Group's property, plant and equipment or intangible assets having an definite useful life, 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 is the amount obtainable from the sale of the asset in an arm's length transaction. 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 statement 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 statement 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. For severance and pension obligations, Telekom Austria Group recognizes actuarial gains and losses in accordance with the corridor method and not directly comprehensive income. 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. Prior service costs are recognized over the remaining service period. For service awards, actuarial gains and losses are recognized immediately.

According to IAS 19.118, entities 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 decommissioning, 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 consolidated statement of operations. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

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 tax 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.

Share-based payments

In accordance with IFRS 2, share-based payments are measured at fair value at the grant date. The expense is recognized 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 share-based payments granted in the Stock Option Plan 2004 and bonus shares granted in the course of the long-term incentive program in cash, the share-based payments 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.

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 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, gains or losses are recognized in the consolidated statement of operations when the financial liability is derecognized.

Financial assets and financial liabilities are offset and the net amount is presented in the statement 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 statement 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 December 31, 2011 and 2010, 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 actual development of the future business environment may differ from Management's assessment.

Use of estimates

The preparation of the consolidated financial statements requires Management to make estimates and assumptions that affect the assets, liabilities and contingent liabilities reported at the end of any given period, and 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 test for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Factors such as lower than anticipated revenues and the resulting decreased net cash flows as well as changes in the discount rates used could lead to impairments or, to the extent permitted, to reversals of impairments. For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (18) and (19).
- c) The estimated useful lives of property, plant and equipment 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) Share-based compensation: Obligations under the long-term incentive program 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. 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 August 8, 2011, Telekom Austria Group purchased 100% of the shares of B.net Hrvatska d.o.o. ("B.net"), the largest cable operator in Croatia, through its Croatian subsidiary Vipnet d.o.o. ("Vipnet"). B.net was the sole shareholder of the Croatian companies NA KVADRAT d.o.o., VOLJAGLAS d.o.o. and NA KUB d.o.o., which were merged into B.net in the fourth quarter, but which had no impact on the consolidated financial statements. The acquisition of the cable operator allows Vipnet to participate in the anticipated strong growth of fixed broadband, TV services and convergent products and to position itself as a fully integrated operator. The entities are reported in the Segment Croatia. The table "Acquisition of B.net" summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the provisional allocation of the consideration transferred. Acquisition-related costs recognized as expense amounted to EUR 71. The factors contributing to goodwill are essentially highly qualified employees and expectations about the future development of the acquiree's profitability. Since the acquisition B.net has contributed EUR 17,474 to consolidated revenues and a loss of EUR 1,640 to the consolidated net result.

Acquisition of B.net	Fair values on acquisition date
Property, plant and equipment	37,184
Intangible assets	36,876
Other assets and receivables	8,115
Cash and cash equivalents	3,511
Loans and short-term borrowings	-28,947
Deferred tax liabilities	-6,456
Accounts payable – trade	-3,920
Accrued liabilities and other payables	-6,052
Net assets acquired	40,311
Goodwill on acquisitions	30,139
Total consideration transferred	70,451
Cash and cash equivalents acquired	-3,511
Net cash outflow	66,939

On January 25, 2011, Telekom Austria Group purchased 100% of the shares of the Bulgarian fixed line provider Spectrum Net AD ("Spectrum") and its 100% subsidiary Orbitel EAD ("Orbitel") through its Bulgarian subsidiary MobilTel EAD ("MobilTel"). On February 3, 2011, Telekom Austria Group purchased 80% of another Bulgarian fixed line operator, Megalan Network AD ("Megalan"), and committed to acquire the

remaining 20% by March 31, 2012. Therefore, Telekom Austria Group consolidates 100% of Megalan, without recognizing a non-controlling interest. The purchase price due for the remaining 20% of the shares has already been deposited in an escrow bank account. Both companies are reported in the segment Bulgaria. The acquisition will allow Mobiltel to position itself as a fully integrated operator. The table "Acquisition of Megalan and Spectrum" summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the provisional allocation of the consideration transferred. Acquisition-related costs recognized as expense amounted to EUR 1,037. The factors contributing to goodwill are essentially highly qualified employees and expectations about the future development of the acquirees' profitability. The unpaid contingent purchase prices depend on the fulfillment of certain performance criteria by the acquired companies and are recognized as financial liabilities at fair value. In the third quarter 2011, a portion of EUR 2,000 of the outstanding contingent purchase price was paid. Since the acquisition, Megalan and Spectrum have contributed EUR 20,258 to consolidated revenue and a net loss of EUR 5,295 to the consolidated net result.

Acquisition of Megalan and Spectrum	Fair values on acquisition
Property, plant and equipment	15,284
Intangible assets	35,351
Other assets and receivables	5,601
Cash and cash equivalents	2,247
Loans, bonds and short-term borrowings	-9,201
Deferred tax liabilities	-2,994
Accounts payable – trade	-1,661
Accrued liabilities and other payables	-3,631
Net assets acquired	40,996
Goodwill on acquisitions	37,204
Total consideration transferred	78,199
Purchase prices not yet paid	-7,143
Cash and cash equivalents acquired	-2,247
Net cash outflow	68,809

Since the effect of the acquired entities on the consolidated financial statements of the Telekom Austria Group prior to the acquisition is not considered significant, no pro forma information is presented.

In the first quarter 2011, EUR 15,767 of the outstanding performance-based deferred consideration for the acquisition of SB Telecom Limited (SBT), the sole owner of FE VELCOM ("velcom"), was paid, to the extent the predetermined performance criteria agreed at the acquisition in 2007 had been fulfilled. The next evaluation for the settlement of the remaining EUR 57,877 (present value as of December 31, 2011) will be performed in the first quarter 2012 based on the annual net income for 2011 of SBT and velcom. As of December 31, 2011 and 2010, this consideration was recorded in other current and other long-term liabilities (see Notes (23) and (28)).

On September 7, 2011, Telekom Austria Group sold its interest in Mass Response Service GmbH for a sales price of EUR 100 which was paid in cash. On October 13, 2011, Telekom Austria Group sold its stake in Cable Runner Iberica S.L. for a sales price of EUR 1,000 which was paid in cash. For information on the result from the sale of the subsidiaries see Note (7). The following table shows the assets and liabilities that were sold in 2011:

	2011
Property, plant and equipment	14,681
Intangible assets	2,514
Trade and other receivables	2,640
Cash and cash equivalents	172
Deferred tax liabilities	-537
Liabilities	-12,085

(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 aligned its management structure and the resulting segment reporting due to the demand for convergent products. As a result, operating segments are based on geographical markets. Telekom Austria Group reports separately on its five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets.

The segment Austria comprises convergent products for voice telephony, internet access, data and IT solutions, value added services, wholesale services, television broadcasting (A1 TV), 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, IP television and other IP based services and payment solutions in Bulgaria.

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

The segment Belarus comprises mobile communication services in Belarus. In 2011, hyperinflation accounting in accordance with IAS 29 was initially applied for the segment Belarus, which results in the restatement of non monetary assets, liabilities and all items of the statement of comprehensive income for the change in a general price index and the translation of these items applying the year-end exchange rate. In accordance with IAS 21.42 comparative amounts for 2010 were not restated.

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

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 receivables or income tax payables. 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, accrued interest, accretion expense related to the asset retirement obligations, bad debt expenses and impairment charges. Additionally in 2011, unrealized foreign exchange losses, the reversal of impairment and the net monetary gain in the segment Belarus resulting from the application of hyperinflation accounting are included in other non-cash items.

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.

For information on restructuring in the segment Austria see Note (22). In 2011, impairment charges recorded in the segment Bulgaria related to the brand name "Mobiltel" (see Note (18)), in the segment Belarus to the goodwill of velcom (see Note (17)) and to the reversal of the impairment on the license in Serbia recognized in 2009 in the segment Other Markets (see Note (18)). In 2010, impairment charges recorded in the Segment Austria relate to the impairment of the goodwill, software and equipment of Mass Response Service (see Note (17), (18) and (19)).

The item other financial result includes other financial result as well as foreign exchange differences. In 2011, other financial result in the segment Corporate & Other relate to dividend income from subsidiaries which are consolidated in eliminations, thus having no impact on the consolidated financial statements. In 2010, other financial result reported in the segments Austria as well and in the segment Holding & Other, mainly results from the reorganization within Telekom Austria Group and additionally in the segment Holding & Other to dividend income from subsidiaries, which were 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:

	2011	2010
Monthly fee and traffic	3,193,557	3,306,321
Data and ICT Solutions	202,551	215,840
Wholesale (incl. Roaming)	248,011	250,521
Interconnection	519,672	597,335
Equipment	243,894	213,044
Other revenues	46,941	67,781
Total revenues	4,454,626	4,650,843

(4) Revenues

	2011	2010
Services	4,210,732	4,437,799
Equipment	243,894	213,044
Operating revenues	4,454,626	4,650,843

(5) Other Operating Income

	2011	2010
Rental revenue	16,452	17,314
Own work capitalized	44,534	44,395
Other	39,394	27,452
Other operating income	100,379	89,161

Own work capitalized represents the 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.

In 2011 and 2010, other operating income includes research and educational tax credit amounting to EUR 3,465 and EUR 3,543 respectively, and in 2011 also contractual penalty payments.

(6) Other Operating Expenses

	2011	2010
Interconnection	457,774	520,751
Repairs and maintenance	165,542	184,001
Services received	236,867	271,794
Advertising and marketing	216,825	229,869
Other support services	146,351	123,108
Rental and lease expenses	148,604	143,278
Commissions	75,121	86,352
Bad debt expenses	65,667	47,456
Legal and other consulting	40,235	38,083
Travel expenses	19,104	19,994
Other taxes	13,285	14,883
Energy	52,510	54,059
Transportation	29,120	27,569
Training expenses	11,945	12,317
Net loss from retirement of fixed assets	7,117	3,986
Other	94,506	106,160
Other operating expenses	1,780,575	1,883,659

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

At the Annual General Meeting on May 19, 2011, 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:

	2011	2010
Audit fees	910	1,184
Other reviews	0	150
Fees KPMG Austria	910	1,334

(7) Financial Result

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

	2011	2010
Interest income on loans and receivables	7,251	5,286
Interest income on bank deposits	8,073	3,774
Interest income on held-to-maturity investments	238	1,767
Interest income on available-for-sale financial assets	827	532
Net gain on hedging transactions	0	395
Interest income from sale of tax benefit	553	1,324
Interest income	16,942	13,078

	2011	2010
Interest expense on financial liabilities	173,568	161,936
Interest expense on restructuring provision	29,892	32,798
Interest expense on employee benefit obligations	6,248	6,511
Interest expense on asset retirement obligations	7,039	5,848
Net loss on hedging transactions	27	0
Interest expense	216,773	207,093

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

	2011	2010
Result on interest rate swaps – fair value hedge	–6,512	–450
Result from fair value measurement of EMTN bonds	6,485	844
Interest (expense) income	–27	395

Foreign exchange differences

	2011	2010
Foreign exchange gains	22,480	21,831
Foreign exchange losses	–96,555	–23,496
Net monetary gain	30,542	0
Foreign exchange differences	–43,533	–1,665

The increase in foreign exchange losses results from the devaluation of the Belarusian Ruble in 2011.

Other financial result

	2011	2010
Dividends received	70	70
Gain on sale of investments measured at cost	0	173
Impairment on investments measured at cost	–20	0
Loss on disposal of available-for-sale securities transferred from other comprehensive income	–21	–39
Gain on disposal of available-for-sale securities transferred from other comprehensive income	3	0
Result from sale of subsidiaries	–4,576	0
Result from financial assets	–4,544	205

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

(8) Short-term Investments

Short-term investments consist of the following items:

At December 31,	2011	2010
Marketable securities short-term – available-for-sale	2,069	1,803
Deposits under cross border lease	0	6,659
Other short-term investments	163,903	119,093
Short-term investments	165,972	127,555

As of December 31, 2011 and 2010, other short-term investments mainly relate to Euro and US Dollar fixed deposits. Additionally, as of December 31, 2010, a 100,000-EUR deposit, serving as collateral for guarantees related to cross border lease transactions (see Note (26)) was included.

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,	2011	2010
Accounts receivable – trade, gross	905,450	937,581
Allowances	–197,153	–165,345
Accounts receivable – trade, net	708,297	772,236

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

	2011	2010
Allowance at the beginning of the year	165,345	156,531
Foreign currency adjustment	–2,505	–1,069
Change in reporting entities	284	407
Reversed	–4,472	–1,954
Charged to expenses	70,139	49,409
Amounts written-off	–31,639	–37,979
Allowance at the end of the year	197,153	165,345
Thereof		
Specific allowance	13,755	13,486
General allowance	183,398	151,859

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

The aging of accounts receivable – trade as of December 31, 2011 and 2010 is as follows:

	Gross 2011	Allowance 2011	Gross 2010	Allowance 2010
Not yet due	593,226	8,777	674,701	10,392
Past due 0–90 days	75,915	13,830	84,857	12,106
Past due 91–180 days	41,108	24,443	25,582	13,533
Past due 181–360 days	63,861	46,398	41,472	30,550
More than one year	131,340	103,703	110,968	98,763
Total	905,450	197,153	937,581	165,345

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 expenses recognized mainly relate 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

The significant shareholder ÖIAG is considered a related party due to its participation in Telekom Austria AG granting ÖIAG to exercise significant influence. Through ÖIAG Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group, all of which qualify as related parties. Telekom Austria Group has determined the kind and amount of the transactions concluded with these related parties. None of the individual transactions associated with government agencies or government-owned entities are considered significant to Telekom Austria Group. In the years reported, services received from the related parties mentioned above mainly relate to postage fees, transportation and commissions and amount to less than 1.3% of the material expense and other operating expense recognized in the segment Austria. In 2011 and 2010, revenues generated from transactions with these related parties were below 2.4% and 2.5%, respectively, of the total revenues in the segment Austria. The services to and by Telekom Austria Group from and to government entities are generally provided at arm's length.

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. The contract with the government concluded in July 2011 specifies the reimbursement for customers having a valid official notice issued before July 1, 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after July 1, 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was EUR 32,765 and EUR 35,725 in 2011 and 2010, respectively.

Regarding the transfer for civil servants to the government and the related expenses, provisions and liabilities see Note (22).

The following disclosure for related party transactions relate to associated companies and key management personnel (members of the Management and Supervisory board as well as members of the management of the significant operating subsidiaries). All transactions with related parties are carried out at arm's length.

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 2011 and 2010, respectively, Telekom Austria Group was charged EUR 753 and EUR 627 for legal services by this law firm.

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

	2011	2010
Revenues	132	134
Other operating income	19	0
Expenses	40,145	43,451
Interest income	5	3

In 2011 and 2010, expenses of EUR 38,734 and EUR 40,441 relate to advertising and marketing services provided by Omnimedia Werbegesellschaft mbH ("Omnimedia").

As of December 31, 2011 and 2010, EUR 9,788 and EUR 12,680 of total accounts payable due to related parties relate to Omnimedia.

The following table sets out compensation of executives:

	2011	2010
Short-term employee benefits	12,144	10,673
Pensions	462	463
Other long-term benefits	48	3
Termination benefits	364	815
Share-based payments	717	493
Compensation of executives	13,736	12,447

Expenses for pensions and severance for other employees amounted to EUR 24,025 and EUR 25,843 in 2011 and 2010, respectively. Expenses consist of voluntary and legal severance expenses, contributions to pension plans and other pension payments.

