TELEKOM AUSTRIA GROUP

ANNUAL REPORT 2011

Ambitious Vision

The Telekom Austria Group aims to be the most innovative and efficient communication company in CEE.

Convergence Strategy

Combining the best of two worlds.

Interview with the Management Board

Why 2011 was a year to tick off.

Knowledge is for Everyone!

How can we overcome the digital gap?

2011 – A Year to Tick Off...

Renewed increase in the number of fixed access lines in Austria

Strict cost management

Intensive regulation in all markets

Relaunch of A1 brand in Austria

…in Both a Positive and Negative Sense.

Restructuring in Austria

Diversified market approach with a multi-brand strategy

Weak economic development

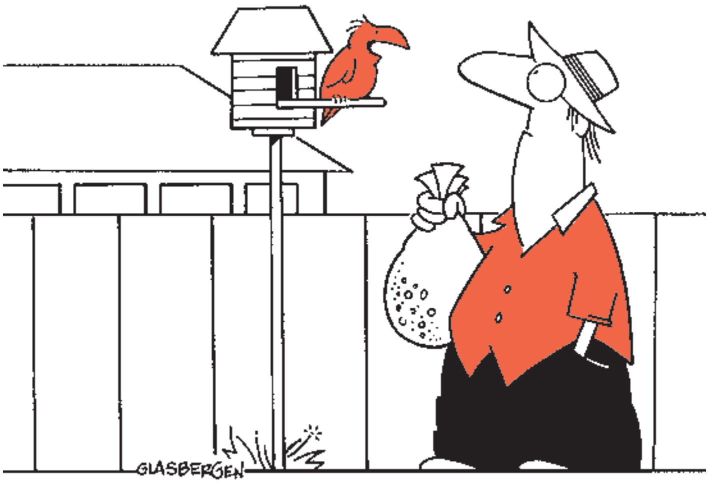
Successful continuation of the convergence strategy

Negative currency translation effects

Customer growth in almost all mobile communication markets

Significant competition and price pressure

Contents



Online Annual Report
http://ar2011.telekomaustria.com

Imprint

Ownership and Publisher: Telekom Austria AG
Project Team: Matthias Stieber, Iva Petrovic (Investor Relations), Maximilian Rabl (Corporate Communications Group)
Consolidated Financial Statements: Anita Gari (Group Accounting and Taxes) with the technical support of Michael Konrad GmbH
Concept, Text and Project Management: Mensalia
Creative Concept and Design: Rosebud, Inc.
Translation: Christine Young and Lara Luchesa
Photo Credits: Susanne Spiel, Peter Rigaud, Telekom Austria Group
Print: This product is from sustainably managed forests and controlled sources. More info: page 144

Key Figures of the Telekom Austria Group

	2011	Change in %	2010	2009
Fixed Access Lines (in '000)				
in Austria	**2,336.2**	0.9	2,315.0	2,313.5
in Bulgaria	**128.8**	n.a.	n.a.	n.a.
in Croatia	**143.7**	n.a.	n.a.	n.a.
Total Fixed Access Lines	**2,608.7**	**12.7**	**2,315.0**	**2,313.5**
of which broadband lines in Austria	**1,273.4**	9.7	1,161.0	1,022.6
of which broadband lines in Bulgaria	**123.1**	n.a.	n.a.	n.a.
of which broadband lines in Croatia	**68.6**	n.a.	n.a.	n.a.
A1TV customers	**198.6**	31.2	151.3	101.3
Mobile Communication Customers (in '000)				
in Austria	**5,271.2**	3.3	5,105.2	4,834.2
in Bulgaria	**5,501.4**	4.8	5,248.7	5,352.5
in Croatia	**2,018.0**	–0.5	2,028.1	2,603.0
in Belarus	**4,620.4**	6.1	4,353.7	4,102.4
in Slovenia	**639.7**	3.4	618.9	589.4
in the Republic of Serbia	**1,642.7**	20.8	1,359.7	1,153.9
in the Republic of Macedonia	**566.6**	28.1	442.2	303.7
in Liechtenstein	**6.2**	–3.5	6.4	6.3
Total	**20,266.2**	**5.7**	**19,175.2**	**18,945.4**
Employees (full-time equivalents as of Dec. 31)	**17,217**	4.3	16,501	16,573
Key Financial Data (in EUR million) 1)				
Revenues	**4,454.6**	–4.2	4,650.8	4,802.0
of which generated abroad in %	**35.3**	–	35.4	34.5
EBITDA comparable 2)	**1,527.3**	–7.2	1,645.9	1,811.6
of which generated abroad in %	**37.9**	–	38.5	36.0
EBITDA comparable margin in %	**34.3**	–	35.4	37.7
EBITDA incl. effects from restructuring and impairment tests	**1,044.7**	–30.5	1,503.5	1,441.8
Operating income	**–7.6**	–	437.9	343.9
Net result	**–252.8**	–	195.2	94.9
Free cash flow 3)	**479.2**	–25.7	645.0	674.0
Cash flow generated from operations	**1,213.3**	–13.2	1,397.5	1,385.4
Capital expenditures 4)	**739.0**	–3.2	763.6	711.4
Net debt	**3,380.3**	2.3	3,305.2	3,614.8
Equity	**883.1**	–40.2	1,476.9	1,614.2
Equity ratio in %	**11.9**	–	19.5	19.0
Net debt to EBITDA comparable	**2.2 ×**	–	2.0 ×	2.0 ×
Return on Invested Capital – ROIC 5) in %	**–0.1**	–	6.2	4.8
Return on Equity – ROE 5) in %	**–21.4**	–	12.6	5.0
Key Stock Exchange Data				
Earnings per share in EUR	**–0.57**	–	0.44	0.22
Free cash flow per share in EUR	**1.08**	–25.7	1.46	1.52
Market capitalization as of Dec. 31, in EUR billion	**4.1**	–12.2	4.7	4.4
Share price as of Dec. 31, in EUR	**9.24**	–12.2	10.52	9.95
Share price high in EUR	**10.69**	–6.2	11.40	12.07
Share price low in EUR	**6.80**	–23.6	8.90	9.23
Dividend per dividend-bearing share in EUR	**0.38** 6)	–	0.75	0.75

1) The consolidated financial figures in 2011 include effects from the application of hyperinflation accounting pursuant to IAS 29.
2) Defined as EBITDA, excluding effects from restructuring and impairment tests
3) Defined as cash flow generated from operations minus capital expenditures in existing business areas
4) Excluding expenditures for asset retirement obligations
5) For definition see glossary
6) Proposal to the Annual General Meeting on May 23, 2012

+5.7%
total mobile subscribers

+21,300
fixed access lines in Austria

35.3%
of revenues from international markets

34.3%
EBITDA comparable margin

EUR
1,527.3
million EBITDA comparable

EUR
1,213.3
million cash flow from operating activities

Dear reader,

Hans Tschuden   Hannes Ametsreiter

2011 – a year to tick off? Yes and with mixed feelings. On the one hand, we are taking stock of a year, in which our solid operational performance was overshadowed to an extraordinary degree by external factors. On the other hand, despite these circumstances, which we openly address and transparently document in this annual report, we were able to successfully limit the negative impacts on our earnings performance and meet our forecasts. In addition to this, we were able to "tick off" some key points on our strategic agenda, the long-term value of which for the Telekom Austria Group extends far beyond the reporting year.

This was accomplished with a clear vision for the future: to be the most innovative and efficient communication company in Central and Eastern Europe. With this annual report, we want to illustrate that the road, especially in 2011, was not just full of light, but was also overcast with shadows. Besides, we also want to share our firm conviction that with the hard work and commitment of our 17,000 employees in eight CEE countries we have successfully "ticked off" important stages in pursuit of this goal.

Hannes Ametsreiter
Chairman of the Management Board
Telekom Austria Group

Hans Tschuden
Vice Chairman of the Management Board,
CFO Telekom Austria Group

Ambitio Vision

The Telekom Austria Group aims to be the most efficient and innovative communication company in Central and Eastern Europe.

As a leading communication operator, the Telekom Austria Group serves almost 23 million customers in eight countries across Central and Eastern Europe. Its portfolio of products and services covers all aspects of modern information and communication technologies – from voice telephony, fixed line and mobile broadband Internet, multimedia services, IPTV to data and IT applications, wholesale offers and electronic payment services.

us

Successful in Eight Countries

Starting from its domestic market in Austria, the Telekom Austria Group has successfully positioned itself in selected markets in Central and Eastern Europe over the last ten years. In 2011, approximately 35% of revenues were generated outside Austria. Approximately 45% of the 17,217 employees work for the international subsidiaries.

Diversified Market Approach in Line with Customer Needs

The markets of the Telekom Austria Group are at various stages of maturity and therefore require a differentiated approach. The understanding that customers in different regions have different needs is reflected in both pricing and product design and, ultimately, in the brand diversity of the Telekom Austria Group.

In the highly developed Austrian market, the Telekom Austria Group is the only domestic integrated operator and can therefore reap the benefits of the success arising from its convergent bundles of mobile communication and fixed line products. In addition to expanding the subscriber base, growth in this market can be generated by innovation and data traffic. In the face of similar challenges in Croatia, Vipnet acquired a cable operator in 2011, thus laying the foundation for a convergent product portfolio. In Slovenia, Si.mobil continues to strengthen its position in the small business customer segment and is currently upgrading network capacities to expand its technological base for the increasing importance of mobile broadband and smartphones. In Bulgaria, where Mobiltel is the market leader with a 48.6% market share, the base level in terms of both average revenues per customer and data revenues as a proportion of total revenues is considerably lower than in Austria or Slovenia. The acquisition of two fiber-optic network operators in 2011 laid the groundwork for a convergent product portfolio in Bulgaria too.

In Belarus, where velcom has 4.6 million subscribers and a market share of 41.1%, the telecommunication market is marked by a challenging economic situation and currency volatility. However, given a comparatively low level of customer usage and the growing importance of mobile broadband, opportunities for medium-term growth remain intact. The Telekom Austria Group's newest markets, the Republic of Serbia and the Republic of Macedonia, show high potential and, since entering these markets in 2007, the Group has gained 1.6 and 0.6 million subscribers respectively. The main goal in these countries is to increase the share of contract customers and, thus, to create a solid base for high-value products.

TICKED OFF

- Rising customer numbers in almost all mobile communication markets
- Renewed increase in fixed access lines in Austria
- Basis laid for convergence in Bulgaria and Croatia
- Active pricing policy and multi-brand strategy

The Telekom Austria Group's International Presence

For years, the Telekom Austria Group has been operating in selected Central and Eastern European markets in addition to Austria.

AUSTRIA

	2011	Change 2010
Revenues in EUR million	**2,942.1**	–4.0%
EBITDA comparable in EUR million	**972.6**	–5.8%
Number of mobile customers (in '000)	**5,271.2**	3.3%
Market share in %	**40.0**	–
Total fixed access lines (in '000)	**2,336.2**	0.9%

CROATIA

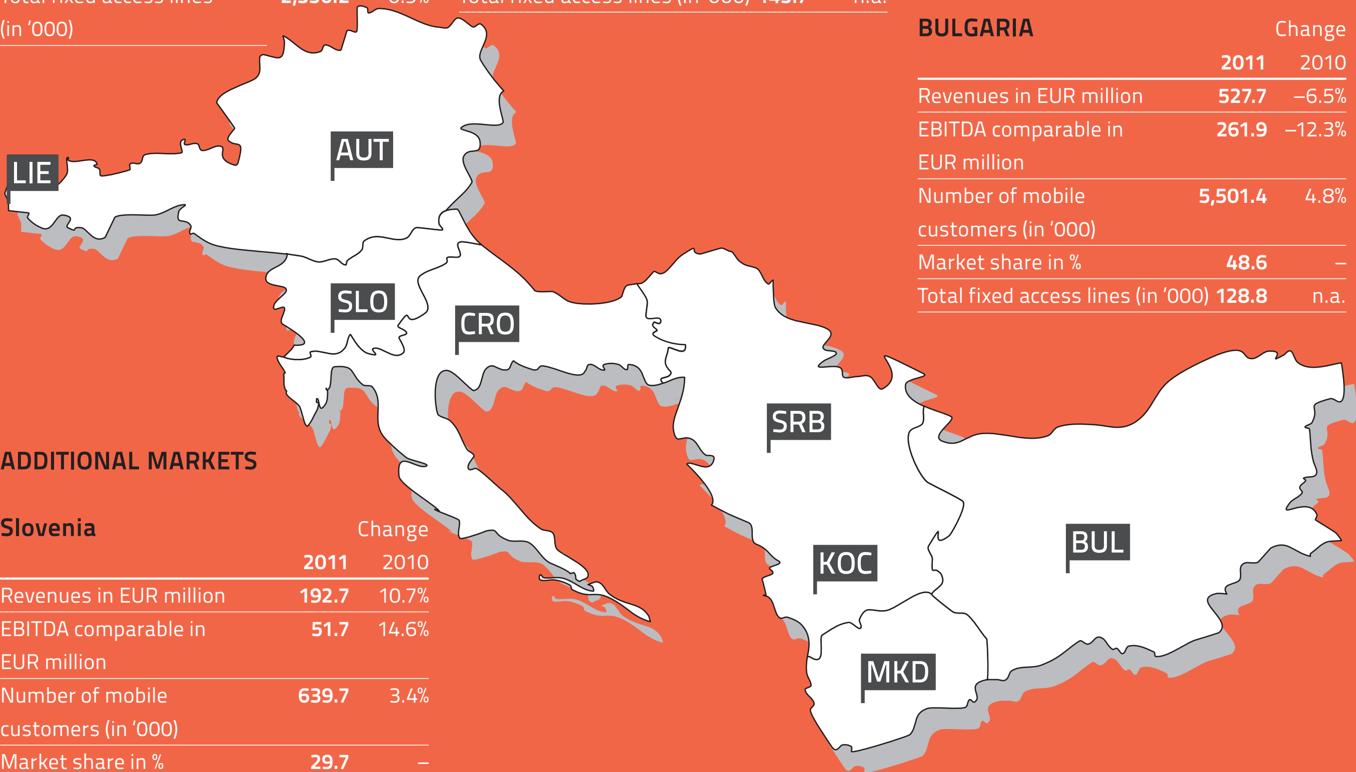
	2011	Change 2010
Revenues in EUR million	**420.7**	–6.9%
EBITDA comparable in EUR million	**134.5**	–10.6%
Number of mobile customers (in '000)	**2,018.0**	–0.5%
Market share in %	**39.2**	–
Total fixed access lines (in '000)	**143.7**	n.a.

BELARUS

	2011	Change 2010
Revenues in EUR million	**260.9**	–24.1%
EBITDA comparable in EUR million	**106.6**	–31.5%
Number of mobile customers (in '000)	**4,620.4**	6.1%
Market share in %	**41.1**	–

BULGARIA

	2011	Change 2010
Revenues in EUR million	**527.7**	–6.5%
EBITDA comparable in EUR million	**261.9**	–12.3%
Number of mobile customers (in '000)	**5,501.4**	4.8%
Market share in %	**48.6**	–
Total fixed access lines (in '000)	**128.8**	n.a.



ADDITIONAL MARKETS

Slovenia

	2011	Change 2010
Revenues in EUR million	**192.7**	10.7%
EBITDA comparable in EUR million	**51.7**	14.6%
Number of mobile customers (in '000)	**639.7**	3.4%
Market share in %	**29.7**	–

Liechtenstein

	2011	Change 2010
Revenues in EUR million	**7.6**	8.9%
EBITDA comparable in EUR million	**1.9**	47.0%
Number of mobile customers (in '000)	**6.2**	–3.5%
Market share in %	**16.5**	–

Republic of Serbia

	2011	Change 2010
Revenues in EUR million	**143.1**	36.7%
EBITDA comparable in EUR million	**31.5**	–
Number of mobile customers (in '000)	**1,642.7**	20.8%
Market share in %	**15.7**	–

Republic of Macedonia

	2011	Change 2010
Revenues in EUR million	**53.4**	49.3%
EBITDA comparable in EUR million	**6.3**	–
Number of mobile customers (in '000)	**566.6**	28.1%
Market share in %	**24.9**	–

Customer Growth in the Markets

+3.4%
mobile customers in Slovenia

143,700
fixed access lines in Croatia

128,800
fixed access lines in Bulgaria

+4.8%
mobile customers in Bulgaria

+21,300
fixed access lines in Austria

+6.1%
mobile customers in Belarus

+3.3%
mobile customers in Austria

+28.1%
mobile customers in the Republic of Macedonia

+20.8%
mobile customers in the Republic of Serbia

2011 – Subscriber Growth in Almost all Markets

Despite intense competition, the Telekom Austria Group successfully increased its customer numbers in almost all business segments in 2011. In addition to Austria, where A1 is the undisputed market leader, the Group achieved higher-than-average subscriber growth along with an increase in average revenues per user, especially in the Republic of Serbia and the Republic of Macedonia.