(11) Inventories

Inventories consist of:

At December 31,	2011	2010
Spare parts, cables and supplies	76,358	67,826
Merchandise	81,327	81,601
Prepayments	21	811
Inventories	157,706	150,238

As of December 31, 2011 and 2010, the carrying amount of merchandise measured at fair value less cost to sell, amounted to EUR 26,173, and EUR 19,471, respectively. In 2011 and 2010, Telekom Austria Group recognized impairment charges related to inventories amounting to EUR 23,814 and EUR 21,160. Reversals of impairment charges amounting to EUR 7,277 and EUR 6,568 were recognized in 2011 and 2010. As of December 31, 2011 and 2010, no inventories were pledged as collateral for liabilities.

(12) Prepaid Expenses

Prepaid expenses include the following items:

At December 31,	2011	2010
Advances to employees	15,043	15,300
Rent	10,130	10,732
Prepaid marketing expenses	56,459	53,670
Other	48,702	48,656
Prepaid expenses	130,334	128,358

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,	2011	2010
Land and buildings	134	0
Non-current assets held for sale	134	0

As of December 31, 2011, long-term assets held for sale relate to land and buildings in the segment Austria.

(14) Other Current Assets

Other current assets consist of the following items:

At December 31,	2011	2010
Derivative financial instruments	3,279	4,010
Other financial assets	39,549	51,462
Finance lease receivables	11,417	10,123
Other non-financial assets	35,561	34,400
Other current assets, gross	89,806	99,994
Less allowance for financial assets	-581	-834
Less allowance for non-financial assets	-893	-836
Other current assets	88,333	98,324

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

As of December 31, 2011 and 2010, 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 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, 2011 and 2010:

	Gross 2011	Allowance 2011	Gross 2010	Allowance 2010
Not yet due	51,992	560	63,299	633
Past due 0–90 days	962	0	266	0
Past due 91–180 days	252	0	274	152
Past due 181–360 days	901	0	1,520	0
More than one year	138	21	235	50
Total	54,245	581	65,595	834

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

	2011	2010
Allowance at the beginning of the year	834	668
Foreign currency adjustment	-31	2
Reversed	-73	0
Charged to expenses	3	176
Amounts written-off	-152	-13
Allowance at the end of the year	581	834

(15) Investments in Associates

As of December 31, 2011 und 2010, investments in associates in the segment Austria consist of 26% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia"), 25.029% interest in Marx Media Vienna GmbH ("Marx Media") as well as 40% interest in netdoktor.at GmbH.

In 2010, an impairment charge on the investment in Marx Media of EUR 2,334 was recognized.

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.

Until the acquisition of the remaining shares in paybox in July 2010, Telekom Austria Group accounted for the 83.33% interest by applying the equity method of accounting, since Telekom Austria Group had significant influence but could not exercise control over the entity due to the transfer of certain rights. The carrying amount of the investment at the time of purchase was EUR 1,150.

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, 2011 and 2010.

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

	2011	2010
At January 1,	4,298	7,467
Dividends received	-1,688	0
Recognized income	1,089	327
Impairment	0	-2,334
Changes in reporting entities	0	-12
Step-acquisition	0	-1,150
At December 31,	3,699	4,298

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:

	2011	2010
Statement of operations		
Revenues	121,381	95,475
Operating income	4,754	3,824
Net income	3,511	2,641

Financial information for paybox is no longer included in 2010.

	2011	2010
At December 31,		
Total assets	25,024	25,669
Total liabilities	23,359	20,998
Total stockholders' equity	1,665	4,671

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

	2011	2010
At December 31,		
Other investments carried at cost	554	579
Other financial assets, long-term	0	56,389
Marketable securities – available-for-sale, long-term	13,343	14,585
Deposits cross border lease	0	18,821
Financial assets, long-term	13,897	90,374

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, 2011, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

As of December 31, 2010, other long-term financial assets comprise mainly USD time deposits which were reclassified to short-term financial assets in 2011.

Marketable securities available-for-sale serve as coverage for the provision for pensions. 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 in 2011 and 2010:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2010	427,823	605,443	67,025	256,510	136,260	1,493,062
Impairment	-11,723	0	0	0	0	-11,723
Translation adjustment	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
Acquisitions	0	37,204	30,139	0	0	67,343
Impairment	0	0	0	-278,985	0	-278,985
Translation adjustment	0	0	-1,717	-0	0	-1,717
Hyperinflation adjustment	0	0	0	13,854	0	13,854
Balance at December 31, 2011	416,101	642,646	94,706	0	136,260	1,289,714

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

The application IAS 29 "Financial Reporting in Hyperinflationary Economies" for Belarus for 2011 resulted, amongst other effects, in an increase in goodwill and in the carrying amount of the cash generating unit velcom (including goodwill). As the carrying amount adjusted for the effects of hyperinflation accounting was in excess of the value in use, an impairment charge on goodwill of velcom amounting to EUR 278,985 was recognized. The key assumptions applied to the calculation of the value in use for the cash-generating unit velcom are discount rates before tax (WACC) and the perpetual annuity which are disclosed in the table below.

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

As of December 31, 2011 and 2010, the accumulated impairment charges on goodwill totaled EUR 581,779 and EUR 302,794, 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,	2011	2010
A1 Telekom Austria	414,862	414,862
World-Direct	1,239	1,239
Total Austria	416,101	416,101
Mobitel	642,646	605,443
Total Bulgaria	642,646	605,443
Vipnet	94,706	66,284
Total Croatia	94,706	66,284
velcom	0	265,131
Total Belarus	0	265,131
Si.mobil	136,260	136,260
Total Additional Markets	136,260	136,260
Total Goodwill	1,289,714	1,489,219

In 2011 and 2010, the following parameters were used to calculate the value in use:

	Growth rates terminal value		Pre-tax interest rates*	
	2011	2010	2011	2010
Austria	0.0%	0.0%	11.2%	10.0%
Bulgaria	1.0%	0.0%	11.5% – 13.2%	10.2% – 11.9%
Croatia	1.0%	1.0%	12.2% – 13.7%	10.9% – 12.7%
Belarus	2.0%	2.0%	13.4% – 64.2%	13.0% – 21.1%
Additional Markets	0.0% – 2.0%	1.0% – 2.0%	9.2% – 18.0%	9.1% – 16.8%

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

The 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 discount rate and the growth rate did not result in the carrying amounts exceeding the values 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, 2011 and 2010, the line item software comprises internally developed software with a carrying amount of EUR 43,912 and EUR 27,880, respectively, acquisition cost of EUR 114,534 and EUR 119,142 and the related accumulated amortization of EUR 100,622 and EUR 91,263, respectively. Additions in 2011 and 2010 amounted to EUR 17,740 and EUR 14,204, respectively.

In 2011 and 2010, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2011 and 2010, interest capitalized totaled EUR 474 and EUR 514, 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	744,736	269,060	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.

In 2011, the impairment test performed for the cash-generating unit Vip mobile in Serbia, reported in the segment Other Markets, resulted in a reversal of impairment amounting to EUR 49,379 for the license due to improved future estimated earnings. The reversal of the impairment is reported in the line item impairment and reversal of impairment in the consolidated statement of comprehensive income. In 2009, an impairment charge totaling EUR 61,992 had been recognized for this license.

For the impairment charges of 5,966 EUR relating to Mass Response Service recognized in 2010, see Note (17).

In 2011, the useful lives of certain items of software in the segment Bulgaria were reduced, which led to an increase in amortization of EUR 862. In 2010, the useful lives of certain items of software in the segment Austria were reduced, which led to an increase in amortization of EUR 1,303.

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

2012	298,115
2013	209,080
2014	165,720
2015	120,799
2016	99,213
Thereafter	223,162

The following table presents the changes of the carrying values of brand names by segment for 2011 and 2010, respectively:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2010	146,902	263,004	26,201	77,210	4,098	517,415
Acquisitions	496	0	0	0	0	496
Translation adjustment	0	0	– 295	2,595	167	2,468
Balance at December 31, 2010	147,398	263,004	25,907	79,804	4,266	520,379
Acquisitions	0	3,937	5,196	0	0	9,133
Disposals	– 1,501	0	0	0	0	– 1,501
Impairment	0	– 19,300	0	0	0	– 19,300
Amortization	0	– 602	– 436	0	0	– 1,037
Translation adjustment	0	0	– 560	0	32	– 528
Hyperinflation adjustment	0	0	0	4,170	0	4,170
Balance at December 31, 2011	145,897	247,040	30,107	83,974	4,297	511,316

Regarding the acquisitions and disposals of brand names see Note (2).

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, 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 impairment test performed for the brand name Mobiltel in Bulgaria resulted in an impairment charge of EUR 19,300. The brand names acquired in the segment Bulgaria and Croatia in 2011 (see Note (2)) will not be used any further and are therefore amortized over their useful life of six years in Bulgaria and five years in Croatia.

As of December 31, 2011 and 2010, brand names were allocated to the following cash-generating units:

At December 31,	2011	2010
A1 Telekom Austria	144,910	144,910
Mass Response Service	0	1,501
Cable Runner	491	491
Paybox Bank	496	496
Total Austria	145,897	147,398
Mobilitel	243,704	263,004
Megalan	1,410	0
Spectrum Net	1,099	0
Orbitel	827	0
Total Bulgaria	247,040	263,004
Vipnet	25,377	25,907
B.net	4,730	0
Total Croatia	30,107	25,907
velcom	83,974	79,804
Total Belarus	83,974	79,804
mobikom liechtenstein	1,149	1,117
Si.mobil	3,148	3,148
Total Additional Markets	4,297	4,266
Total brand names	511,316	520,379

The following parameters were applied to determine the value in use:

	Growth rates terminal value		Pre-tax interest rates *	
	2011	2010	2011	2010
Austria	0.0%	0.0%	11.2%	10.0%
Bulgaria	1.0%	0.0%	11.5% – 13.2%	10.2% – 11.9%
Croatia	1.0%	1.0%	12.2% – 13.7%	10.9% – 12.7%
Belarus	2.0%	2.0%	13.4% – 64.2%	13.0% – 21.1%
Additional Markets	0.0% – 2.0%	1.0% – 2.0%	9.2% – 18.0%	9.1% – 16.8%

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

As of December 31, 2011 and 2010, purchase commitments for intangible assets amounted to EUR 24,266 and EUR 19,390, respectively.

(19) Property, Plant and Equipment

The “Table of Property, Plant and Equipment” provides the components and a reconciliation of the changes in property plant and equipment.

As of December 31, 2011 and 2010, borrowing cost capitalized totaled EUR 1,549 and EUR 1,831, respectively. Calculation of capitalized borrowing costs was based on interest rates of 4.4% and 4.3% for the years ended December 31, 2011 and 2010, respectively.

In 2011 and 2010, the carrying amount of land amounted to EUR 55,741 and EUR 55,737, respectively.

Regarding the impairment charges of EUR 653 related to Mass Response Service recognized in 2010 see Note (17).

In 2011 and 2010, Telekom Austria Group reduced the estimated useful lives of certain technical equipment due to the rapid technological progress in certain markets in the segments Austria and Bulgaria. The changes resulted in an increase in depreciation of EUR 12,411 and EUR 3,105 in 2011 and 2010, respectively.

Government grants totaling EUR 151 and EUR 345 were deducted from acquisition cost in 2011 and 2010, respectively.

The transfers from advances and construction in progress relate to property, plant and equipment and intangible assets.

As of December 31, 2011, no property, plant and equipment is pledged as collateral. In 2010, communication network and other equipment with a carrying amount of EUR 1,303 was pledged as collateral under the cross border lease transactions described in Note (26).

As of December 31, 2011 and 2010, purchase commitments for property, plant and equipment amounted to EUR 73,717 and EUR 68,244, respectively.

The estimated useful lives of property, plant and equipment and of intangible assets represent the periods in which the assets are estimated to be used by Telekom Austria Group. An extension of the useful lives by one year would lead to a decrease in depreciation and amortization expense of EUR 235,867. A reduction in the useful lives of one year would lead to an increase in depreciation and amortization expense of EUR 307,454.

(20) Other Non-current Assets

Other non-current assets include the following items:

At December 31,	2011	2010
Finance lease receivables	6,835	7,095
Other financial assets	14,753	19,307
Other non-financial assets	13,064	4,979
Other non-current assets, gross	34,652	31,381
Less allowance for financial assets	-131	-182
Other non-current assets	34,521	31,199

For information on finance lease receivables, see Note (26). As of December 31, 2011 and 2010, other non-current financial assets mainly consist of derivative financial assets (fair value hedges – see Note (33)) and loans to employees. Other non-financial assets mainly include prepayments for maintenance agreements.

The following table sets forth the aging of long-term finance lease receivables and other non-current financial assets as of December 31, 2011 and 2010:

	Gross 2011	Allowance 2011	Gross 2010	Allowance 2010
Not yet due	21,324	131	26,102	182
Past due 0–90 days	2	0	7	0
Past due 91–180 days	0	0	3	0
Past due 181–360 days	0	0	29	0
More than one year	263	0	261	0
Total	21,588	131	26,402	182

The roll-forward of the allowance for long-term finance lease receivables is as follows:

	2011	2010
Allowance at the beginning of the year	182	133
Reversed	-50	0
Charged to expenses	0	48
Allowance at the end of the year	131	182

(21) Short-term Borrowings

Telekom Austria Group's short-term borrowings include:

At December 31,	2011	2010
Current portion of long-term debt	997,877	292,789
Short-term debt	15,673	111,500
Current portion of lease obligations and Cross Border Lease	636	12,206
Multi-currency notes program	0	90,158
Short-term borrowings	1,014,185	506,653

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, multi-currency notes in Euro with a nominal value of EUR 90,250 had been issued.

(22) Provisions and Accrued Liabilities

Provisions and accrued liabilities consist of the following:

	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Interconnection/ Roaming	Other	Total
Balance at January 1, 2011	711,108	77,906	55,679	120,911	15,954	18,803	19,423	1,019,784
Additions	254,950	41,717	37,443	3,404	5,332	7,154	12,226	362,226
Changes in estimate	0	0	0	2,358	0	0	0	2,358
Used	-57,896	-41,553	-37,596	-693	-3,071	-741	-10,897	-152,447
Released	-55,674	-2,973	-6,162	-646	-823	0	-2,620	-68,898
Accretion expense	29,892	0	0	7,039	0	0	0	36,931
Reclassifications*	-7,098	9,940	0	0	40	0	-40	2,842
Translation adjustment	0	-683	0	-6,002	-17	-18	-112	-6,831
Changes in reporting entities	0	432	0	0	-333	295	3,422	3,817
Balance at December 31, 2011	875,283	84,786	49,364	126,371	17,082	25,493	21,402	1,199,781
Thereof long-term								
December 31, 2011	761,837	0	0	126,371	0	0	0	888,208
December 31, 2010	640,860	0	0	120,911	0	0	0	761,771

* Reclassification to short-term liabilities and short-term portion of employee benefit obligations.

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, 2011 and 2010, the provision for restructuring amounts to EUR 820,888 and EUR 672,957, respectively, and comprises 1,571 and 1,062 employees. 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 laid off due to their status as civil servants. On January 19, 2011, new social plans were initiated in the segment Austria which provide for early retirement, special severance packages and golden handshake options. For both years reported, the calculation of the provision is based on a discount rate of 4.5% and an estimated salary increase of 3.1% for employees and 5.0% for civil servants. The expense recognized related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was reversed, since a number of employees returned to regular operations or were transferred to the government and also since employees opted for schemes such as golden handshake, maternity leave and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2010.