Uniform market appearance under the single brand A1 in Austria.

Rapid Technological Change

When Telekom Austria AG went public in the year 2000, the company had some 3.3 million fixed access lines and approximately 2.8 million mobile customers. Since then, this picture has changed dramatically: In Austria, the number of fixed access lines has declined by approximately one million, while the number of Austrian mobile customers grew by more than 50%. This development has been driven by a fundamental technological change: fixed-to-mobile substitution, which has been further accelerated by intense competition and the resulting tariff reductions. While ten years ago approximately two thirds of total voice minutes in Austria were carried over the fixed line network, this proportion had dropped to 17% by the end of 2011 due to fixed-to-mobile substitution. Although the Telekom Austria Group was able to profit from this highly dynamic development in the mobile communication business, the decline in fixed access lines seemed unstoppable.

However, with a clear strategy to safeguard the attractiveness of fixed access lines, the Telekom Austria Group was one of only a small number of operators in Europe able to reverse this trend.

At the end of 2007, A1 started introducing attractive product bundles offering fixed line, mobile communication, broadband services and IPTV in a variety of combinations, and in 2010 was able to report a rise in the number of fixed access lines for the first time in more than ten years. This success continued throughout 2011, as the number of fixed access lines rose each quarter, increasing by a total of 21,300 access lines. The number of product bundles grew by 13.6% to more than 1.0 million year-on-year, with almost 200,000 customers subscribing to the extensive offerings of A1TV (+31.2%). This favorable development was supported by the integration of the Austrian fixed line and mobile communication activities, which was legally executed in 2010. The next step of this integration process was taken in summer 2011 with the introduction of the single brand A1, which raised the external visibility of the growing fixed-mobile convergence, while responding to the customer desire to acquire all communication solutions from a single source.

Basis for Convergence in Bulgaria and Croatia

Bolstered by the success of convergent products in Austria, the Telekom Austria Group has adopted a strategy of pursuing a similar path in its markets in Central and Eastern Europe, although the potential of each market has to be judged individually. In Bulgaria, the acquisition of two fiber-optic network providers in February 2011 marked the first step in this direction. By the end of 2011, the number of fixed access lines – mainly broadband lines – has risen to more than 128,800 lines. These acquisitions not only consolidated Mobiltel's market position, their integration also opens up the broad spectrum for convergent products in Bulgaria.

The acquisition of B.net in Croatia in August 2011 marked another milestone in the Telekom Austria Group's convergence strategy. With a network infrastructure that reaches 18% of all Croatian households, B.net is the biggest cable network operator in the country and offers fixed net telephony, Pay-TV as well as Internet services. Vipnet, the Croatian subsidiary of the Telekom Austria Group, not only benefits from this acquisition in terms of a convergent product portfolio, the company can now rely on the cable network for the transmission of ever-rising data volumes.

CONVERGENCE CREATES COMPETITIVE ADVANTAGES

"The convergence strategy of the Telekom Austria Group is in step with today's customer expectations. Customers want guaranteed quality and high bandwidth combined with maximum mobility, ideally from a single source. This explains the success of our product bundles comprising fixed line and mobile communication solutions in Austria. Thanks to the cross-border exchange of know-how, we can transfer this success quickly and cost-efficiently to selected foreign markets such as Bulgaria and Croatia, while taking into account their specific local requirements."
Reinhard Zuba, Group Chief Marketing Officer

OUR CORPORATE VALUES

QUALITY INNOVATION RESPONSIBILITY DIVERSITY

QUALITY

Improving with You

Quality at the Telekom Austria Group combines innovation with reliability, stability and safety. We can be trusted to deliver smart, best-in-class products and services. This means that we are a reliable and stable business partner, delivering profitability to our stakeholders. This is all part of our heritage as a long-established, experienced and responsible telecoms leader.

Convergence in Digital Daily Life

On the Way to Work.

The use of cutting-edge technologies such as LTE, HSPA and HSPA+ further boosts the performance of mobile broadband. LTE, for example, enables data transmission rates of up to 150 Mbit/s.

An Important Customer Appointment!

With cloud computing such as A1 Austria Cloud and Mobiltel's Business Cloud you have the office infrastructure and all types of data available all the time, irrespective of the end-device.

MOBILE

In the Mood for Exercise.

Multimedia entertainment even on the go thanks to smartphones and attractive service packages from the Telekom Austria Group.

THE TELEKOM AUSTRIA GROUP'S CONVERGENT PRODUCT BUNDLES COMBINE

The advantage offered by **mobile communication** is the combination of speed and flexibility. Regardless of location, attractive applications such as mobile Internet or other apps can be used in addition to voice telephony, when on the go.

Breakfast – The Day Begins!

The day simply begins faster with unlimited broadband Internet; download speeds of up to 100 Mbit/s in the A1 Giga-Net enable wireless Internet surfing via WLAN.

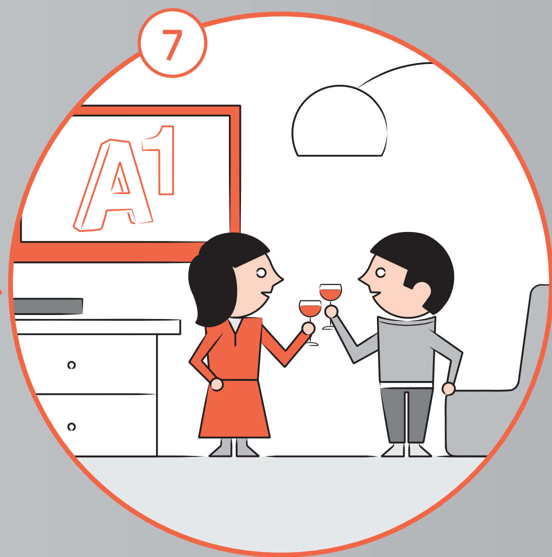
At the Office: Hi Colleagues!

High-performance broadband connections enable video conferencing throughout the world.

FIXED LINE

On the Way Home.

You can watch your favorite TV shows on your tablet when on the go. A1 Mobile TV provides access to some 40 top TV channels.



Back Home at Last!

Hollywood at the touch of a button: with more than 2,000 films and series in the included A1 video library and more than 110 TV channels, A1TV offers high-quality entertainment, also in HD mode.

THE BEST OF TWO WORLDS, SIMPLY AND FROM A SINGLE SOURCE.

Fixed line communication impresses with its guaranteed transmission speeds and sustainable high quality, providing the basis for applications such as HDTV or video-conferencing.

Key Influencing Factors in 2011

For many years the European telecommunication markets have been characterized by intense competition, which is aggravated by regulatory decisions. Overview of the most important influencing factors.

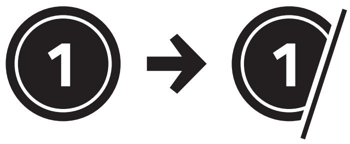
–10.9%

–9.3%

–13.1%

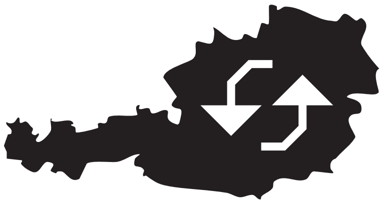
INTENSE COMPETITION AND PRICE PRESSURE

Intense competition in all of the Telekom Austria Group's operating markets is, among other factors, significantly impacting average revenue per user (ARPU). In 2011, the decline in ARPU was particularly marked in Austria (–9.3%), in Bulgaria (–13.1%) and in Croatia (–10.9%). In Slovenia, however, average revenues per user were stabilized, while the Republic of Serbia and the Republic of Macedonia both reported significant improvements in ARPU of 15.5% and 10.0% respectively.



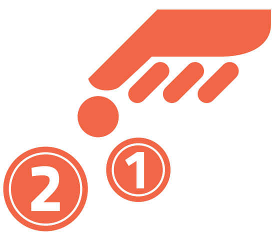
CURRENCY DEVALUATION AND HYPERINFLATION IN BELARUS

In May 2011, the Belarusian government devalued the nation's currency. The introduction of a floating exchange rate in September was followed by a further devaluation. By year-end 2011, the Belarusian ruble had lost 63.2% of its value. Furthermore, in December 2011, Belarus was classified as a hyperinflationary economy according to IAS 29 due to an inflation rate of 108%. This triggered an impairment test, which led to the recognition of an impairment charge of EUR 279.0 million and an increase in Group equity of EUR 155.8 million (for further details see page 61 in the Group Management Report).



RESTRUCTURING IN AUSTRIA

For a number of years, socially compatible personnel restructuring programs have been offered in Austria as part of endeavors to adapt the size of the workforce to current business requirements. In the 2011 business year, these social plans were taken up by 685 full-time employees, while 106 staff members with civil servant status seized the opportunity to transfer to government ministries. In 2011, restructuring charges totaling EUR 233.7 million were recorded for these measures.



STRICT COST MANAGEMENT

The harmonization of business processes and the realization of group-wide synergies will be continued as part of on-going efforts to improve operational efficiency.

SAFEGUARDING INNOVATION LEADERSHIP

Launch of product innovations such as A1 Smart Kombi in Austria, cloud computing in Austria and Bulgaria and IPTV in Bulgaria. A subsidiary was founded to promote the business area Machine2Machine (M2M).

MULTI-BRAND STRATEGY

To address price-sensitive customer segments, the Telekom Austria Group pursues a diversified pricing policy with the no-frills brands bob in Austria and tomato in Croatia. By foregoing certain services, customers are able to benefit from related cost savings. Towards the end of 2011, similar models were introduced in Slovenia and Bulgaria.

Operating Successes in 2011

Thanks to its innovative power and technological leadership, the Telekom Austria Group was able to achieve an impressive operational position in its markets.

REGULATION

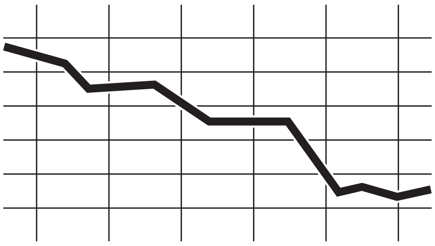
Pricing flexibility is limited by national and EU-wide regulation. Thus, EU regulations that are relevant for the Telekom Austria Group in the Austrian, Bulgarian and Slovenian markets, apply to roaming tariffs and termination rates between market participants. Since the first Roaming Regulation came into force in 2007, price caps on outgoing and incoming calls have been gradually reduced by 29% and 54% respectively. In the same period, mobile termination rates have been lowered by 14% and 72% in almost all markets. Current regulations are continuing along this path (for further details see page 48 in the Group Management Report).

INCREASE IN FIXED ACCESS LINES

in Austria by 21,300 lines to 2.3 million, thanks to the continued success of product bundles.

EXPANSION OF THE CONVERGENCE STRATEGY

Besides Austria, the acquisition of fiber-optic operators in Bulgaria and a cable provider in Croatia created the basis for a convergent product portfolio in these markets.

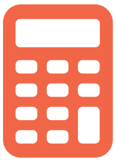


WEAK ECONOMY

Challenging macro-economic conditions influenced customer usage behavior above all in Bulgaria, Croatia and Belarus, increasing their price sensitivity.

PRUDENT INVESTMENT POLICY

Technological advances require the continuous expansion and modernization of transmission networks. The Telekom Austria Group pursues hybrid approaches by combining different technologies geared to regional requirements.



ACTIVE TARIFF POLICY

Ongoing investments in the network infrastructure are imperative due to the rapid surge in data traffic volumes. With a view to safeguarding its first-class service quality, A1 in Austria introduced charges for SIM cards and Internet services for the first time in spring 2011. A similar tariff policy is also pursued by Si.mobil in Slovenia.

+5.7%

RISING CUSTOMER NUMBERS

in almost all segments thanks to effective customer retention and acquisition programs led to a total increase of 5.7% to 20.3 million mobile subscribers, with mobile broadband also maintaining its growth momentum.

UMTS-900

HSPA+

TECHNOLOGICAL UPGRADES OF TRANSMISSION NETWORKS

the introduction of HSPA+ in the Republic of Serbia, conversion to UMTS-900 in Slovenia and the demand-oriented expansion of the fiber-optic network in Austria.

2011 – A Year to Tick Off

The Management Board of the Telekom Austria Group, Hannes Ametsreiter and Hans Tschuden, review the business performance in 2011 and key strategic projects in an interview.

The title of this annual report is "2011 – A Year to Tick Off". What does this mean?

Ametsreiter: The Telekom Austria Group's operating performance in 2011 was overshadowed by several external factors, which had an extraordinarily adverse impact on business. I am mainly referring here to the effects of massive currency devaluation and the resulting hyperinflation and impairment charge in Belarus. Along with these adverse circumstances, we had quite a long list of negative items to "tick off" in 2011: the persistently strong competition in all our markets, the weak economic development as a consequence of the economic crisis and the grave impacts of regulatory measures – such as cuts in roaming tariffs and national and international mobile termination rates. And, on the top of it, we had to face grave accusations of corruption and wrong-doing in Austria in the past. However, we were able to actively confront these challenges and mitigate the negative effects on our earnings performance based on solid operational success, the long-term value of which for the Telekom Austria Group extends far beyond the reporting year. Therefore, we also managed to "tick off" some key points on our strategic agenda. The success of our convergence strategy in Austria, which in the year under review was also accomplished at the brand level, is demonstrated, for instance, by the high customer acceptance level of our product bundles and the further increase in the number of fixed access lines. Going forward, we want to leverage this potential also in other selected Telekom Austria Group markets and were able to lay the groundwork in the year under review with the acquisition of fiber-optic network providers and a cable operator in Bulgaria and Croatia respectively. The success of our mobile communication activities – we managed to increase our customer numbers in almost all our markets in 2011 – provides a solid basis for our endeavors.

How did the negative factors referred to above actually impact business performance in 2011?

Tschuden: When analyzing the development of revenues and earnings, it is important to differentiate between our pure operational performance and one-off effects that impact results. As mentioned earlier, thanks to our good operational performance we were able to mitigate the impact of falling prices caused by fierce competition and a challenging macro-economic environment as well as the consequences of tighter regulation – which accounts for approximately 40% of the year-on-year drop in revenues of EUR 196.2 million. As a result, we recorded total revenues of EUR 4,454.6 million and EBITDA comparable of EUR 1,527.3 million in line with our outlook. The net loss of EUR 252.8 million in 2011 was due, on the one hand, to restructuring charges of EUR 233.7 million in the Austrian segment, but it was mainly attributable to the effects of accounting procedures in hyperinflationary economies, which were applied to the Belarusian segment as of the fourth quarter of 2011. Following an impairment test of the Belarusian subsidiary velcom, an impairment charge of EUR 279.0 million was recognized, which did, however, lead to an increase in group equity of EUR 155.8 million.

> "We were able to increase customer numbers in almost all markets in 2011."

In view of such turbulence, do you regret the Telekom Austria Group's commitment to foreign markets?

Ametsreiter: No, absolutely not. In 2011, approximately 35% of our revenues were generated in our foreign markets, with Slovenia, the Republic of Serbia and the Republic of Macedonia showing the most favorable developments. And even if we are currently facing significant challenges in Bulgaria, Croatia and Belarus due to the macro-economic situation, we still firmly believe in the potential of these markets. Let me give you one example to illustrate this potential. In Austria, we currently generate average revenues per mobile user of EUR 20.0 per month. In both Bulgaria and the Republic of Serbia, ARPU amounts to EUR 7.2 and in the Republic of Macedonia to EUR 7.5. These markets are at different stages of development, both in terms of market penetration and usage – mobile data traffic, for example, is still in its infancy in these markets. So, there is still great scope for development going forward, and the Telekom Austria Group will profit from it over the medium term.

Tschuden: With the successful acquisition of fiber-optic network providers and a cable operator in Bulgaria and Croatia respectively, in the year under review, we have renewed our commitment to these markets. The companies that were acquired can rely on a high-value network infrastructure and a solid subscriber base and have delivered a positive contribution to Group results since Day One. Their strategic value lies in the fact that from now on we will also be able to offer convergent fixed line and mobile communication products in these markets in line with their specific development stage. In Austria, we have been offering our extremely successful product bundles since 2007.

Hannes Ametsreiter, Chairman of the Management Board of the Telekom Austria Group

What are the advantages of these convergent solutions for the customer?