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 December 31, 2014, respectively, and will compensate the civil servants for any shortfall in salary or pension payments. As of December 31, 2011 and 2010, the provision amounts to EUR 54,395 and EUR 38,151 and comprises 264 and 158 employees. In addition, Telekom Austria Group recognized a liability amounting to EUR 13,477 and EUR 10,802 (see Note (23)). In 2011 and 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 in 2011 and 2010 amounting to EUR 196,550 and EUR 69,429 and for EUR 37,153 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 56,012 an increase in the interest rate of one percentage point would lead to a reduction in the provision of EUR 50,192.

Employees

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

Customer rebates

The provision for customer rebates 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 2011, the discount rate applied to the calculation of asset retirement obligations was changed from 5.0% to 6.0% to reflect current market conditions in the individual countries. The anticipated inflation rate was increased from 2.0% to 3.0%. The change of these parameters 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.

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,	2011	2010
Fiscal authorities	52,647	55,385
Social security	8,447	8,603
Employees	14,819	15,008
Employees – transferred to Government	13,477	10,802
Prepayments from customers	4,760	8,198
Government	209	254
Other non-financial liabilities	3,316	2,848
Other current non-financial liabilities	97,675	101,097
Other current financial liabilities	128,815	120,754
Other current liabilities	226,490	221,851

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.

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 2011 and 2010, other current financial liabilities include roaming credits, liabilities arising from customer deposits and cash in transit as well as the interest-bearing purchase price liability relating to the acquisition of SBT in 2007 (see Note (2)). Additionally, in 2011, other financial liabilities include derivative financial instruments liabilities (cash flow hedges – see Note (33)) and the outstanding variable purchase price from the acquisition of Megalan (see Note (2)).

(24) Deferred Income

At December 31,	2011	2010
Unearned income	135,170	140,840
Customer loyalty programmes	31,348	20,801
Unamortized balance on sale of tax benefits	0	2,649
	166,517	164,290
Less non-current portion	0	–1,324
Deferred income, current portion	166,517	162,966

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 Programmes”, 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, 2011		At December 31, 2010			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
EUR	2013	fixed	5.00%	750,000	759,834	fixed	5.00%	750,000	765,415
EUR	2017	fixed	4.25%	500,000	496,747	fixed	4.25%	500,000	496,106
EUR	2016	fixed	6.375%	750,000	745,358	fixed	6.375%	750,000	744,222
				2,000,000	2,001,940			2,000,000	2,005,743
Promissory Notes									
EUR	2012	fixed	6.08%	100,000	99,971	fixed	6.08%	100,000	99,921
EUR	2012	variable	2.86%	200,000	199,942	variable	2.20%	200,000	199,842
				300,000	299,913			300,000	299,763
Bank debt guaranteed by federal government									
EUR	2011			0	0	variable	2.63%	4,360	4,360
EUR	2011			0	0	variable	2.39%	363	363
				0	0			4,724	4,724
Bank debt without guarantee by federal government									
EUR	2011			0	0	fixed	2.40%	210,000	210,000
EUR	2012	variable	3.13%	142,000	142,000			0	0
EUR	2012–2019	fixed	4.88%	42,611	42,611			0	0
EUR	2012	fixed	3.59%	224,000	224,000	fixed	3.59%	224,000	224,000
EUR	2012	variable	1.95%	125,000	125,000	variable	1.51%	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	2014–2019	fixed	4.32%	168,000	168,000			0	0
EUR	2014	variable	2.11%	75,000	75,000	variable	1.53%	75,000	75,000
EUR	2015	fixed	3.51%	200,000	200,000			0	0
EUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
EUR	2012–2017	fixed	4.22%	29,008	29,008			0	0
EUR	2018	fixed	3.44%	200,000	200,000			0	0
				1,550,618	1,550,618			979,000	979,000
Total interest-bearing debt				3,850,618	3,852,471			3,283,724	3,289,229
Accrued interest				80,336	80,336			80,800	80,800
Financial debt				3,930,954	3,932,806			3,364,524	3,370,029
Current portion of long-term debt				–997,877	–997,877			–292,789	–292,789
Long-term debt				2,933,077	2,934,929			3,071,734	3,077,240

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, one further Eurobond with a face value of EUR 500,000, a maturity of twelve years, and a coupon of 4.25% was launched. The discount of EUR 7,693 is amortized over the related terms. The EMTN program ended on December 31, 2008, and was not extended.

On January 29, 2009, Telekom Austria Group 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.

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 face 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. In 2011 the last outstanding guaranteed debt was repaid.

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 is required to observe certain financial ratios which are met at December 31, 2011 and 2010.

(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 2021 and mainly comprise leases of property.

Future minimum lease payments for non-cancelable operating and finance leases as of December 31, 2011 are:

	Other finance leases	Operating leases
2012	645	30,071
2013	90	23,455
2014	31	18,787
2015	12	16,557
2016	1	9,590
after 2016	0	10,974
Total minimum lease payments	779	109,435
Less amount representing interest	-19	
Present value of lease payments	760	
Less current portion	-636	
Non-current lease obligations	124	

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, 2011 and 2010, the cost of this equipment amounted to EUR 44,305 and EUR 36,845, and the carrying amount to EUR 12,233 and EUR 12,819, respectively. The following table sets forth the future minimum lease payments to be received as of December 31, 2011:

	Operating leases
2012	6,158
2013	3,427
2014	1,662
2015	1,232
2016	900
after 2016	1,216
Total minimum lease payments	14,597

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, 2011, the future minimum lease payments for these transactions amount to:

	Finance lease
2012	11,914
2013	4,000
2014	341
2015	331
2016	321
after 2016	3,827
Total minimum lease payments	20,733
Less amount representing interest	-2,481
Present value of finance lease receivables	18,252
Less current portion	-11,417
Non-current finance lease receivables	6,835

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

At December 31,	2011	2010
Allowance finance lease receivables, long-term	131	182
Allowance finance lease receivables, short-term	411	484
Allowance at the end of the year	543	666

Cross-border lease transactions

In December 2001, Telekom Austria Group entered into a CBL with a US investor which was terminated prematurely in April 2011. Telekom Austria Group recognized an expense of EUR 2,095 but also released the deferred net present value of EUR 2,648 relating to this transaction. As a result, Telekom Austria Group recognized interest income of EUR 553 (see Note (7)). The early termination was effected on legally and economically advantageous terms.

This transaction has been concluded 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 on those investments were 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 was recognized on the face of the statement of financial position, as Telekom Austria Group was 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 were recognized separately on the face of the statement of financial position. Accordingly, interest income and expenses in the same amount totaling EUR 238 and EUR 1,598 were recognized in 2011 and 2010, respectively.

According to SIC 27, the transactions described, in substance, did not represent a lease in accordance with IAS 17. Therefore, Telekom Austria Group maintained the assets on its statement 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 represented a gain on the sale of a tax benefit for Telekom Austria Group. The net cash effect resulting from these transactions in connection with the sale of the tax benefit amounted to EUR 14,547 in 2001 and was amortized over the term of the lease (see Note (7)).

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 serving as collateral for these guarantees was opened and was redeemed at the end of its term in December 2011.

As of December 31, 2010, total assets (PUAs) and liabilities recorded in connection with the cross border leases were as follows:

At December 31,	2011	2010
Deposits long-term	0	18,821
Deposits short-term	0	6,659
Total assets in connection with cross-border leases	0	25,480
Cross-border lease obligations	0	25,480
Of which current	0	11,842

(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

At December 31,	2011	2010
Service awards	61,694	63,425
Severance	61,750	59,441
Pensions	5,420	5,851
Other	112	2,859
Long-term employee benefit obligations	128,976	131,576

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,	2011	2010
Discount rate	4.5%	4.5%
Rate of compensation increase – civil servants	5.5%	5.5%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–4.5%	0.0%–4.1%

* depending on years of service

Interest expense related to employee benefit obligations 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 of 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 (at the age of 65) or who are retiring based on a specific legal regulation are eligible to receive four monthly salaries. 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 provision for service awards for the years ended December 31, 2011 and 2010:

	2011	2010
Obligation at the beginning of the year	67,119	60,178
Service cost	2,482	2,283
Interest cost	2,949	3,234
Actuarial losses (gains)	-3,082	4,351
Benefits paid	-3,118	-2,941
Past service cost	1	14
Obligation at the end of the year	66,351	67,119
Less short-term portion	-4,657	-3,694
Non-current obligation	61,694	63,425

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2011 and 2010, respectively.

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

	2011	2010	2009	2008	2007
Defined benefit obligation	66,351	67,119	60,178	55,480	52,599
Experience adjustments	3,075	1,281	360	-3,115	-343

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 1,474 and EUR 1,316 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2011 and 2010, 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, 2011 and 2010:

	2011	2010
Service cost	4,469	3,696
Interest cost	2,984	2,882
Amortization of actuarial losses (gains)	-11	-1,174
Net periodic benefit cost	7,443	5,403

The following table provides a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2011 and 2010:

	2011	2010
Defined benefit obligation at the beginning of the year	67,093	54,565
Foreign currency adjustments	2	-6
Change in reporting units	20	25
Service cost	4,469	3,696
Interest cost	2,984	2,882
Benefits paid	-5,133	-4,762
Past service cost	0	3
Actuarial losses (gains)	39	10,690
Defined benefit obligation at the end of the year	69,521	67,093
Unrecognized actuarial gain (loss)	-6,278	-6,228
Obligation at the end of the year	63,243	60,865
Less short-term portion	-1,493	-1,424
Non-current obligation	61,750	59,441

Of the defined benefit obligations for severance, approximately 3% related to foreign subsidiaries as of December 31, 2011 and 2010, respectively.

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

	2011	2010	2009	2008	2007
Defined benefit obligation	69,521	67,093	54,565	45,759	52,425
Experience adjustments	-352	-1,256	-2,388	-3,904	-20,714

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 2011 and 2010, 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 40,037 and EUR 40,816 in 2011 and 2010, 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 12,658 and EUR 13,006 in 2011 and 2010, 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 2011 and 2010 is set out in the following table:

	2011	2010
Interest cost	303	372
Amortization of actuarial losses (gains)	0	0
Net periodic pension cost	303	372

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2011 and 2010:

	2011	2010
Defined benefit obligation at the beginning of the year	7,133	7,186
Interest cost	303	372
Benefits paid	-801	-774
Past service cost	90	0
Actuarial losses (gains)	394	349
Defined benefit obligation at the end of the year	7,120	7,133
Unrecognized actuarial gain (loss)	-934	-539
Obligation at the end of the year	6,186	6,593
Less short-term portion	-766	-742
Non-current obligation	5,420	5,851

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:

	2011	2010	2009	2008	2007
Defined benefit obligation	7,120	7,133	7,186	6,773	7,489
Experience adjustments	-394	179	-610	-419	-303

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, 2011	3.5%	4.5%	5.5%
Service awards	71,785	66,351	61,522
Severance	82,955	69,521	58,698
Pensions	7,720	7,120	6,686

(28) Other Non-current Liabilities and Deferred Income

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

At December 31,	2011	2010
Long-term accounts payable – trade	472	884
Cash flow hedges	33,795	9,817
Other liabilities	26,228	56,247
Other non-current financial liabilities	60,495	66,948
Unamortized balance on sale of tax benefits	0	1,324
Long-term incentive program	3,017	1,309
Other liabilities	3,598	3,413
Deferred income, other	7,068	13,068
Other non-current non-financial liabilities	13,683	19,114
Other non-current liabilities and deferred income	74,178	86,063

Long-term accounts payable – trade have a maturity beyond one year.

In 2011, the cash flow hedges relate to three forward-start-swaps (pre-hedges) (see Note (33)) and in 2010 to a floating to fixed interest rate swap for promissory notes (see Notes (25) and (33)). As of December 31, 2011 this swap is reported on other current liabilities (see Note 23).

As of December 31, 2011 and 2010, other long-term financial liabilities mainly consist of the long-term portion of the performance based purchase price liability relating to the acquisition of SBT in 2007 (see Note (2)).

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 was 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 statement 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 and reversal of impairment changes) 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 may 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 AG and its other 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, 2011 and 2010, common stock of Telekom Austria AG amounted to EUR 966,183, and was divided into 443 million bearer shares with a par value of zero. As of December 31, 2011, ÖIAG holds a stake of approximately 28.4%, the RPR private foundation holds directly shares and indirectly options of 15.81%, and 0.1% of the shares are held in treasury and the remaining shares are free floated. As of December 31, 2010, ÖIAG held 28.4 %, 0.1% were shares held in treasury and the remaining shares were free floated.

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 authorized capital increase was issued. The above mentioned authorization expired in 2011.

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2011 and 2010 are presented below:

At December 31,	2011	2010
Shares authorized	443,000,000	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

In 2011 and 2010, the number of shares outstanding did not change because neither were treasury shares purchased nor were shares issued for the settlement of stock-based compensation plans.

Dividend payment

At the Annual General Meeting on May 19, 2011, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 26, 2011 amounted to EUR 331,923. At the Annual General Meeting held 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.

In 2011, the net loss of Telekom Austria AG according to Austrian GAAP amounts to EUR 224,455 compared to a net income of EUR 1,694,726 in 2010. In accordance with section 104 paragraph 4 of the Austrian Stock Corporation Act, the Supervisory Board and the Management Board decided to release an amount of EUR 393,400 from reserves reported in retained earnings for the year ended December 31, 2011, compared to a transfer of EUR 1,363,090 from net income to reserves reported in retained earnings for the year ended December 31, 2010. These transfers resulted in unappropriated retained earnings of EUR 169,022 and EUR 332,000 as of December 31, 2011 and 2010, 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 0.38 per share.

Treasury shares

At the Annual General Meeting held on May 19, 2011, the Management Board was authorized to acquire treasury shares for a period of 18 months until November 2012 up to the maximum of 5% of the share capital at a minimum price of Euro 1 and at a maximum price of Euro 30 per share. Additionally, the Management Board was empowered (a) to use these treasury shares to settle obligations under the share-based compensation plans described in Note (31); (b) to use them as consideration for acquisitions; (c) to retire up to 22.15 million treasury shares to reduce common stock by a maximum of EUR 48,309 or (d) to sell them on the stock exchange or through a public offering.

Shares held in treasury as of December 31,	2011	2010
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

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 plan and the retirement of treasury shares are reported in additional paid-in capital.

Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 are calculated as follows:

	2011	2010
Net income (loss) attributable to owners of the parent	-251,972	195,350
Weighted average number of common shares outstanding	442,563,969	442,563,969
Basic and diluted earnings per share (in Euro)	-0.57	0.44

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred in 2011 and 2010.