Ametsreiter: Basically, most customers are not really interested in which technology is used to carry their telephone calls or data traffic. When on the go, they want to use applications such as mobile Internet, e-mails, send photos and other data, access social media and, of course, make crystal-clear phone calls on their smartphones. The emphasis here is on mobility combined with unlimited connectivity. At home or at work, fixed line broadband provides very high and stable transmission capacities that offer guaranteed quality even for bandwidth-intensive applications such as HD IPTV or video downloads. The product offering that customers like best is when the switch between different networks and end-devices is imperceptible to them. Customers want comprehensive information and communication solutions from a single source with one central point of contact, the kind that only the Telekom Austria Group is able to offer in Austria with A1.

Substantial investments are necessary if the network infrastructure is to keep pace with these expectations. How do you deal with it, given the current business performance?

Tschuden: We position ourselves in our markets as the absolute quality and innovation leader, with services ranging from demand-optimized no-frills products to convergent bundles and comprehensive ICT solutions. Customer expectations develop in line with the rapid technological progress in our industry, which ultimately leads to huge growth in data transmission volumes. To safeguard our leading position on the market, it is therefore absolutely essential to continuously expand our network infrastructure, this is why in 2011 a large part of our capital expenditures, totaling EUR 739.0 million, was used for this purpose. Furthermore, it is crucial that such investments are clearly target-oriented and made with the necessary foresight. This involves asking questions such as: how will demand develop in which regions? Or: which technologies can we combine intelligently and cost efficiently?

Ametsreiter: A demand-oriented and intelligent network rollout means, for example, that in Austria we are continuously expanding the fiber-optic network; approximately 4,000 mobile communication base stations will be connected to it by 2013. This demonstrates the convergence, we referred to earlier on, from a technological perspective. With a mix of different technologies combined with our fiber-optic infrastructure, we already reach 2.2 million Austrian households with products that enable data rates of up to 100 Mbit/s. The closer we take the fiber-optic network to the customer, the higher the transmission speeds. Ultimately, however, these investment decisions are naturally based on the effective sales potential and actual demand in a given region. This applies in general terms to the selective rollout of our convergence strategy in existing markets and, in particular, to the expansion of the existing mobile communication network infrastructures. Here too, we use a great variety of diversified technologies according to demand such as LTE or HSPA+, for example in Croatia, where Vipnet is preparing to introduce LTE to offer download speeds of up to 150 Mbit/s. Or in Slovenia, where Si.mobil is using HSPA+ to provide mobile broadband coverage to 85% of the population.

Are these investments responsible for the lowering of the minimum dividend floor announced in December 2011?

Tschuden: No, they are not. The halving of the dividend floor from EUR 0.76 to EUR 0.38 per share for 2011 and 2012 was necessary because the difficult macro-economic environment and volatile foreign currency markets are expected to

"We position ourselves in our markets as the absolute quality and innovation leader."

continue to impact the Telekom Austria Group's results going forward. Therefore, it was imperative to ensure that investments, such as those for the planned takeover of Orange Austria assets in mid-2012 – subject to prior approval by the competition authority – or in connection with spectrum auctions, do not lead to a Net debt/EBITDA comparable ratio that exceeds the leverage corridor of 2.0x to 2.5x. This financial discipline in turn proves essential to ensure that the stable investment grade rating of BBB and thus the solid refinancing basis of the Telekom Austria Group are not jeopardized. As of 2013, we are aiming for a dividend payout ratio of 55% of the free cash flow, provided this does not lead to a deterioration of Group equity.

For the Telekom Austria Group in Austria, 2011 was also dominated by accusations of past corruption and wrong-doing. What is your assessment of this situation?

Ametsreiter: We want a full and complete investigation of these accusations and, right from the outset, have given the investigating authorities our full support in every respect. But we also took prompt action ourselves: we initiated legal proceedings in a number of cases and dismissed the employees who were involved, and we will continue to do so if necessary without regard for the status of the individuals concerned. These measures are taken in close consultation with the Supervisory Board, which is vigorously pursuing a full and complete investigation by calling in an external forensic investigation team and setting up a control committee. This task force is supported by the Internal Audit department of the Telekom Austria Group, which has been given the power to act independently in relation to these matters. In 2011, the business unit Group Compliance was established under the leadership of international expert Martin Walter to prevent corruption and improve the Telekom Austria Group's compliance management system.

Hans Tschuden, Vice Chairman of the Management Board and CFO of the Telekom Austria Group

What are your most important goals and expectations for 2012?

Tschuden: We cannot rely on any significant easing of the market situation in 2012, either from a macro-economic or a regulatory perspective. The persistently challenging economic environment in all of the main CEE markets of the Telekom Austria Group will continue to impact customer demand and pricing levels. Furthermore, we expect sustained periods of strong volatility in foreign currency markets and a high rate of inflation in Belarus, which, as reported, was classified as a hyperinflationary economy in 2011. To meet these challenges, we therefore initiated an extensive action program at the end of 2011 in coordination with the Supervisory Board, which focuses on the long-term stabilization of operating free cash flow.

Ametsreiter: Based on a clear focus on customer service and innovative and convergent products, this program targets revenue generation, operating expense control and capital expenditure efficiency. Assuming stable currencies in the Telekom Austria Group's operating markets, we anticipate total revenues of approximately EUR 4.4 billion for the full year 2012 and EBITDA comparable of approximately EUR 1.5 billion. Capital expenditures are expected to amount to approximately EUR 0.75 billion, and do not include investments in licenses or the acquisition of additional frequencies. The main focus will remain on the operating free cash flow, which is expected to amount to approximately EUR 0.75 billion.

Whatever happens, 2012 will certainly be a highly challenging year for the Telekom Austria Group and its employees, to whom we are very grateful for their hard work and commitment. And we will do our utmost to "tick this year off" as positively as possible in the interests of our shareholders and other stakeholders.

Overview of the Telekom Austria Group's Strategic Objectives

The dynamism of the telecommunication markets, marked by the rapid pace of technological changes and widespread macro-economic instability in large parts of Europe, call for an effective corporate strategy to safeguard the competitiveness of the Telekom Austria Group and stabilize its future earning power.

Against this backdrop, the following three strategic pillars give the Telekom Austria Group the necessary stability:

- Convergence of fixed line and mobile communication in Austria and in selected foreign markets
- Consolidation in existing markets
- Realization of value-enhancing growth projects within the current operational footprint

Operational Excellence – which refers to increased efficiency, internal synergies and continuous improvement of internal processes and interfaces – forms the basis for all strategic decisions.

Convergence of Fixed Line and Mobile Communication

The persisting migration from fixed to mobile communication in recent years reflects a fundamental change in customer usage patterns. Demand for comprehensive and flexible communication solutions, which function regardless of location and the underlying transmission technology and can be conveniently sourced from a single supplier, is increasingly gathering momentum. Since the end of 2007, the Telekom Austria Group has successfully responded to this trend toward comprehensive communications solutions from a single source in Austria by offering convergent product bundles, while creating a valuable USP in the market. The acquisition of fiber-optic network providers in Bulgaria and of a cable operator in Croatia in 2011 and their integration have also provided the basis for convergent product portfolios in these markets.

Consolidation in Existing Markets

Despite increasing convergence, the markets of the Telekom Austria Group are at different stages of development in terms of customer needs and usage behavior. The Group responds to this situation with diversified pricing structures and products that are geared to the needs of the individual markets. The main objective is to fully leverage the market potential of each country as well as to consolidate and further expand the Group's position across all markets.

Operational excellence forms the basis for all strategic decisions of the Telekom Austria Group.

In the highly developed Austrian market, future growth can mainly be achieved through innovative, integrated communication solutions and data traffic. In Bulgaria, the company is focusing on the gradual development of a convergent product portfolio as well as on attractive communication services. In Croatia, the strategy is aimed at enhancing value generation through innovative and convergent products. Si.mobil is strengthening its position in the small business customer segment and upgrading its network infrastructure for the growing importance of mobile broadband and smartphones. In Austria, Croatia and Slovenia, the Telekom Austria Group also benefits from a diversified pricing structure in line with the corporate multi-brand strategy.

In Belarus, the base level in terms of both average revenues per customer and data revenues as a proportion of total revenues is considerably lower than, for example, in Austria and Slovenia. Given the considerable scope for improvement, the Telekom Austria Group intends to leverage this catch-up potential by pushing ahead with attractive products and services and expanding network capacities. In growth markets, such as the Republic of Serbia and the Republic of Macedonia, where the Telekom Austria Group did not start operations until 2007, the main focus is on increasing the share of contract customers to create a solid basis for high-value products.