Reserve for available-for-sale marketable securities, hedging reserve and translation adjustment

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statement of comprehensive income and consolidated statement 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 Serbian Dinar in 2011 resulted in a positive adjustment of EUR 1,351, the translation adjustment as of December 31, 2011 amounts to EUR 102,826. Due to the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to the subsidiaries in Belarus in 2011, the relating translation adjustment of EUR 302,063 as of December 31, 2011 remains unchanged compared to December 31, 2010.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2011 and 2010 consists of the following:

	2011	2010
Current income tax	49,753	77,004
Deferred income tax	-51,407	-30,540
Income tax	-1,654	46,465

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

	2011	2010
Continuing operations	-1,654	46,465
Other comprehensive income	-7,000	873
Total income taxes	-8,654	47,338

The following table shows the major reconciling items between the reported income tax expense (benefit) and the amount of income tax expense (benefit) that would have resulted from applying the Austrian statutory income tax rate of 25% to pre-tax income 2011 and 2010:

	2011	2010
Income tax expense (benefit) at statutory rate	-63,615	60,410
Foreign tax rate differential	-6,552	-11,832
Tax-non-deductible expenses	14,184	8,185
Tax incentives and tax exempted income	-8,253	-1,259
Tax-free income (loss) from investments	-41	180
Change in tax rate	-22,399	-6,522
Tax expense (benefit) previous years	23,958	4,055
Deferred tax assets not recognized	119,197	32,032
Impairment of goodwill	66,956	2,931
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	-124,619	-40,418
Other	-470	-1,296
Income tax	-1,654	46,465
Effective income tax rate	0.65%	19.23%

In 2011 and 2010, non-deductible expenses mainly consist of tax neutral expenditures resulting from investment in subsidiaries, withholding taxes on dividends and representation expenses. Additionally, in 2011, additions to provisions for probable tax risks from prior periods are included. Tax incentives and tax-exempted income in 2011 and 2010 consist of research, education and investment incentives as well as other government grants.

In 2011 and 2010, the effect of the change in tax rates resulted from the reduction of corporate income tax rate in Belarus. The aggregated corporate income tax rate was reduced from 26.28% to 24% at the beginning of 2011 and will be further reduced from 24% to 18% at the beginning of 2012.

The tax benefit for prior periods recognized in 2011 mainly resulted from a revaluation of property, plant and equipment and intangible assets recorded for tax purposes as well as from the effects resulting from the application of accounting in hyperinflationary economies in accordance with IAS 29 in Belarus. The tax expenses for prior periods recognized in 2010 resulted from expected claims from a tax audit in Austria. This amount is partially compensated by a tax benefit resulting from revaluation of property, plant and equipment in Belarus recorded for tax purposes.

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in associates in Austria, 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).

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,	2011	2010
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	198,388	174,756
Loss carry-forwards	77,218	75,441
Accounts receivable – trade	9,547	6,187
Deferred income and other liabilities	9,200	1,697
Other current assets and prepaid expenses	1,566	1,388
Provisions, long-term	30,684	23,331
Employee benefit obligations	12,155	12,810
Property, plant and equipment	1,888	5,280
Other	5,403	10,612
Deferred tax assets	346,049	311,502
Deferred tax liabilities		
Goodwill	– 9,689	– 9,689
Property, plant and equipment	– 27,354	– 14,960
Other intangible assets	– 156,976	– 172,403
Provisions	0	– 35
Write down of treasury shares for tax purposes	– 1,042	– 964
Other	– 4,339	– 3,012
Deferred tax liabilities	– 199,400	– 201,063
At December 31,	2011	2010
Deferred taxes, net	146,649	110,439
Deferred tax assets	273,908	235,841
Deferred tax liabilities	– 127,260	– 125,402

Telekom Austria Group has established a tax group in Austria, with Telekom Austria AG as the head of the tax group. Deferred tax assets 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, 2011 and 2010, Telekom Austria Group did not recognize deferred tax assets amounting to EUR 491,764 and EUR 377,644. In 2011 and 2010, the unrecognized deferred tax assets relate to net operating loss carry-forwards of EUR 285,506 and EUR 201,036 and to temporary differences related to impairments of investments in consolidated subsidiaries of EUR 206,258 and EUR 176,608, respectively, because realization in the near future is not probable according to tax planning.

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 and projected future taxable income 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, 2011, Telekom Austria Group had approximately EUR 1,850,040 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Macedonia and Serbia will expire in the following years:

Year	
2012	61,505
2013	14,804
2014	10,621
2015	95,235
2016	2,900
2017	61,045
2018	108,633
2019	99,653
Total	454,396

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, 2011 and 2010, Telekom Austria Group did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 111 and EUR 611, respectively.

Income tax receivable relates to tax returns for prior years not yet filed. As of December 31, 2011, income tax receivable mainly relates to Austrian and Belarusian companies while receivables as of December 31, 2010 relate to Austrian subsidiaries only. As of December 31, 2011 and 2010, income tax payable relates to foreign subsidiaries.

(31) Share-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 employee 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 (at the earliest three years after granting), 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.

On September 1, 2010 the first tranche (LTI 2010) and on June 1, 2011 the second tranche (LTI 2011) were granted. The following table summarizes the significant terms and conditions for each tranche:

	LTI 2011	LTI 2010
Start of the program	January 1, 2011	January 1, 2010
Grant date	June 1, 2011	September 1, 2010
End of vesting period	December 31, 2013	December 31, 2012
Vesting date	June 1, 2014	September 1, 2013
Personal investment (at grant date)	527,094	472,770
Thereof Management Board	51,348	51,348
Personal investment (at reporting date)	517,396	456,767
Expected bonus shares	336,472	352,954
Maximum bonus shares	905,443	799,343
Fair value of program (in EUR '000s)	2,796	3,117

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI program, which has already vested, is recognized. 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 statement of operations:

	2011	2010
LTI 2010	764	1,309
LTI 2011	948	0
Expense	1,713	1,309

Deviation in the development of relevant parameters from expectations may have a significant impact on the fair value and accordingly on the liability and the expense recognized in the consolidated financial statements. 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 LTI 2010 (in EUR '000s)	3,186	3,048
Fair value of LTI 2011 (in EUR '000s)	2,935	2,661

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 shares 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 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 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 performance condition (earnings per share) set for the sixth tranche was not met as of December 31, 2010

and 2009. The vesting period was extended by twelve months in 2009 and by another twelve months in 2010. As of December 31, 2011, the hurdle was not met and the options therefore did not become exercisable. Thus no liability was recorded for this tranche.

The following table sets forth details of the stock option plan as of December 31, 2011:

	Sixth tranche 2009
Exercise price in Euro	11.06
Options granted	4,923,090
Thereof Management Board	360,000
Vesting period in months from the grant day	36
Earliest exercise date	Performance conditions not met
Expected expiry date	May 31, 2013
Options outstanding	3,758,665

In 2011, Telekom Austria Group did not recognize any income or expense resulting from the “stock option plan 2004 extension”. In 2010, an income of EUR 648 was recognized.

The fair value measurement was based on the binomial option pricing model applying the following parameters:

	2011	2010
Expected average dividend per share in Euro	0.65 – 0.80	0.76 – 0.80
Expected volatility	27%	26%
Risk-free interest rate range	0.629% – 1.947%	0.612% – 2.704%
Stock price at December 31 in Euro	9.24	10.52
Fair value per option sixth tranche in Euro	0.39	0.79

Deviation in the development of relevant parameters from expectations may have a significant impact on the fair value per option 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	22%	32%
Fair value per option sixth tranche in Euro	0.26	0.52

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:

	2011	2010
Numbers of options		
Outstanding as of January 1	8,640,356	11,680,283
Forfeited	– 3,162,765	– 1,181,303
Expired	– 1,718,926	– 1,858,624
Outstanding as of December 31	3,758,665	8,640,356
Of which exercisable as of December 31	0	1,866,536

The hurdle of the fourth tranche (ESOP 2007+) was met on December 31, 2007, however the options expired because the exercise price exceeded the share price. The hurdle of the fifth tranche (ESOP 2008+) was not met as of December 31, 2010 and the options therefore forfeited in 2011.

Weighted-average exercise price	2011	2010
Outstanding as of January 1	20.34	19.67
Expired/forfeited	19.27	16.32
Outstanding as of December 31	11.06	15.70
Of which exercisable as of December 31	0.00	20.34

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

At December 31,	2011	2010
Outstanding options		
Weighted average remaining contractual term (in years)	1.4	1.7
Exercisable options		
Total intrinsic value (in 1,000 EUR)	0	0

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

	2011	2010
Cash paid for		
Interest	110,426	122,253
Income taxes	40,483	58,178
Cash received for		
Interest	11,704	8,121
Income taxes	4,435	0

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2011 and 2010 (see Note (7)) had already been settled in cash as of December 31.

In 2011 and 2010, the item "Other", which is part of the reconciliation of net result to Gross cash flow, amounted to EUR 57,648 and EUR 14,871 respectively. In 2011, it mainly consists of unrealized foreign exchange losses and in 2010 of interest and the hedging expenses related to the purchase price liability of SBT.

Cash and cash equivalents acquired totaled EUR 5,758 and EUR 4,101 in 2011 and 2010, respectively. In 2011, cash and cash equivalents of EUR 172 were disposed due to the sale of subsidiaries. For the acquisition and disposal of subsidiaries, see Notes (2) and (15). Proceeds from the sale of subsidiaries in 2010 resulted from the payment of the outstanding sales price for the investment in eTel Slovensko, which was sold in 2008.

(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 limiting and 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 statement 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 to prior years.

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 of Telekom Austria Group. 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, as of the reporting date 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, 2011 and 2010, Telekom Austria Group had total credit lines of EUR 1,013,000 and EUR 1,015,600 respectively. These credit lines were not utilized. The credit line commitments will expire between January 2012 and July 2016.

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, 2011 and 2010. Foreign currencies were translated at the rates valid on the reporting date (inflows of cash are shown as 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, 2011						
Financial liabilities						
Bonds and Multi-Currency Note Program	2,441,171	106,301	0	856,563	957,057	521,250
Bank debt without guarantee	2,044,514	365,905	626,952	217,279	505,934	328,444
Accounts payable – trade	642,855	639,110	2,547	731	233	234
Lease obligations	779	375	270	90	31	13
Other financial liabilities	200,354	142,335	6,070	45,517	5,004	1,428
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	–14,308	–7,009	0	–7,299	0	0
Variable to fixed IRS	46,914	–2,894	8,601	–257	18,487	22,977
Forward exchange contracts						
Notional amount in EUR	8,682	8,682	0	0	0	0
Notional amount in USD	–11,495	–11,495	0	0	0	0
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

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. 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 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	2011	2010
Short-term borrowings		
Fixed and variable rate carrying amount	15,673	111,500
Average interest rate in % *	1.46%	0.96%
Multi-currency notes program		
Fixed rate carrying amount	0	90,158
Average interest rate in % *	0.00%	1.23%

* 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 2.929% in 2011 and 2.785% in 2010. 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 in financial portfolio 100 bps increase	100 bps decrease
2011			
Fixed rate financial liabilities	3,324,291		
Sensitivity at 2.929%		-97,368	97,368
2010			
Fixed rate financial liabilities	3,080,658		
Sensitivity at 2.785%		-85,796	85,796

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 statement of operations):

At December 31,	Capital amounts	100 bps increase	100 bps decrease
2011			
Variable rate financial liabilities	542,000		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		8,420	-8,420
2010			
Variable rate financial liabilities	404,724		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		7,047	-7,047

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.

For Eurobonds issued in 2003 within the "EMTN" Program, Telekom Austria Group has entered into fixed to floating interest rate swap agreements with face values of EUR 300,000 (see Note (25)).

On August 6, 2008, Telekom Austria Group issued promissory notes with a face 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.

In 2013, one bond with a face value of EUR 750,000 issued in 2003 within the EMTN program will become due (see Note (25)). Due to the European financial and economic crises, the Euro-interest rates currently show high volatilities. Telekom Austria Group expects an ongoing insecure and highly volatile interest environment until the planned refinancing in the first half of 2013. To hedge part of the interest rate risk of the future interest payments of the planned funding for refinancing in the first half of 2013, three forward-start-swap-contracts (pre-hedges), with a face value of EUR 100,000 each, were concluded.

The following table indicates the types of swaps in use at December 31, 2011 and 2010, and their weighted average interest rates and weighted average remaining terms of the interest rate swap contracts. The “average pay rate” represents the weighted average interest rate at December 31, 2011 and 2010. 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. The “average receive rate” represents the weighted average interest rate applicable at December 31, 2011 and 2010. 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 only represent the basis for calculating the interest to be paid or received, and do not actually represent the amounts to be received or paid by either party:

	2011	2010
Variable to fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	200,000	200,000
Average receive rate	2.56%	2.11%
Average pay rate	5.68%	5.68%
Average maturity in years	0.65	1.65
Fixed to variable swaps in EUR (fair value hedge)		
Notional amount in EUR	300,000	300,000
Average receive rate	5.00%	5.00%
Average pay rate	2.34%	1.94%
Average maturity in years	1.59	2.59
Variable to fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	300,000	0
Average pay rate	3.97%	0
Average maturity in years	12.02	0

The interest rate swap transactions resulted in a change in effective interest rates of 0.35 percentage points and 0.41 percentage points in 2011 and 2010, 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:

- The formula for computing net settlement under the interest rate swap is the same for each net settlement. Therefore, the fixed rate is the same throughout the term.
- There is no floor or cap on the variable leg of the interest rate swap.
- The bonds are not prepayable.

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
2011					
Hedged items	300,000	299,315	311,244	-11,929	
Hedging instrument (interest rate swap)	300,000	1,265	-11,010	12,275	
Effectiveness in %					-97.18%
Ineffectiveness in EUR					346
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

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, 2011 and 2010, the derivative financial liability (including deferred interest) amounts to EUR 5,657 and EUR 12,660, 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 statement of operations in the respective reporting periods. In 2011 and 2010, an amount of EUR 4,823 and EUR 2,318, respectively, relating to the change in the negative fair value of the hedge item, was recognized in other comprehensive income (OCI). In 2011 and 2010, no ineffectiveness was recognized.

As of December 31, 2011, the negative fair value of the three forward-start-swap-contracts (pre-hedges) with a face value of EUR 100,000 each, which were concluded to hedge the interest rate risk of future interest payments, was EUR 33,795 and was recognized net of deferred income taxes of EUR 8,449 in other comprehensive income. In 2011 and 2010, no ineffectiveness was recorded.

Exchange rate risk

As of December 31, 2011 and 2010, a remaining purchase price liability from the acquisition of SBT in 2007 (see Note (2)) amounts to 74,887 TUSD and 95,253 TUSD. This liability was not hedged but Telekom Austria Group invested US Dollars resulting from the initial forward exchange contract which expired in 2010.

As of December 31, 2011 and 2010, 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,	EUR	2011 USD	Other	EUR	2010 USD	Other
Accounts receivable – trade	14,110	7,943	14,767	13,476	4,986	13,441
Accounts payable – trade	43,360	21,045	13,733	90,967	14,199	7,106

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by EUR 2,313 and EUR 3,131 in 2011 and 2010, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by EUR 551 and EUR 314 in 2011 and 2010, respectively. A sensitive analysis for a change of the BYR was not performed due to the application of accounting in hyperinflationary economies. No sensitivity analysis was performed for other accounts receivable or for accounts payable – trade, denominated in foreign currencies, as there is no significant risk due to diversification.

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. As of December 31, 2011 and 2010, hedge accounting was not applied to foreign exchange agreements.

As of December 31, 2011 and 2010, 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 statement of operations as foreign exchange gains or losses.

The following tables indicate the types of foreign exchange agreements in use at December 31, 2011 and 2010 (amounts to be received are stated negative):

At December 31,	2011	2010
Forward exchange contract – EUR long		
Notional amount in BYR	0	4,095,510
Notional amount in EUR	0	– 1,000
Forward exchange rate (weighted)	0	4,095.51
Exchange rate as of the reporting date	0	3,972.60
Longest term of the contracts	0	August, 2011

At December 31,	2011	2010
Forward exchange contract – USD long		
Notional amount in EUR	8,682	0
Notional amount in USD	11,495	0
Forward exchange rate (weighted)	1.3240	0
Exchange rate as of the reporting date	1.2939	0
Longest term of the contracts	February, 2012	0

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 all swap agreements are concluded under the standards of the “ISDA-Master Agreement” or the German Standards “Framework for Financial Forward Agreements”.

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 creditworthiness.

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, 2011 and 2010, no guarantees had been provided to third parties.

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 related to financial assets at the reporting date was:

At December 31,	2011	2010
Available-for-sale financial assets	179,315	191,870
Financial investments valued at cost	554	579
Loans and receivables	42,771	52,440
Cash and cash equivalents	459,952	120,196
Deposits under cross-border lease	0	25,480
Derivatives	209	18
Hedging instruments (fair value hedges)	14,080	21,515
Carrying amount of financial assets	696,882	412,096

As of December 31, 2010, the available-for-sale financial assets included a EUR 100,000 deposit serving as collateral for guarantees relating to cross-border lease transactions which was repaid in December 2011 (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,	2011	2010
Domestic	811,542	852,633
Foreign	93,908	84,948
Allowances	–197,153	–165,345
Accounts receivable – trade	708,297	772,236

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to EUR 1,280 and EUR 8,127 as of December 31, 2011 and 2010, 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 2011	Carrying amount	Fair value 2010
Financial assets				
Cash and cash equivalents	459,952	459,952	120,196	120,196
Accounts receivable – trade	708,297	708,297	772,236	772,236
Receivables due from related parties	191	191	209	209
Other current financial assets	50,385	50,385	60,751	60,751
Other non-current financial assets	10,447	10,447	8,698	8,698
Loans and receivables	769,320	769,320	841,893	841,893
Long-term investments	13,343	13,343	70,974	70,974
Short-term investments	165,972	165,972	120,896	120,896
Available-for-sale investments	179,315	179,315	191,870	191,870
Investments at cost	554	554	579	579
Deposits cross-border lease	0	0	25,480	25,480
Held-to-maturity investments	0	0	25,480	25,480
Derivatives	209	209	18	18
Hedging instruments (fair value hedges)	14,080	14,080	21,515	21,515
Financial assets carried at fair value	14,290	14,290	21,532	21,532

Cash and cash equivalents, accounts receivable – trade and other receivables have maturities below one year. Therefore, their carrying amounts reported approximate their 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 rates that reflect market and partner-based changes to terms, conditions and expectations.

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 based on the audited financial statements, if available.

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 2011	Carrying amount	Fair value 2010
Financial liabilities				
Liabilities to financial institutions	15,673	16,167	111,500	111,500
Bonds	1,691,259	1,790,401	1,688,939	1,834,459
Other current financial liabilities	172,522	172,687	173,590	173,590
Multi-Currency Note Program	0	0	90,158	90,158
Non-current liabilities to financial institutions	1,850,531	1,948,180	1,283,951	1,321,599
Lease obligations and cross-border lease	760	760	26,084	26,084
Other non-current liabilities	26,700	26,700	57,131	57,131
Accounts payable – trade	642,177	642,177	678,705	678,705
Payables due from related parties	9,816	9,816	13,057	13,057
Accrued interest	80,336	80,336	80,336	80,336
Financial liabilities at amortized cost	4,489,772	4,687,222	4,203,450	4,386,619
Bonds – hedged item	310,680	309,509	316,804	318,370
Hedging instruments (cash flow hedges)	39,452	39,452	12,660	12,660
Financial liabilities carried at fair value	39,452	39,452	12,660	12,660

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

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value 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.

Fair value hierarchy of financial instruments

The following table shows financial instruments per class of financial instrument 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, 2011				
Available-for-sale & other investments	15,412	163,903	0	179,315
Derivatives	0	209	0	209
Fair value hedges	0	14,080	0	14,080
Financial assets measured at fair value	15,412	178,193	0	193,605
Bonds – hedged item	0	310,680	0	310,680
Cash flow hedges	0	39,452	0	39,452
Financial liabilities measured at fair value	0	350,133	0	350,133
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

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.

(34) Commitments and Contingent Assets and Liabilities

As of December 31, 2010, Telekom Austria Group had incurred lease obligations totaling EUR 77,543 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 were contingent receivables relating to securities and deposits in the same amount.

A tax audit performed in Austria resulted in a potential additional payment of EUR 17,000 for prior periods. Based on the circumstances and the rules to be applied, Telekom Austria Group estimates an actual payment to be rather improbable.

In March 2011, the Commission for Regulation of Communication – “CRC” in Bulgaria imposed an adjustment of the international termination rates for incoming calls into individual mobile networks to the level of the national rates, effective as of April 1, 2011. On March 31, 2011, MobilTel filed an action against the Commission’s decision. In addition, on November 25, 2011, the Company has requested a clarification whether the decision of CRC has immediate effect. Beginning in January 2012, the first instance has declared that the decision of CRC has an immediate effect. MobilTel has appealed against this decision and the ruling of the second (final) instance is expected in February 2012. MobilTel has estimated that a negative outcome of the appeals is rather improbable.

In 2011, Si.mobil filed a law suit against Telekom Slovenia for the abuse of its monopoly position. Internationally recognized experts in the field of competition regulation estimated that the damage in case up to the end of 2011 amounts to approximately EUR 127,000.

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, 2011. 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:

	2011	2010
Compensation Management Board	936	899
Performance-based remuneration	1,095	704
Total	2,031	1,603
Compensation Supervisory Board	181	179

As of December 31, 2011, Hannes Ametsreiter is Chairman of the Management Board of Telekom Austria AG, and Hans Tschuden is Vice Chairman of the Management Board of Telekom Austria AG.

As of January 1, 2009 Hannes Ametsreiter was appointed to the Management Board of Telekom Austria AG for the period of five years until December 31, 2013 and as of April 1, 2009, he was appointed Chief Executive Officer and Chairman of the Board of Telekom Austria Group. Additionally, he is Chief Executive Officer and Chairman of the Board of A1 Telekom Austria AG.

As of October 1, 2007, Hans Tschuden was appointed as the Chief Financial Officer of Telekom Austria AG for a period of five years until March 31, 2012 and as of January 1, 2009, Hans Tschuden was also appointed Deputy Chairman of Telekom Austria AG.

(36) Employees

The average number of employees during the years 2011 and 2010 was 16,944 and 16,580, respectively. As of December 31, 2011 and 2010, Telekom Austria Group employed 17,217 and 16,501 employees (full-time equivalents).

(37) Subsequent Events

On February 13, 2012, 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 19, 2012, the rating agency Moody's Investors Service downgraded the long-term rating of Telekom Austria AG from A3 to Baa1 (with stable outlook). Moody's Investor Service confirmed the P-2 short-term rating of Telekom Austria AG.

On January 19, 2012, the RPR private foundation announced that it holds directly and indirectly 20.118% of the shares of Telekom Austria AG.

On February 3, 2012, Telekom Austria Group agreed to acquire assets currently owned by Orange Austria Telecommunication GmbH ("Orange Austria") for a total amount of up to EUR 390,000. Following the acquisition of Orange Austria by Hutchison 3G Austria, Telekom Austria Group will acquire the assets from Hutchison 3G Austria. These assets comprise frequencies, base station sites, the mobile phone operator YESSS! Telekommunikation GmbH ("YESSS!") as well as certain intangible assets. The acquisition of Orange Austria by Hutchison 3G Austria is conditional on the approval of Telekom Austria Group's acquisition of YESSS! by the relevant regulatory and anti-trust authorities. The transaction is expected to be closed in mid 2012.

(38) Affiliated Companies

Fully consolidated subsidiaries

Name and company domicile	Share in capital as of December 31, 2011 in %
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
CableRunner GmbH, Vienna	76.00
CableRunner Austria GmbH & Co. KG, Vienna	76.00
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00
ÖFEG GmbH, Vienna	100.00
paybox Bank AG, Vienna	100.00
paybox Service GmbH, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
Telekom Austria Group M2M GmbH, Vienna	100.00
Airwin Entertainment GmbH, Vienna	100.00
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobikom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00
mobikom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00
mobikom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobikom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobikom liechtenstein AG, Vaduz	100.00
mobikom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobikom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobikom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobikom 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, Zürich	100.00
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
B.net Hrvatska 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
Mobitel EAD, Sofia	100.00
Alabin 48 EOOD, 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
Megalan Network AD, Sofia	80.00
Spectrum Net AD, Sofia	100.00
Prolink EOOD, Sofia	100.00
Orbitel EAD, Sofia	100.00

Orbitel UK Ltd, Saint Helier	100.00
Hit bg EOOD, 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, 2011 in %
Omnimedia Werbegesellschaft mbH, Vienna	26.00
netdokter.at GmbH, Vienna	40.00
Marx Media Vienna GmbH, Vienna	25.029

Affiliated company not consolidated

As of December 31, 2011 all affiliated companies in which Telekom Austria Group holds more than 20% interest are included in the consolidated financial statements.

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

Vienna, February 13, 2012

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 2011 to 31 December 2011**. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2011, 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 2011 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 in accordance with 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 2011 and of its financial performance and its cash flows for the year from 1 January to 31 December 2011 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, 13 February 2012

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner
Wirtschaftsprüfer

Mag. Rainer Hassler
Wirtschaftsprüfer

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

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
Member of the Management Board since January 1, 2009,
Chairman of the Management Board since April 1, 2009,
appointed until December 31, 2013



Hans Tschuden
Chief Financial Officer since April 1, 2007,
Vice Chairman of the Management Board since January 1, 2009,
appointed until March 31, 2015

Telekom Austria AG Financial Statements 2011

According to Austrian Commercial Code - UGB

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Annex I/1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Balance Sheet as of December 31, 2011**ASSETS**

	31.12.2011 EUR	31.12.2010 TEUR
A. Fixed assets		
Financial assets		
1. Investments in affiliated companies	7,375,909,811.05	7,731,940
2. Investments	543,341.86	543
	7,376,453,152.91	7,732,484
B. Current assets		
I. Accounts receivable		
1. Accounts receivable - trade	4,106.92	11
2. Accounts receivable - affiliated companies	369,683,115.30	1,371,298
3. Other receivables and assets	20,414,814.19	30,809
	390,102,036.41	1,402,117
II. Treasury stock	4,028,054.38	4,339
III. Cash and cash equivalents	1,591.00	1
	394,131,681.79	1,406,457
C. Prepaid expenses	6,821,735.44	8,774
	7,777,406,570.14	9,147,714

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

Annex I/2

Telekom Austria Aktiengesellschaft, Vienna, Austria

LIABILITIES AND STOCKHOLDERS' EQUITY

	31.12.2011 EUR	31.12.2010 TEUR
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	4,028,054.38	4,339
2. Other reserves (unrestricted reserves)	1,606,497,910.29	1,999,587
	1,610,525,964.67	2,003,926
IV. Net income	169,021,845.79	332,000
thereof profit carryforward: EUR 77,023.25; previous year: TEUR 364		
	3,798,048,666.79	4,354,427
B. Accrued liabilities		
1. Accrued severance payments	2,843,600.04	2,434
2. Accrued taxes	422,696,289.64	396,345
3. Other accruals	4,958,658.20	3,286
	430,498,547.88	402,065
C. Liabilities		
1. Bank loans and overdrafts	46.22	0
2. Accounts payable - trade	5,190,893.07	7,003
3. Accounts payable - affiliated companies	3,543,138,144.83	4,383,781
4. Other liabilities	530,271.35	439
thereof due to social security		
EUR 313.596.98; previous year: TEUR 275		
	3,548,859,355.47	4,391,223
	7,777,406,570.14	9,147,714
Contingent liabilities	5,376,837,809.64	4,890,004

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

Annex II

Telekom Austria Aktiengesellschaft, Vienna, Austria

Statement of Operations for Financial Year 2011

	EUR	2011 EUR	TEUR	2010 TEUR
1. Revenues		19,954,605.56		17,425
2. Other operating income				
a) Income from reversal of accrued liabilities	802.75		3	
b) Other	863,786.64	864,589.39	728	731
3. Employee costs				
a) Salaries	16,024,921.42		8,287	
b) Severance expense and payments				
to staff contribution plans	661,501.87		341	
c) Pension expense	597,949.14		339	
d) Expenses for statutory social				
security and payroll related				
taxes and contributions	3,194,137.14		1,480	
e) Other social benefits	71,217.55	-20,549,727.12	52	-10,500
4. Other operating expenses				
a) Taxes	228,873.92		379	
b) Other	32,757,389.41	-32,986,263.33	35,661	-36,039
5. Subtotal from line 1 to 4 (EBIT)		-32,716,795.50		-28,382
6. Income from investments		254,570,000.00		1,277,930
thereof from affiliated companies				
EUR 254.500,000.00; previous year: TEUR 1.277,860				
7. Other interest and similar income		31,076.02		190
thereof from affiliated companies				
EUR 30.692.02; previous year: TEUR 190				
8. Income from write-ups on financial assets		63,666,082.36		0
9. Expenses for financial assets and treasury shares		-330,477,167.19		-284,185
thereof a) depreciation: EUR 329.310,454.07;				
previous year: TEUR 260.410				
b) Expenses for affiliated companies:				
EUR 330.166,713.12; previous year: TEUR 284.185				
10. Interest and similar expenses		-144,925,928.48		-104,006
thereof for affiliated companies:				
EUR 144.010,053.92; previous year: TEUR 103.088				
11. Subtotal from line 6 to 10 (Financial result)		-157,135,937.29		889,929
12. Ordinary business result		-189,852,732.79		861,547
13. Extraordinary income		0.00		1,018,061
14. Income tax expense		-34,602,444.67		-184,882
15. Net income/loss		-224,455,177.46		1,694,726
16. Reversal of taxed reserves		393,400,000.00		0
17. Allocation to taxed reserves		0.00		-1,363,090
18. Profit carried forward from prior year		77,023.25		364
19. Net income		169,021,845.79		332,000

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

Annex III

Notes to the Financial Statements for Financial Year 2011

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(1) Accounting and Valuation Methods

1.1 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 financial statements are shown in thousand euros (TEUR). The reporting date is December 31.

1.2 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. These are reversed if the reasons for the impairment charge no longer apply, save when the lower figure can be retained when calculating the profit for tax purposes subject to the precondition that it also remains unchanged in the annual financial statements.

1.3 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 reporting date, if this is below the accounting rate.

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 was an impairment of TEUR 310 (previous year: TEUR 0) in financial year 2011.

1.4 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 % (previous year: 3.5 %) and without taking account of any deduction for staff turnover.

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.

1.5 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 is above the accounting rate.

(2) Notes to the Balance Sheet

2.1 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, 2011 %	Book value of the equity as of December 31, 2011 TEUR	Net income/loss 2011 TEUR
Affiliated companies			
A1 Telekom Austria Aktiengesellschaft, Vienna	100.0	774,536	58,384
Telekom Projektentwicklungs GmbH, Vienna	99.0	539	-1,167
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.0	834,784	135,998
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.0	237,045	25,999
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.0	420,039	75,997
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.0	499,266	-329,004
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.0	73,926	20,397
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.0	1,135,561	39,021

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 A1 Telekom Austria Aktiengesellschaft (A1 Telekom Austria 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.

2.2 Receivables

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

As in the previous year, other receivables do not include any material earnings, which will not be received until after the reporting date.

2.3 Prepaid expenses

This item consists mainly of discounts for loans granted within the Group, which result from the issuance of bonds as part of the EMTN program and the bond issued in 2009.

2.4 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. The treasury stock amounts to TEUR 951 of the common stock and equates to 436,031 unit shares, which were acquired in September 2007.