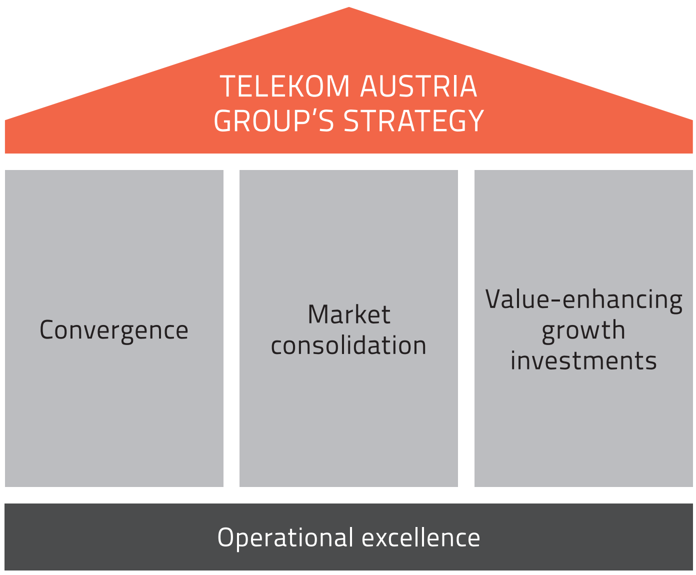
Value-Enhancing Expansion

The Telekom Austria Group will continue to be very selective about potential acquisitions in the future and the markets of Central and Eastern Europe will remain the Group's core geographic footprint going forward. Acquisitions will only be pursued if they generate synergy effects with existing business activities or improve the Group's strategic positioning in the target market. In addition to assessing the potential contribution to group results, prospective acquisition targets are evaluated using recognized discounted cash flow methods taking into account risk-weighted costs of capital. In addition, potential acquisitions have to generate a higher cash flow per share than share buybacks. These criteria were applied to the takeover bid for 51% of the shares in Telekom Srbija in the first half of 2011, which ultimately did not go through due to the excessive price expectations on the part of the seller.

Responsible Cash Use Policy

The Telekom Austria Group intends to distribute a dividend of EUR 0.38 per share for the years 2011 and 2012. As of 2013, the payout ratio will amount to 55% of the free cash flow, provided that the dividend payment 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 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 the net debt to EBITDA comparable ratio falls below 2.0x. A stable business and currency environment remains the basic prerequisite for share buybacks.



Anchoring a Culture of Integrity

In the year under review, the Telekom Austria Group was confronted with accusations of corruption and misconduct in the past. A full and complete investigation of all issues as well as the enhancement of the effectiveness and the optimization of the compliance management system are currently among the top priorities.

Full and Complete Investigation

The current management of the Telekom Austria Group has a vital interest in a full and complete investigation of all the facts and is actively supporting the investigating authorities. Based on the results of the investigation carried out by the Internal Audit department in 2011, the Management Board and the Supervisory Board both commissioned task forces consisting of forensic experts from renowned accounting and auditing firms to investigate these past incidents. These investigations will focus on corporate acquisitions, real estate transactions, procurement processes and consultancy contracts from the 2000 business year onward.

Compliance Measures

In the interests of transparent company management, the compliance standards, structures and processes of the Telekom Austria Group have been significantly tightened. Since November 2011, all compliance measures have been managed by the newly established Group Compliance unit. The head of this unit, Martin Walter, reports directly to the entire Management Board and Supervisory Board. Compliance structures were also put in place at every subsidiary.

A comprehensive compliance package was implemented as part of a far-reaching anti-corruption training program, and includes corporate conduct guidelines concerning consulting, lobbying, sponsoring contracts as well as the exchange of gifts and invitations. The Code of Conduct, which is binding throughout the Group, is published on www.telekomaustria.com. It sets out principles governing confidentiality, fair dealing with suppliers, customers and competitors, and rules for dealing with conflicts of interest. It applies to all employees and the entire management of the Telekom Austria Group and is a core element of its corporate culture. Actions that violate the Code of Conduct result in disciplinary measures, which may include dismissal. A whistle-blowing system is in place to deal with confidential reports concerning legally dubious procedures or violations of the Code of Conduct. All such reports are investigated by the Internal Audit department and, if the allegations are substantiated, result in disciplinary consequences. In addition, comprehensive audits also ensure compliance with the rules.

To give employees a thorough grounding in compliance, approximately 120 training sessions were held at all Telekom Austria Group operating companies to educate executives and key corporate units about the practical implementation of corporate conduct guidelines in working life. The content and importance of the Code of Conduct were also systematically communicated in the corporate media. In addition, an e-learning tool was introduced in December 2011 to communicate conduct guidelines to all Telekom Austria Group employees, which will continue to be available in 2012.

By introducing new compliance measures and tightening existing regulations with a view to modernizing and increasing the effectiveness of the Group's compliance management system, the Telekom Austria Group fulfils its corporate social responsibility. Honest, fair and transparent business principles should strengthen the culture of integrity within the company and fully restore its reputation.

"Effective compliance requires shared values and clear codes of conduct, but also control."
Martin Walter, Compliance Manager

Interview

Martin Walter, Compliance Manager, about the importance of an effective compliance management system and the initiatives of the Telekom Austria Group to ensure further improvement.

What do we understand by compliance?

Walter: Compliance can be translated as "conformity with rules" and refers to adherence to laws, guidelines and ethical standards within the company.

In view of the current allegations, has the Telekom Austria Group's compliance management system failed?

Walter: Seen from the outside, that might be the perception. However, not even the most sophisticated internal control systems, comprehensive codes of conduct and training programs can completely eliminate the risks arising from criminal energy on the part of individuals. Thus, it is all the more important to establish a strong culture of integrity within the company, which must be supported by the example set by top management, the promotion of personal responsibility among staff and the consistent punishment of misconduct. Continuously improving the compliance management system on the basis of knowledge gained from the analyses also plays an important role.

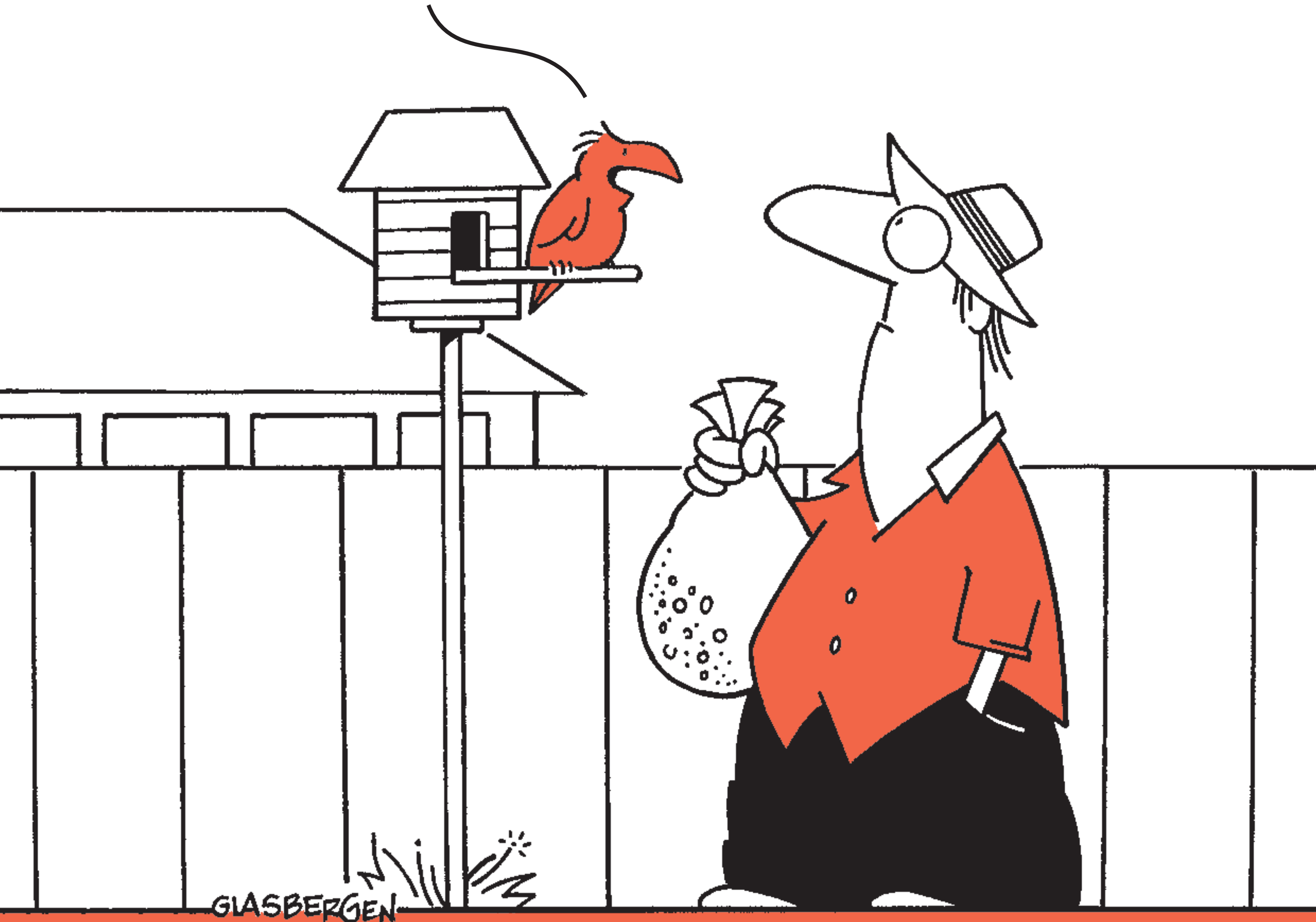
What measures have you initiated since taking office in November 2011?