The Management Board is authorized by virtue of the resolution by the Annual General Meeting on May 19, 2011 to use treasury shares for non-gratuitous or gratuitous issue to service stock options or as consideration for companies and stakes in companies.

The Management Board was also authorized to reduce the Company's shareholders' equity by up to TEUR 48,309 by calling in up to 22,150,000 treasury shares with no par value without any additional resolution by the Annual General Meeting.

The Management Board was also authorized to sell shares at any time in every legally permissible way for a period of five years from the resolution being passed, whereby the Management Board may also decide to exclude the public from buying.

2.5 Dividend payment

The Management Board will ask the Annual General Meeting on May 23, 2012 to approve the payment of a dividend of EUR 0.38 per unit share that is entitled to a dividend. The remaining retained earnings will be carried forward.

2.6 Accruals

Accrued tax liabilities as of December 31, 2011 relate to accruals for pending taxes of TEUR 422,693 (previous year: TEUR 396,338). An accrued liability for pending taxes was created on 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, which are attributable to corporate restructurings, in line with the expert opinion of the Austrian Commission for Commercial Law and Audit (Fachsenat für Handelsrecht und Revision) "Tax Deferral in Separate Financial Statements and in Consolidated Financial Statements" (KFS/RL15). This must be classified as non-current.

	31.12.2011	31.12.2010
Long Term Incentive Program (LTI)	683	282
Personnel	3,446	2,811
Miscellaneous accruals	830	193
	4,959	3,286

2.7 Liabilities

The maturity and structure of liabilities are shown in the table of liabilities (Annex 3).

As in the previous year, other liabilities do not contain any material expenditure, which is not payable until after the reporting date.

2.8 Commitments and contingencies

	31.12.2011	31.12.2010
Guarantee in connection with the EMTN program	1,250,000	1,250,000
Guarantee in connection with Bond 2009	750,000	750,000
Bank guarantees	3,376,838	2,890,004
	5,376,838	4,890,004

On June 30, 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH initiated a Euro Medium Term Note (EMTN) program. All payments due in relation to bonds issued by Telekom Finanzmanagement GmbH (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 A1 Telekom Austria AG would fulfill its obligations resulting from the profit and loss exclusion agreement to Telekom Austria Personalmanagement GmbH.

(3) Notes to the Statement of Operations

3.1 Revenues

Revenues of TEUR 19,955 (2010: TEUR 17,425) relate to services such as publicity, public relations and communication, coordination of product development, running the technical infrastructure, legal and fiscal advice as well as controlling investments, 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, FE Velcom and VIPnet d.o.o. on the basis of intercompany agreements.

3.2 Other operating income

In essence, other operating income is made up of income from passing on expenditure within the Group of TEUR 797 (2010: TEUR 722).

3.3 Personnel expenses

	2011	2010
Salaries	16,025	8,287
Severance expense and payments to staff contribution plans	662	341
Pension expense	598	339
Expenses for statutory social security and payroll related taxes and contributions	3,194	1,480
Other social benefits	71	52
	20,550	10,500

An amount of TEUR 108 (2010: TEUR 50) was paid to staff contribution plans and TEUR 295 (2010: TEUR 180) was spent on severance payments.

Severance and pension expense was made up as follows:

	2011	2010
Members of the Management Board	79	229
Top-level management	112	33
Other employees	1,068	418
	1,259	680

The average number of full-time employees was 149 (2010: 62). The average number of civil servants was eleven (2010: five).

In 2011, the number of Management Board members remained unchanged at two members.

3.4 Other operating expenses

	2011	2010
Other operating taxes	229	379
Other	32,757	35,661
	32,986	36,039

Other operating expenses contain payments to A1 Telekom Austria AG of TEUR 8,244 (2010: TEUR 12,799).

3.5 Income from investments

Income from investments contains dividend payments from the CEE Stock Exchange Group amounting to TEUR 70 (2010: TEUR 70).

It also contains dividend payments from A1 Telekom Austria AG of TEUR 56,000 (2010: TEUR 240,000), mobilkom Bulgarien GeschäftsentwicklungsgmbH of TEUR 39,000 (2010: TEUR 112,640), A1 Kroatien Geschäftsentwicklungs GmbH of TEUR 135,500 (2010: TEUR 0), Mobilkom Beteiligungsgesellschaft mbH of TEUR 24,000 (2010: TEUR 782,200) and mobilkom Belarus Geschäftsentwicklungs GmbH of TEUR 0 (2010: TEUR 143,020).

3.6 Income from the reversal of impairment of financial assets

On the basis of current company valuations, reversals of impairments in accordance with Section 208 Paragraph 2 of the Austrian Commercial Code (UGB) in conjunction with Section 6 Clause 13 of the Austrian Law on Income Tax (EStG) were required totaling TEUR 63,666 (2010: TEUR 0). The reversals of impairments were posted in the amount of TEUR 356 for Telekom Projektentwicklungs GmbH (2010: TEUR 0), of TEUR 42,910 for mobilkom CEE Geschäftsentwicklungs GmbH (2010: TEUR 0) and of TEUR 20,400 for mobilkom Mazedonien Geschäftsentwicklungs GmbH (2010: TEUR 0).

3.7 Expenses for financial assets

Expenses for affiliated companies of TEUR 1,167 (2010: TEUR 23,775) are the result of the profit and loss exclusion agreement with Telekom Projektentwicklungs GmbH and the impairment of mobilkom Belarus Geschäftsentwicklungs GmbH of TEUR 329,000 (2010: TEUR 146,500) which was required on the basis of a current company valuation. In the previous year, TEUR 113,910 related to impairments for mobilkom CEE Geschäftsentwicklungs GmbH and mobilkom Mazedonien Geschäftsentwicklungs GmbH.

3.8 Extraordinary income

No extraordinary income was recognized in 2011 (2010: TEUR 1,018,061 from the restructuring of the Group. In essence, this related to the spin-off of mobilkom Bulgarien GeschäftsentwicklungsgmbH, mobilkom Mazedonien Geschäftsentwicklungs GmbH and Mobilkom Beteiligungsgesellschaft mbH from A1 Telekom Austria AG to Telekom Austria AG).

3.9 Income taxes

The Company is a 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, paybox Bank AG, mk Logistik GmbH and paybox Service GmbH (as of December 31, 2011). paybox Service GmbH joined the group in financial year 2011. On the basis of the group's earning situation, the group tax apportionment agreement 2005 was subjected to a fundamental revision taking account of the regulatory framework for company law with effect from January 1, 2012.

Since there is profit and loss exclusion agreement between the Company and Telekom Projektentwicklungs GmbH as well as its wholly owned subsidiary Telekom Finanzmanagement GmbH, there has been no settlement of a tax apportionment in relation to Telekom Projektentwicklungs GmbH.

	2011	2010
Apportionment group members*)	8,248	-21,159
Apportionment group members previous years*)	0	-336
Corporate income tax for tax-group*)	8,248	-21,495
Accrued liability for pending taxes	26,355	206,377
Total income tax expense*)	34,602	184,882

*) 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 (2010: TEUR 0) relates to the results of the top-tier corporation.

(4) Other information

4.1 Executive bodies remuneration

	2011	2010
Compensation Management Board	2,031	1,603
Compensation Supervisory Board	181	179
	2,212	1,782

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".

4.2 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).

The first tranche of ESOP 2007+ allocated on January 8, 2007 could be converted up to May 2011. No options were exercised in either the Company or in subsidiaries in 2011.

4.3 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 Group. 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).

The EPS target values set for the options in Tranche 2008+ were not reached. They have therefore expired irrevocably.

4.4 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, 2012. 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 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 options were valued using an option valuation model at EUR 0.39 (2010: EUR 0.79) per unit, as of the reporting date December 31, 2011 and form the basis for calculating Telekom Austria AG's obligation to eligible employees. However, the Company assumes that the EPS target value set will not be reached, which means that the liability does not have to be reported.

ESOP 2009+	Options granted 2009	Options exercised 2011	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	117,450
Other employees	114,240	0	368,070
Total Telekom Austria AG	474,240	0	725,520
Executive bodies and eligible employees in affiliated companies	3,991,001	0	3,033,145

4.5 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.

	2011	2010
Expected average dividend per share in EUR	0.65 – 0.80	0.76 – 0.80
Expected volatility	27%	26%
Risk-free interest rate range	0.63% - 1.95%	0.61% - 2.70%
Share price used as of 31.12. in EUR	9.24	10.52

There have been the following changes to the options granted under the stock option programs and the average weighted exercise prices:

Number of options	2011	2010
Outstanding on January 1	1,581,875	800,141
Issued	0	0
Forfeited	309,040	69,776
Exercised	0	0
Transfer	123,450	-869,795
Expired	670,765	18,285
Outstanding on December 31	725,520	1,581,875
of which can be exercised on 31.12.	0	343,940

Average weighted exercise price	2011	2010
Outstanding on January 1	11.06	16.14
Issued	0.00	0.00
Expired/forfeited	19.29	19.85
Exercised	0.00	0.00
Outstanding on December 31	16.04	16.04
of which can be exercised on 31.12.	0.00	20.34

4.6 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 and promised additional tranches. The second tranche was approved on February 21, 2011. Participants must deposit their own investments in shares in Telekom Austria AG, 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 transferrable.

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%, proportionately 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 the 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 2011	LTI-Program 2010
Start of the period in which targets are to be achieved	January 1, 2011	January 1, 2010
Date on which shares are granted	June 1, 2011	September 1, 2010
End of the period in which targets are to be achieved	December 31, 2013	December 31, 2012
Vesting date	June 1, 2014	September 1, 2013

Own investment in shares on

December 31, 2011	LTI 2011	LTI 2010
Management Board members		
Hannes Ametsreiter	25,674	25,674
Johann Tschuden	25,674	25,674
Top-level management	32,777	29,750
Other employees	39,927	19,970
Total Telekom Austria AG	124,052	101,068
Executive bodies and eligible employees in subsidiaries	393,344	355,699

LTI 2010	2011	2010
Expected bonus shares	78,097	89,499
Maximum bonus shares	176,869	177,499
Fair value in TEUR	690	847

LTI 2011	2011
Expected bonus shares	80,673
Maximum bonus shares	217,091
Fair value in TEUR	670

4.7 Other disclosures

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.

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. Transactions with related parties only took place on arm's length terms in the financial year.

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.

The Company is a large joint stock company as defined in Section 221 of the Austrian Commercial Code.

(5) Members of the Management Board and Supervisory BoardManagement Board

Hannes Ametsreiter

Johann Tschuden

Supervisory Board

Markus Beyrer Chairman of the Supervisory Board since May 19, 2011

Peter Michaelis Chairman of the Supervisory Board until May 19, 2011

Edith Hlawati Deputy Chairwoman

Henrietta Egerth-Stadlhuber

Wilhelm Eidenberger until May 5, 2011

Franz Geiger since May 19, 2011

Walter Hotz since May 6, 2011

Werner Luksch since January 11, 2011

Peter J. Oswald

Dr. Wolfgang Ruttenstorfer

Alexander Sollak

Wilfried Stadler

Harald Stöber

Rainer Wieltsch until May 19, 2011

Gottfried Zehetleitner

Vienna, February 13, 2012

The Management Board

Dr. Hannes Ametsreiter

Mag. Johann Tschuden

Exhibit 1

Telekom Austria Aktiengesellschaft, Vienna, Austria

Development of fixed assets

Amounts in TEUR	As of 1.1.2011	Additions	Cost of acquisition Disposals	As of 31.12.2011	Accumulated depreciation	Carrying amount 31.12.2011	Carrying amount 31.12.2010	Depreciation and (write-ups) Financial year 2011
Financial assets								
1. Investments in affiliated companies								
Telekom Projektentwicklungs GmbH	3,157	149	0	3,305	2,766	539	35	-356
mobilkom Bulgarien GeschäftsentwicklungsgmbH	1,251,532	0	140,000	1,111,532	0	1,111,532	1,251,532	0
mobilkom Mazedonien Geschäftsentwicklungs GmbH	117,040	7,500	0	124,540	50,600	73,940	46,040	-20,400
Mobilkom Beteiligungsgesellschaft mbH	356,529	700	0	357,229	0	357,229	356,529	0
mobilkom CEE Geschäftsentwicklungs GmbH	351,000	35,953	0	386,953	0	386,953	308,090	-42,910
mobilkom Belarus Geschäftsentwicklungs GmbH	974,700	0	0	974,700	475,500	499,200	828,200	329,000
A1 Kroatien Geschäftsentwicklungs GmbH	698,790	0	0	698,790	0	698,790	698,790	0
A1 Telekom Austria Aktiengesellschaft	4,244,945	5,002	0	4,249,947	2,221	4,247,725	4,242,724	0
	7,997,694	49,303	140,000	7,906,997	531,087	7,375,910	7,731,940	265,334
2. Investments								
CEE Stock Exchange Group	543	0	0	543	0	543	543	0
	7,998,237	49,303	140,000	7,907,540	531,087	7,376,453	7,732,484	265,334

Exhibit 2

Telekom Austria Aktiengesellschaft, Vienna, Austria

Accounts receivable table December 31, 2011

Amounts in TEUR	Carrying amount	up to 1 year	Maturity exceeding 1 year
1. Accounts receivable - trade	4	4	0
2. Accounts receivable - affiliated companies			
- Trade	5,322	5,322	0
- Financial	37,125	37,125	0
- Other receivables and assets	327,236	327,236	0
	369,683	369,683	0
3. Other receivables and assets	20,415	20,415	0
Receivables	390,102	390,102	0

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	0
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

Exhibit 3

Telekom Austria Aktiengesellschaft, Vienna, Austria

Table of liabilities December 31, 2011

Amounts in TEUR	Carrying amount	up to 1 year	1–5 years	Maturity exceeding 5 years
1. Bank loans and overdrafts	0	0	0	0
2. Accounts payable - trade	5,191	5,191	0	0
3. Accounts payable - affiliated companies				
- Trade	1,578	1,578	0	0
- Financial	3,529,019	1,138,941	1,890,078	500,000
- Others	12,541	12,541	0	0
	3,543,138	1,153,060	1,890,078	500,000
4. Other liabilities	530	530	0	0
Accounts payable	3,548,859	1,158,781	1,890,078	500,000

Table of liabilities December 31, 2010

Amounts in TEUR	Carrying amount	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

Annex IV

Management Report

of Telekom Austria Aktiengesellschaft for the period January 1 to December 31, 2011

Weak Economic Development in 2011

While 2010 saw a slight recovery, the global financial crisis intensified again in 2011. On the international financial markets it was above all the debt crisis in some of the euro zone countries, weak economic data and poor employment figures in the USA as well as fears of a renewed recession that caused widespread uncertainty. Global economic growth weakened markedly in 2011 but with substantial regional differences.

The Austrian economy grew at a fairly robust pace in the first half of 2011 but lost substantial momentum in the second half of the year. The Austrian Institute of Economic Research (WIFO) estimated that GDP growth in 2011 averaged 3.0% compared to 2.0% in the previous year. Unemployment, which is traditionally lower in Austria than in other EU countries, declined from 4.4% in 2010 to 4.1% in 2011. In contrast, inflation rose from 3.0% in 2010 to 3.2% in 2011.