Walter: On the one hand, I am trying to strengthen prevention, for example, with even more stringent guidelines for consultancy, lobbying and sponsoring contracts, with comprehensive training measures and by anchoring integrity in our human resources instruments. At the same time, I am emphasizing a strong focus on values: integrity has been included in the canon of corporate values. Integrity and thus trust is the basis of our business. This is non-negotiable and the Management Board will vigorously stand on this principle; in cases of doubt, we will forgo a contract or potential new business opportunities.

Digital World

6.30 a. m. The Internet radio wakes us with the latest chart hits. We scan through our e-mails on the tablet between a shower and breakfast. In the metro on the way to the office, we read the latest news on the smartphone, update our Facebook status and reply to the first customer enquiries by e-mail. As soon as we have got to the office, we plug the notebook into the corporate network to update our appointments. Then, we take a brief look at the Intranet – and the working day can begin.

"My songs are also available as a ringtone app for your smartphone."



TICKED OFF

- Expansion of network infrastructure continued; network quality received numerous awards
- Development of the M2M (Machine2Machine) business area by the domestic subsidiary
- Group-wide cloud strategy
- New products and services in all markets

Only a few years ago, the idea of starting the day this way would have been decried as a distant vision of the future. But, for many of us, it has long been reality. The simultaneous use of a great variety of information and communication solutions has long since become an integral part of our everyday lives. Yet behind it all there is a complex technical infrastructure with countless interfaces – and the volume of data traffic continues to skyrocket. Innovative applications such as cloud computing are gaining importance, posing unprecedented challenges to network providers like the Telekom Austria Group. We look into the future and deliver effective solutions.

Above the Clouds ...

The current Global Cloud Index 2010 – 2015 by Cisco, a leading global supplier of IT-network solutions, concludes that by 2015, global data center traffic will rise fourfold to 4.8 zettabytes. This is equivalent to a staggering 66.7 trillion hours of music or 4.8 trillion hours of high-definition video streaming. The fastest growing segment is cloud traffic. With annual growth rates of more than 60%, global cloud traffic will account for approximately one third of total data traffic by 2015. This growth is being driven by further increases in the number of devices per person that are being used over the Internet. While today one third of consumers already use between five and ten devices on the Net, this figure is set to rise to more than 45% by 2015.

Group-Wide Cloud Strategy

What role does the Telekom Austria Group play in this megatrend? For years, the Telekom Austria Group has provided business and commercial customers with comprehensive IT service packages, which are comparable to today's cloud approach in terms of their functionalities. However, in 2011, a project was launched to develop a uniform group-wide strategy for all cloud activities and ultimately ensure valuable synergies. In a first step, the roles and tasks of external partners as well as the areas of responsibility within the Telekom Austria Group were strictly defined. This was followed by a number of market launches in the second half of 2011.

- In Austria, A1 launched the A1 Austria Cloud, a modular product, which offers everything from data and programs to virtual servers and back-up solutions.
- Mobiltel in Bulgaria followed suit in November 2011 with "Business Cloud", a product that mainly focuses on combining multiple e-mail accounts and calendar functions.
- Vipnet in Croatia also offers a special functionality; Vipnet Surveillance enables users to remotely locate vehicles and vessels and to transmit sales and employee data in real time.
- Si.mobil in Slovenia launched "Perfect Office", a comprehensive package including customer service in September 2011.

Application areas for M2M solutions of the Telekom Austria Group

Automotive

Consumer Electronics

Health Care

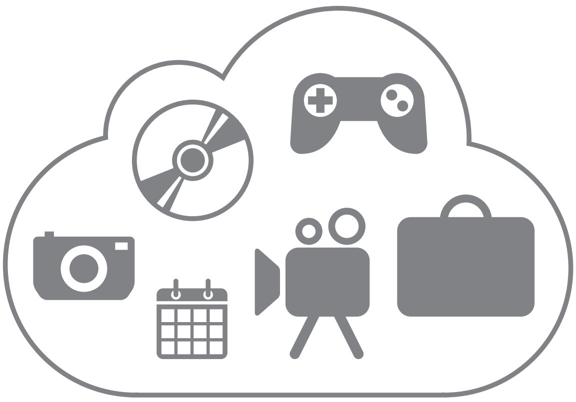
Industrial & Smart Business

Logistics & Transportation

Retail & Payment

Security & Surveillance

Energy & Utilities



Cloud Computing

In cloud computing, both programs and the files to be processed are no longer stored locally on end-user computers but on central servers, known as clouds. Higher computing capacities no longer have to be purchased but can be simply rented as a service. In addition, users have remote access to their data from anywhere in the world via the Internet and can also share it with other authorized users. Further information is available at www.a1.net/austriacloud

Boom in mobile applications. Every day new apps are released onto the market that make our daily lives easier in a variety of ways.

The big advantage of all these solutions: customers no longer have to make expensive investments in setting up and expanding their own IT infrastructure. Instead, they outsource these tasks to the cloud – and benefit from its flexibility and clearly calculable costs.

When Machines Talk to Machines

Another new trend: An increasing number of devices have built-in SIM cards, with which consumers no longer have any direct interaction. They enable machines to communicate with one another and are used to regulate, monitor and control them. This new trend has opened up a promising market for the Telekom Austria Group. Since 2011, the newly established subsidiary – Telekom Austria Group M2M – has been responsible for coordinating and steering all activities in this business area and has already won several contracts from within Austria and abroad. Built-in SIM cards are already available in photovoltaic plants, in yachts, bicycles and drink vending machines. In the logistics industry, they are used to track freight shipments. In this market, the Telekom Austria Group focuses on business and commercial customers in selected industries such as transportation and logistics, health care, security and surveillance, and the automotive industry.

OUR CORPORATE VALUES

QUALITY INNOVATION RESPONSIBILITY DIVERSITY

INNOVATION

Inventing the Future with You

The Telekom Austria Group adds genuine value and convenience to new developments with the aim of enabling each individual to reap the benefits of our innovative products and services in any situation. Our infrastructure provides the basis for the 21st century information society. We allow people to fully enjoy the advantages generated by digital education and state-of-the-art healthcare.

Apps Boom

One of the most dynamic and innovative growth markets in the telecommunication industry is mobile applications (apps), which thanks to the proliferation of smartphones are experiencing a veritable boom. Tens of thousands of apps are already available for all application areas and operating systems such as IOS, Android, Windows Phone 7, BlackBerry and Symbian. They make our daily lives easier in a variety of ways – from navigating around a foreign city to buying tickets or calculating the current value of a stock portfolio.

However, there is one problem: Most of these additional programs are developed for the US or Asian markets and only a small number address the specific needs of users in Europe. The Telekom Austria Group has therefore set up the Creating Apps platform to bridge the gap between app developers and the needs of users, which vary according to region. The platform provides the international developer community with the latest information and news, with the aim of promoting a lively exchange and the development and marketing of customer-focused applications.

High-Performance, Reliable Networks

The above-mentioned apps have one thing in common: They cause data volumes to skyrocket and require a reliable network infrastructure that runs smoothly even during peak periods.