According to the International Monetary Fund, the economies of Central and Eastern Europe were able to post substantial growth in 2011. Real GDP in Bulgaria grew by 2.5% (2010: 0.2%) while Belarus achieved GDP growth of 5.0% (2010: 7.6%) despite hyperinflation and monetary turbulence. Croatia was able to overcome the recession of the previous year and reported a small rise in GDP of 0.8% for 2011 (2010: -1.2%). Economic growth was slightly stronger in Slovenia at 1.9% (2010: 1.2%), in the Republic of Serbia at 2.0% (2010: 1.0%) and in the Republic of Macedonia at 3.0% (2010: 1.8%).

Prompted by the severe sovereign debt crisis, the European Central Bank (ECB) adjusted interest rates several times in 2011, raising the benchmark interest rate twice before the middle of the year, from 1.0% to 1.5%, before returning it to the record low of 1.0% at year end. In December 2011, the US Central Bank, the Federal Reserve (FED) announced its intention of keeping the target for the federal funds rate at 0.0% to 0.25% in line with the low-interest rate policy it has pursued since 2008.

The leading index of the Vienna Stock Exchange, the ATX, lost some 35% in 2011, the DAX in Germany approximately 15%. Foreign currency markets were also marked by high levels of volatility in 2011. The euro zone debt crisis in conjunction with weaker economic forecasts led to major exchange rate volatility. The euro lost 3% in a year-on-year comparison against the dollar. In the Central and Eastern European markets, it was mainly the Belarusian ruble that came under significant pressure. After devaluing the currency in May 2011, the Belarusian national bank introduced an alternative trading session based on free float in September 2011, which led to a further currency devaluation. Year-on-year, the Belarusian ruble lost 63.2% of its value. Due to the country's acute financial crisis, inflation amounted to 108% at year-end 2011.

Market Environment of Telekom Austria AG's Subsidiaries

The Telekom Austria Group operates in a highly competitive environment in both the fixed line and mobile communication markets. Moreover, business performance in all operating markets is negatively impacted by regulatory intervention. This mainly applies to mobile termination rates and roaming tariffs. The Telekom Austria Group seeks to counter these factors with innovative products and services and competitive, value-oriented tariff schemes.

In Austria A1, Telekom Austria Aktiengesellschaft (AG) offers a comprehensive and convergent product portfolio comprising both fixed line and mobile communication solutions. The success of the previous year, which saw an increase in the number of fixed access lines after many years of decline, was repeated in 2011. Since mid 2011 the positioning of fixed line and mobile communication services under the single A1 brand has driven demand for convergent product bundles. However, the trend toward fixed-to-mobile voice substitution continues to persist. More than 80% of all voice minutes in Austria are now carried over mobile networks.

According to Eurostat, the proportion of Austrian households with any kind of Internet access rose from 73% in 2010 to 75% in 2011. While Slovenia showed comparable potential after an increase from 68% to 73%, Bulgaria exhibited continued growth of 12 percentage points to 45%. In Croatia, the steady growth in Internet access registered in the previous years continued throughout 2011, leading to an Internet quota of 61%, with the Republic of Macedonia experiencing a similar trend with a rise to 52% (2010: 46%).

Despite the increased use of telecommunication solutions, telecom spending as a percentage of average income is declining. The International Telecommunications Union (ITU) publishes a regular ICT Price Basket, which calculates spending on a defined basket of products comprising fixed line telephony, mobile telephony and fixed broadband services as a percentage of average income levels. Between 2008 and 2010 the index value for Austria decreased from 1.1% to 0.6%. While spending on fixed line telephony remained stable, the index figure for mobile telephony declined from 1.2% to 0.4% and the figure for fixed line broadband from 1.5% to 0.7%. The total index figure for Bulgaria registered a decline from 4.4% in 2008 to 3.7% of average disposable income in 2010. Croatia showed a decrease from 2.0% to 1.5% while the figure for Slovenia fell from 1.4% to 1.2%.

An important indicator for evaluating the development level of each of the Telekom Austria Group's operating markets is provided by the ICT Development Index (IDI) published by the ITU. This index measures, among other things, broadband coverage or access to broadband Internet and the use of information and communication technologies on a scale of 1 to 10 (= 10 being the best score). With an IDI of 7.2, Austria ranked 16th in the most recent global comparison for the year 2010. According to this analysis, the Telekom Austria Group's most highly developed foreign market is Slovenia, with an IDI of 6.8, followed by Croatia with 6.2, Bulgaria with 5.2, the Republic of Serbia with 5.1, Belarus with 5.0 and the Republic of Macedonia with 5.0. All markets showed a significant improvement in their development level compared to the 2008 reference year, with Belarus and the Republic of Macedonia making the greatest advances.

The international comparisons outlined above reflect both the challenges and opportunities of the telecommunication markets. While higher data volumes necessitate continuous investments in the further development and expansion of transmission technologies, competitive pressure and regulatory decisions curtail operators' earning power. Given that telecom operators have largely exhausted their internal cost savings potential in recent years by restructuring and increasing efficiency, a trend towards consolidation and increased infrastructure cooperation is to be expected in the medium term in Europe.

Due to necessary investments, forthcoming spectrum auctions and potential consolidations, cash use policies of these companies may temporarily change. Before the economic and financial crisis started to unfold, most European telecommunication companies had positioned themselves as dividend-bearing stocks with high, and in some cases, double-digit returns. As a result of changed framework conditions, listed telecommunication companies, including Telekom Austria AG, reduced prospective dividends in the second half of 2011.

Financial Performance Indicators

The balance sheet total decreased to EUR 7,777.4 million as of December 31, 2011 compared to EUR 9,147.7 million in the previous year.

Property plant and equipment declined from EUR 7,732.5 million at year-end 2010 to EUR 7,376.5 million as of December 31, 2011. On the basis of current company valuations, a reversal of impairment of EUR 63.7 million for stakes in affiliated companies and a write-down of EUR 329.0 million for mobilkom Belarus Geschäftsentwicklungs GmbH were recorded in financial assets. The decline in current assets from EUR 1,406.5 million as of December 31, 2010 to EUR 394.1 million as of December 31, 2011 is attributable to the lower level of dividends receivable from affiliated companies.

Stockholders' equity amounted to EUR 3,798.0 million at year-end 2011 (December 31, 2010: EUR 4,354.4 million). The increase in provisions was mainly due to the increase in accrued liability for pending taxes to EUR 430.5 million (December 31, 2010: EUR 402.0 million). The decline in liabilities by EUR 842.3 million to EUR 3,548.9 million is attributable to liabilities to affiliated companies.

The services rendered in 2011 by the management holding company led to an increase in revenues from EUR 17.4 million in 2010 to EUR 20.0 million in 2011.

Employee costs rose from EUR 10.5 million in 2010 to EUR 20.5 million in 2011 as the workforce virtually doubled in size year-on-year.

Due to lower re-invoiced employee costs by A1 Telekom Austria AG, other operating expenses declined by a total of EUR 3.0 million to EUR 33.0 million.

As a result of these circumstances the negative operating result rose from EUR 28.4 million in 2010 to EUR 32.7 million in 2011.

Income from investments decreased by EUR 1,023.4 million from EUR 1,277.9 million in 2010 to EUR 254.6 million in 2011 due to lower dividend income. A1 Kroatien Geschäftsentwicklungs GmbH contributed EUR 135.5 million and A1 Telekom Austria AG EUR 56.0 million to the management holding company's income from investment in 2011.

Expenses for financial assets rose by EUR 46.3 million to EUR 330.5 million in 2011 as a result of the write-down for mobilkom Belarus Geschäftsentwicklungs GmbH.

Due to the restructuring of the Group in 2010, interest expenses, which are largely owed to affiliated companies – rose from EUR 104.0 million in 2010 to EUR 144.9 million in 2011.

The result from ordinary business activities dropped from EUR 861.5 million in 2010 to EUR 189.9 million in 2011 largely due to lower dividend income.

The tax expense totaling EUR 34.6 million (2010: EUR 184.9 million) results, on the one hand, from tax apportionments for 2011 amounting to EUR 8.2 million and, on the other, to the increase in accrued liability for pending taxes amounting to EUR 26.4 million.

The above factors led to a net loss of EUR 224.5 million for the business year 2011.

To enable the payment of a dividend, retained earnings of EUR 393.4 million were released.

The Management Board will propose to the Annual General Meeting a dividend of EUR 0.38 per unit share that is entitled to a dividend. Remaining earnings will be carried forward.

The equity ratio, fictitious debt repayment period and the return on invested capital of Telekom Austria AG as well as the method according to which they are calculated are explained in brief below.

The equity ratio pursuant to § 23 of the Business Reorganization Act (URG) on December 31, 2011 amounted to 48.8% (December 31, 2010: 47.6%). This ratio is calculated from total equity divided by total assets.

The fictitious debt repayment period pursuant to § 24 URG at year-end 2011 was 58.8 years (December 31, 2010: 4.2 years) and indicates how many years it would take to repay debts using the net surplus. The decline is attributable to lower dividend income from affiliated companies.

The return on investment (ROI) deteriorated from 13.9% in 2010 to -0.5% in 2011. This figure shows the yield of the equity capital or borrowed capital employed and is calculated by dividing operating income before interest and tax by average total capital.

International Operations

The Telekom Austria Group is successfully positioned on international markets. At year-end 2011 the mobile communication business had approximately 20.3 million customers (2010: 19.2 million), while the fixed line business had more than 2.6 million access lines (2010: 2.3 million).

In 2011 AT Telekom Austria expanded its total mobile subscriber base by 3.3% to almost 5.3 million customers. The market share in the mobile communication business amounted to 40.0% compared to 41.4% in the previous year. The mobile penetration rate reached 156.6% (2010: 146.7%). Average revenues per mobile user (ARPU) totaled EUR 20.0 (2010: EUR 22.0 EUR). The successful product bundles continued to drive growth of fixed access lines, which recorded 21,300 net additions in the year under review after an increase of 1,400 lines in 2010. Average revenues per fixed access line (ARPL) amounted to EUR 32.2 (2010: EUR 33.3).

Mobiltel's customer base amounted to 5.5 million customers at year-end 2011, an increase of 4.8% compared to the previous year. The market share of Mobiltel, the leading mobile communication operator in Bulgaria, declined from 49.6% in 2010 to 48.6% in the year under review. The penetration rate in Bulgaria was 151.4% (2010: 140.8%).

The subscriber base of Vipnet, the second-largest mobile communication operator in Croatia, decreased slightly by 0.5% to 2.0 million customers at year-end 2011. Vipnet's market share amounted to 39.2% in 2011 (2010: 39.0%). The penetration rate in Croatia was 119.9% (2010: 118.0%).

velcom, the second-largest mobile communication provider in Belarus, increased its subscriber base by 6.1% from 4.4 million customers at year-end 2010 to 4.6 million customers at year-end 2011. As of December 31, 2011 Velcom had a market share of 41.1% (2010: 41.9%), with Belarus registering a penetration rate of 118.8% in the year under review (2010: 109.6%).

Si.mobil, the second-largest mobile operator in Slovenia, expanded its customer base by 3.4% to 639,700 subscribers by year-end 2011. Market share improved slightly from 29.2% to 29.7% year-on-year. At year-end 2011 the penetration rate in Slovenia stood at 105.6% compared to 102.7% at the end of 2010.

Vip mobile, the third-largest mobile communication operator in the Republic of Serbia, achieved subscriber growth of 20.8% to 1.6 million customers and had a market share of 15.7% at year-end 2011. The penetration rate in the Republic of Serbia had reached 141.3% at the end of 2011 (2010: 134.1%).

Vip operator, the second-largest mobile communication provider in the Republic of Macedonia, recorded customer growth of 28.1%, increasing its subscriber base from 442,200 at the end of 2010 to 566,600 customers at year-end 2011. Vip operator increased its market share from 19.9% at year-end 2010 to 24.9% at the end of 2011. The penetration rate in the Republic of Macedonia as of December 31, 2011 was 111.0% (2010: 108.2%).

In 2011 mobilkom liechtenstein reported a 3.5% decline in subscriber numbers from 6,400 to 6,200 customers. The market share was 16.5% (2010: 20.2%).

Changes to the Management and Supervisory Boards

Following the resignation of Peter Michaelis and Rainer Wieltch from the Supervisory Board of Telekom Austria AG, Markus Beyrer and Franz Geiger were elected to the Supervisory Board at the Annual General Meeting on May 19, 2011. The members of the Supervisory Board delegated by the Works Council changed as follows in 2011: Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and resumed his mandate on January 11, 2011. On May 6, 2011 Walter Hotz was nominated by the Group Works Council to replace Wilhelm Eidenberger, who resigned from the Supervisory Board on May 5, 2011.

Innovation and Technology

The numerous research and development activities of the Telekom Austria Group are centered upon the market-oriented development of products and services as well as the further technological development of network infrastructures. Group-wide coordination and a knowledge-sharing R&D culture create cost-efficient added value for the customer.

The focus on the product side was upon innovative applications for the newly established subsidiary of the Telekom Austria Group M2M GmbH (Machine2Machine) and the development of a uniform strategy for all cloud computing activities, which allow customers to store all their programs and files on a central server. In the year under review, investments were made in all markets to maintain the excellent quality of the network. In Austria, for example, the expansion of the fiber-optic network was continued in selected areas and the mobile communication network was further improved on the basis of Long-Term-Evolution Technology (LTE) and by upgrading the existing HSPA+-base stations. In Croatia and Bulgaria, LTE was successfully tested, and in Slovenia, the network infrastructure was upgraded on the basis of HSPA+ technology and by using the UMTS 900-MHz frequency.

Research partnerships with organizations from science and industry enable the Telekom Austria Group to integrate different ICT approaches with a view to developing application and market-oriented communication solutions. The Telekom Austria Group currently has research partnerships with the University of Vienna, the Vienna University of Technology, the Technical University Sofia and the Research Center for Telecommunications in Vienna.

Sustainable Corporate Management

The Telekom Austria Group seeks to achieve a sustainable increase in corporate value by integrating economic, ecological and social aspects. Commitment to compliance with the Austrian Corporate Governance Code and the application of the Internal Control System, the Code of Conduct and of compliance guidelines support this objective. A group-wide integrated CSR management system, group-wide standards and defined CSR structures and processes ensure the further development of strategies and corporate goals and the involvement of all business units and hierarchies.

State-of-the-art information and communication technologies have the potential to help replace CO₂-intensive products and services. Innovative products and services for business and residential customers alike as well as e-government solutions aim to raise awareness for energy efficiency and resource optimization in an increasingly mobile society. The Telekom Austria Group seeks to enhance its internal energy efficiency by deploying new technologies and Telekom Austria AG's operating companies also actively participate in various national and international initiatives to lower CO₂ emissions.

Social responsibility focuses on initiating and promoting social and educational campaigns that facilitate access to the knowledge-based society and to new technologies.

Shareholder Structure and Disclosures about Share Capital

On December 31, 2011, 56.56% or 250.6 million Telekom Austria AG shares were classified as free-float compared to 71.48% or 316.6 million shares in the previous year. 0.1% or 0.4 million shares were held by the company as in the previous year. The remaining stake amounting to 43.44% or 192.4 million shares was held by the Republic of Austria through ÖIAG (28.42%) and RPR Privatstiftung (15.018%).

As of June 21, 2011 Capital Research & Management declared that its stake had been decreased to 7.94%, which was further reduced to 4.99% as of September 5, 2011.

As of October 14, 2011 the RPR Privatstiftung reported that it indirectly held call options through its wholly-owned subsidiary Marathon Beteiligungs GmbH and the latter's wholly-owned subsidiary Marathon Zwei Beteiligungs GmbH, which enable Marathon Zwei Beteiligungs GmbH to acquire shares representing up to 5.4% of Telekom Austria AG's share capital until June 2012. In addition, as of October 14, 2001, the RPR Privatstiftung and its subsidiaries held 64,721 and 310,000 Telekom Austria AG shares respectively, bringing the RPR Privatstiftung's total shareholdings to approximately 5.485% on this date.

On November 25, 2011 the RPR Privatstiftung announced that it had increased its direct and indirect shareholding in Telekom Austria AG to 15.018%. In addition, RPR also indirectly held call options for 0.79% of Telekom Austria AG's share capital on this date. Thus, as of November 25, 2011 RPR held a total shareholding of 15.81% in Telekom Austria AG directly and indirectly in the form of shares and options. In January 2012, RPR announced that it had again increased its shareholding to 20.118% of Telekom Austria AG shares. For further details in this regard please refer to the chapter "Subsequent Events". These stakes are not classified as free float.

The Management Board was authorized in accordance with Section 65 Paragraph 1 No. 8 of the Austrian Stock Corporation Act, to acquire treasury shares registered in the name of the holders or bearer shares representing up to 5 percent of the share capital at a price ranging from EUR 1 to EUR 30 per share during a period of 18 months starting from May 19, 2011.

Furthermore, the Management Board was authorized without further shareholder resolution to decrease the share capital of the company by up to EUR 48,309,150 by withdrawing up to 22,150,000 treasury shares registered in the name of the holders or bearer shares without par value pursuant to Section 65 Paragraph 1 No. 8 last sentence in conjunction with Section 192 of the Stock Corporation Act.

Several financing 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, and which are held in a collective custody account, are exercised by a notary.

Risk Management

Risk management at the Telekom Austria Group focuses on market and competitive risks, interventions by regulators and uncertain legal situations, which could influence the company's success. Maintaining a high level of availability and security of the products and services offered is also a key aspect of risk management. Risks and opportunities are regularly analyzed at Group level and effective measures are implemented to reduce or identify them. The effects of deviation from plan are evaluated using, among other things, scenario and probability calculations. The Telekom Austria Group's overall risk situation 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 has also a leading position in seven other international telecommunication markets, which ensures both sectoral and broad geographical diversity. As the individual markets of the Telekom Austria Group are exposed to risks of a diverse nature, risk management is not a centrally steered process but falls under the responsibility of the respective operating units. Group-wide monitoring and coordination is guaranteed by a central risk manager. In structured interviews and workshops with top management, risks are identified, assessed and then compiled in a risk report, on the basis of which measures are drawn up and put in place to reduce 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 on the basis of a risk catalogue. 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. 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. In 2011, the Telekom Austria Group also implemented a group-wide compliance risk management process.

Market and Competitive Risks

A high level of competition, a trend, which is also increasingly affecting the Group's foreign markets, is leading to sharp price cuts in both voice telephony and data traffic. There is therefore a risk that growth in traffic volumes will not be able to offset these price declines. Falling prices for mobile communication are also accelerating fixed-to-mobile substitution. However, the Group is successfully countering this risk with attractive product bundles and by expanding its convergent corporate strategy to include certain foreign markets.

The economic and financial crisis created a volatile macro-economic environment on the Telekom Austria Group's operating markets. The monitoring of key macro-economic indicators to evaluate potential changes in customer behavior is therefore an important aspect of risk management, strategic pricing and product design.

Regulatory and Legal Risks

Telecommunication services offered by a provider with significant market power are subject to extensive network access and price regulation. In Austria, A1 Telekom Austria AG is considered to fall into this category in several sub-markets; its foreign subsidiaries are also subject to the regulatory frameworks of their own countries. Regulation at both the retail and wholesale levels restricts operational flexibility for both pure fixed line and bundled products as does the obligation to open up access to fixed line network infrastructure and services. Furthermore, regulatory decisions to reduce termination rates can also negatively impact Telekom Austria AG's result development. In 2007, the European Parliament and the European Council decided to introduce comprehensive regulation of intra-Community roaming tariffs, which in 2009 was extended to cover SMS roaming and data services. These regulations affect the Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria, and will become effective in Croatia as soon as the country joins the EU.

Telekom Austria AG and its subsidiaries are 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. In the interests of clearing up compliance violations from the past, an independent panel of experts has been commissioned to carry out forensic investigations. The results of this investigation will be taken into due consideration within the framework of the company's compliance risk management.

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 therefore held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility. Telekom Austria AG's financing company, Telekom Finanzmanagement GmbH (TFG), uses derivative financial instruments to manage sustained fluctuations in interest rates and minimize the risk of currency translation effects. The company has established a control environment, which includes guidelines and procedures for the assessment of risks, the approval, reporting and monitoring of the applied 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 of long-term debt and derivative instruments is quantified using value-at-risk-models. In 2003, 2008 and 2011, Telekom Finanzmanagement GmbH entered into interest rate swaps. Business activities in Belarus, which in 2011 was classified as a hyperinflationary economy, and in Croatia, Serbia, Bulgaria and Macedonia, imply that foreign currency losses cannot be ruled out in the future.

Credit Risks

Telekom Austria AG and its subsidiaries regularly monitor their exposure to credit risk; no business partner or individual financial instrument poses a significant credit risk. To reduce the non-performance risk relating to contractual obligations from derivatives, swap contracts are subject to Swap Dealer Agreements.

Safeguarding the Value of Assets

Each year, Telekom Austria AG 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. For details of the resulting impairments and reversals of impairment please refer to the Chapter - Financial Performance Indicators on page 3.

Technical and Geographical Risks

Maintaining a high level of availability and reliability for the services and products offered by the Telekom Austria Group is a key aspect of risk management, as a host of risk factors, such as natural disasters, major disruptions, third-party construction work, hidden faults or criminal activities, can all negatively affect their quality. Long-term planning takes technological developments into account, while redundancy of critical components ensures fault tolerance, and efficient operating and security processes safeguard high quality standards.

Due to its expansion into Eastern and South Eastern Europe, the subsidiaries of the Telekom Austria Group also operate in markets that are undergoing political and economic changes, which could affect the business activities of the Telekom Austria Group.

Personnel

With a view to maintaining its competitiveness and innovative strength, the Telekom Austria Group continuously invests in needs-based further education and professional training for its staff. In fall 2010, the Telekom Austria Group Business School was set up as a centralized in-house training and educational institution for the Group. At the same time, the individual subsidiaries also developed their own further education and training programs that are tailored to the needs of their respective markets.

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 relevant legal requirements. The Internal Control System should ensure adequate certainty regarding the reliability and correctness of external financial reporting in compliance with international and national standards. Regular internal reporting to management and internal audits of the Internal Control System also ensure that weaknesses are promptly identified 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, management evaluates the companies under scrutiny in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management declared the Internal Control System effective as of December 31, 2011.

Subsequent Events

On January 19, 2012 the rating agency Moody's Investors Service downgraded the long-term rating of Telekom Austria AG from A3 to Baa1 (stable outlook). Telekom Austria AG's short-term issuer rating of P-2 was confirmed by Moody's Investors Service.

On January 19, 2012 RPR Privatstiftung, Vienna, reported that it directly and indirectly held 20.118% of the shares of Telekom Austria AG.

On February 3, 2012 the company reached an agreement with Orange Austria Telecommunication GmbH to acquire assets comprising base stations, frequencies, the mobile operator YESSS! Telekommunikation GmbH and certain intangible property rights for a total amount of up to EUR 390.0 million. The transaction is contingent upon the approval of the regulator and competition authority.

On January 30, 2012 the Croatian government announced the reintroduction of the 6% tax on revenues from mobile network services as of January 26, 2012. The tax is expected to remain in force until Croatia joins the European Union.

Outlook

Several negative external factors continue to shape the market environment of the Telekom Austria Group. The ongoing competitive pressure and the unabated fixed-to-mobile substitution pose key challenges. Furthermore, regulatory measures such as lower roaming charges and reduced national and international mobile termination rates will continue to impact the Telekom Austria Group in 2012.

Economic headwinds are anticipated to remain strong in the Telekom Austria Group's major CEE markets in 2012. This will continue to impact customer demand and pricing levels. The foreign currency markets are expected to be highly volatile again. Belarus was classified as a hyperinflationary economy in 2011 and it is expected that inflation will remain high in 2012.

To mitigate these challenges, the Management Board of the Telekom Austria Group has introduced a program that focuses on the long-term stabilization of operating free cash flow. Based on a clear customer focus and innovative and convergent products, this program targets revenue generation, operating expense control and capital expenditure efficiency.

For 2012, Telekom Austria AG intends to distribute a dividend of EUR 0.38 per share. As of 2013, the payout ratio will amount to 55% of free cash flow (free cash flow = cash flow from operating activities minus capital expenditures in existing businesses) to the extent that the dividend does not lead to a deterioration of Group equity. Maintaining a stable investment grade rating of at least BBB (stable outlook) remains central to the Telekom Austria Group's financial profile.

A leverage corridor of 2.0x – 2.5x Net debt/EBITDA comparable provides ample flexibility. Potential growth projects will be benchmarked against share buybacks based on the potential cash flow generation per share. Share buybacks will only take place, if leverage falls below 2.0x Net debt/EBITDA comparable. A stable business and currency environment remains a prerequisite for share buybacks.

Vienna, February 13, 2012

The Management Board

Hannes Ametsreiter

Hans Tschuden

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 2011 to 31 December 2011. These financial statements comprise the balance sheet as of 31 December 2011, the income statement for the fiscal year ended 31 December 2011, 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 2011 and of its financial performance for the year from 1 January 2011 to 31 December 2011 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, 13 February 2012

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

DDr. Martin Wagner
Wirtschaftsprüfer

Mag. Rainer Hassler
Wirtschaftsprüfer

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

Report by the Supervisory Board

Ladies and Gentlemen,

In the 2011 business year, the Telekom Austria Group continued to drive forward its strategy of promoting convergent customer solutions with the launch of the single A1 brand in Austria and the acquisition of cable network operators in Bulgaria and Croatia. The company responded to difficult market conditions with comprehensive measures to increase operational excellence. The 2011 business year was overshadowed by the need to deal with misconduct in the past, hyperinflation and the massive currency translation effects in Belarus.

In 2011, the Supervisory Board held extensive discussions on the strategic orientation and the business development of the Telekom Austria Group and its subsidiaries at nine meetings and a strategy workshop. Both growth and market consolidation opportunities were approved or evaluated.

Together with the Management Board, the Supervisory Board drew up resolutions to be put before the Annual General Meeting on May 19, 2011. Following the resignations of Peter Michaelis and Rainer Wieltsch, the Nomination Committee of the Supervisory Board prepared a nomination proposal for these two vacant seats. Franz Geiger as a new member of the Supervisory Board will contribute his extensive expertise in the telecommunication industry and the Eastern European markets. I myself succeeded Peter Michaelis in his capacity as Chairman of the Supervisory Board. Of the members of the

Supervisory Board delegated by the Works Council Werner Luksch replaced Markus Hinker, who resigned as of December 31, 2010. Walter Hotz was nominated to succeed Wilhelm Eidenberger, who resigned as of May 6, 2011.

I would like to thank all former members of the Supervisory Board for their contribution to the development of the Telekom Austria Group.

At its meeting in August 2011, the Supervisory Board discussed new innovation fields and measures to increase profitability. Measures taken by the Group subsidiary velcom in response to the massive currency devaluation in Belarus were also analyzed.

In early September 2011, a Control Committee was set up on my initiative to investigate and prevent fraudulent activities at Telekom Austria. Furthermore, measures to claw back bonus payments from the IPO Stock Option Program 2000 were initiated. At the recommendation of the Supervisory Board, the Group Compliance position was upgraded and assigned to an international expert, for whom reporting obligations to the Audit Committee and the entire Supervisory Board were defined.

The strategy workshop dealt in detail with the framework conditions, strategic challenges and the resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented growth going forward.

The 2012 budget, the business plan for the period 2012 to 2015 and the dividend policy were the main topics of discussion at the meeting of the Supervisory Board in December 2011. Moreover, the members of the Supervisory Board were able to gain a personal impression of the strategic orientation of the subsidiary Vipnet in Croatia.

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. The Supervisory Board also analyzed the effectiveness of its activities, its organization and its working methods pursuant to Rule 36 of the Austrian Corporate Governance Code.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria Group'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 the Supervisory Board in the 2010 business year regarding observance and compliance with the Comply or Explain Rules or the recommendations of the Austrian Corporate Governance Code.

In 2011, the Audit Committee of the Supervisory Board dealt 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 at six meetings. 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 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 annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2011 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 2011 financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee, and extensive discussion and review, it also approved the consolidated financial statements, the Management Report, the Group Management Report and the Corporate Governance Report pursuant to Article 245a of the Austrian Commercial Code and IFRS.

The Supervisory Board approved the Management Board's proposal for the appropriation of profits to distribute a dividend of EUR 0.38 per eligible share for the 2011 business year and to 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 a challenging 2011. I would also like to assure Telekom Austria AG shareholders that the Supervisory Board will continue to drive forward and actively support the further strategic development of the Telekom Austria Group as well as the full and complete investigation of all fraudulent actions in the past and the implementation of appropriate preventative measures in the area of compliance.

Markus Beyrer
Chairman of the Supervisory Board

Vienna, February 2012

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
Markus Beyrer (May 19, 2011) Chairman	OMV AG (Chairman) Österreichische Post AG (Chairman) APK-Pensionskasse AG (Chairman) Österreichische Nationalbank (member of the General Council)	yes (but not Rule 54 of the Austrian Corporate Governance Code)	2013
Peter Michaelis (retired on May 19, 2011)			
Edith Hlawati (June 28, 2001) Stellvertretende Vorsitzende	Österreichische Post AG	yes	2013
Henrietta Egerth-Stadlhuber (May 20, 2008)		yes	2013
Franz Geiger (May 19, 2011)		yes	2013
Peter J. Oswald (May 20, 2008)	Mondi Swiecie SA (Chairman)	yes	2013
Wolfgang Ruttensdorfer (May 27, 2010)	Vienna Insurance Group AG Wiener Versicherung Gruppe Flughafen Wien AG CA Immobilien Anlagen AG	yes	2013
Wilfried Stadler (July 15, 2005)	ATP Planungs- und Beteiligungs AG East Centro Capital Management AG Österreichische Staatsdruckerei Holding AG Bankhaus Denzel AG Wolfgang Denzel AG Wolfgang Denzel Auto AG Wolfgang Denzel Holding AG	yes	2013
Harald Stöber (June 4, 2003)	Simia AG (Chairman) Vodafone D2 GmbH Vodafone Holding GmbH	yes	2013
Rainer Wieltsch (retired on May 19, 2011)			

Members of the Supervisory Board Delegated by the Works' Council

Willhelm Eidenberger (retired on May 5, 2011)	
Walter Hotz (May 6, 2011)	Österreichische Industrieholding AG A1 Telekom Austria AG Telekom Austria Personalmanagement GmbH Tele-Post Privatstiftung APK Pensionskasse AG
Werner Luksch (January 11, 2011)	Österreichische Industrieholding AG,
Alexander Sollak (November 3, 2010)	
Gottfried Zehetleitner (October 27, 2010)	

Declaration 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
Member of the Management Board since January 1, 2009,
Chairman of the Management Board since April 1, 2009,
appointed until December 31, 2013



Hans Tschuden
Chief Financial Officer since April 1, 2007,
Vice Chairman of the Management Board since January 1, 2009,
appointed until March 31, 2015