In Austria, the Telekom Austria Group is pursuing a hybrid approach. While, in mobile communication, the company has already embarked on building the fourth generation network with data transmission speeds of up to 150 Mbit/s on the basis of the LTE technology (Long Term Evolution), existing HSPA+ base stations are currently being upgraded with Dual-Cell-Technology, enabling transmission rates of up to 42 Mbit/s. Furthermore, data traffic from mobile base stations is now being transported via the company's high-performance fiber-optic network. By 2013, a total of approximately 4,000 base stations will be connected to this fiber-optic network, known as the Giga-Net, which is constantly being expanded and, depending on customer demand and technical feasibility, can reach all the way up to subscribers' premises. In the first stage of network rollout, a connection is established between the switching centers and the company's fiber optic network (FTTEx – Fiber to the Exchange). Thanks to VDSL2-technology (VDSL stands for Very High Speed Digital Subscriber Line), Gigaspeed products with data rates of up to 30 Mbit/s can already be made available to a total of 2.2 million Austrian households. In a further expansion step, fiber-optic cables are rolled out all the way to a street cabinet (FTTC – Fiber to the Curb) up to several hundred meters away from the customer premises, thus fully leveraging the potential of VDSL technology. FTTC has proved to be better suited for rural areas and urban peripheries, whereas, in city centers a combination of different FTTx technologies is applied (Fiber to the Curb, Building or Home). As a result, for the first time in 2011 fiber-optic cables were laid all the way up to users' premises (FTTH, Fiber to the home) in selected districts of Vienna, making bandwidths of more than 100 Mbit/s possible.

Outstanding Network Quality

For the third year in a row, A1 was the only network operator in the German-speaking countries to receive the best score "very good" in a comprehensive test of mobile communication networks. The Telekom Austria Group's international subsidiaries also achieved similar successes:

- Vipnet in Croatia was confirmed as having the best network quality in the country for the fifth time. Preparation work and tests are currently underway for the introduction of LTE, which will become commercially available in 2012, enabling download speeds of up to 150 Mbit/s.
- Si.mobil in Slovenia is also expanding its network capacities in line with customer demand. Parts of the existing GSM network and UMTS-2100-MHz network are currently being upgraded to the UMTS-900-MHz technology as well as to HSPA+, which will increase mobile broadband coverage to more than 85% of the population. At the same time, the potential deployment of the LTE technology was also tested.
- The same applies to Bulgaria, where Mobiltel is testing the potential use of this technology within the framework of a quality program and also utilizing the experience gained in Austria.
- Vip mobile in the Republic of Serbia also won accolades for its network quality in 2011. Only four years after the launch of commercial operations, the outstanding quality and speed of its network data transfer was confirmed.

Yet, as technological progress continues to gather momentum, it is imperative to further invest in the rollout and expansion of network infrastructures, create innovative data highways that avoid "congestion", enable maximum speeds for all applications in everyday digital life and open up completely new application fields.

Telekom Austria Group Research Partnerships (Selection)

- Endowment of a Chair at the Institute for Future Communication at the University of Vienna
- Vienna University of Technology
- Technical University Sofia, Bulgaria
- Research Center Forschungszentrum Telekommunikation Wien
- Vodafone

UPGRADING THE NETWORK INFRASTRUCTURE FOR THE FUTURE

"We are making a concerted effort to expand our network by intelligently bundling our fixed line and mobile communication infrastructures to be able to meet the ever-rising demand for higher bandwidths. The aspects of speed and profitability are central to this network expansion, as are quality, innovation leadership and security."

Johann Pichler, Group Chief Technology Officer

Knowledge is for Everyone

The Internet has long since become an integral part of our everyday lives. Almost the entire global store of knowledge is just a click away. Yet due to technical, social or financial barriers far too many people are still excluded from this knowledge society. The crucial question and challenge is therefore: How can we close this digital gap?

Internet – The Source of Knowledge for our Age

Approximately 75% of all Austrian households have access to the Internet, a number that is growing all the time. A very respectable figure indeed, compared to the Telekom Austria Group's international markets. While Slovenia has Internet coverage of 65%, the figure in Bulgaria and Belarus is still just around 50%. Equal access to the Internet and thus to information, education and knowledge is not guaranteed everywhere and for everyone. The Telekom Austria Group is therefore actively involved in a variety of projects designed to close this gap. Knowledge society is also the umbrella topic for the current CSR activities of the Telekom Austria Group.

Austria: "A1 Internet for All"

A classic example of this is the domestic initiative "A1 Internet for All", which was launched in fall 2011 in cooperation with partners from the areas of education and social services with the aim of bringing people with limited access to the Internet and education into the knowledge society. As part of this campaign, a special A1 Internet for All Campus was opened in the second district of Vienna to provide children, young people, adults and senior citizens with free Internet workshops and training sessions. On the Internet for All tour, residents of towns and villages throughout Austria are invited to try out Internet applications at interactive stations in an effort to lower inhibition thresholds. The initiative also includes customized training programs

Young people learn how to use new media responsibly at the A1 Internet for All Campus.

and free “A1 Internet for All” surf stations for Caritas, Augustin, Ute Bock, Kolping Österreich and the Vienna Youth Center. In early December 2011, the initiative was broadened and an Internet station especially designed for the blind and partially-sighted was set up in the Austrian Blind Union’s House of Sight.

International Projects for Media Skills and Education

The international subsidiaries of the Telekom Austria Group also make a contribution to promoting media skills and education in their markets.

An overview:

- In Bulgaria, Mobiltel supports an initiative to improve young peoples’ literacy skills with its “Be literate” campaign. The objective is to use mobile communications and new technologies to foster interest in language as a central means of communication. Mobiltel also supports science and research by engaging with a number of universities, including the University of Sofia and St. Kliment Ohridski University.
- In Belarus, velcom supports young peoples’ creativity with the “Got an idea? Go ahead!” competition, which honors innovative and creative ideas from the areas of education, arts and sport.
- In Croatia, Vipnet contributes to advancing the knowledge society by offering grants for students and fostering young talents.

New Ways of Thinking, New Horizons

A modern knowledge society is characterized by a theoretical analysis and critical examination of the key issues of our age. This requires the ability to open up to new ways of thinking and to look beyond one’s own nose. Looking at complex issues from different perspectives and promoting innovative approaches are thus central to the Telekom Austria Group’s CSR activities. Several initiatives have therefore been launched to foster the necessary dialogue between researchers, scientists and experts from a wide range of disciplines. At the same time, a bridge is built between the academic and entrepreneurial perspectives.

Internet für Alle.

The Austrian subsidiary of the Telekom Austria Group launched this initiative in fall 2011 in cooperation with partners from the areas of education and social services with the aim of bringing people with limited access to the Internet and education into the knowledge society.

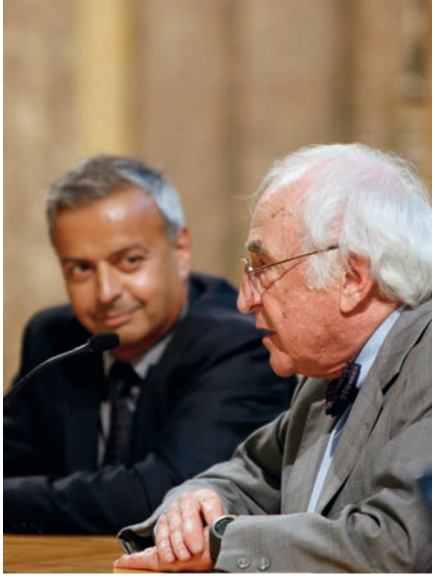
OUR CORPORATE VALUES

QUALITY INNOVATION RESPONSIBILITY DIVERSITY

RESPONSIBILITY

Caring with You

Responsibility at the Telekom Austria Group means pursuing the vision of creating the best future for our employees and for everyone living in the information society now and in the future. We realize this vision by committing to high quality standards, profitability and operational excellence as well as by placing special emphasis on social considerations and making a significant contribution to a knowledge-based society. We seek to foster respectful collaboration with all our stakeholders. We grow in a sustainable manner and are committed to the triple bottom line based on an integrative approach to the economic, ecological and social aspects of sustainable management.



Discussion among experts: Sir Tim Berners-Lee, guest speaker at future.talk 2011; Right: Andy Kaltenbrunner (Medienhaus Wien) and Pulitzer prize winner Philip Meyer at the Hedy Lamarr Lectures 2011.

Discourse with Experts

The Hedy Lamarr Lecture series organized in cooperation with the Austrian Academy of Sciences and Medienhaus Vienna has been promoting the discussion with experts in an exemplary manner for three years now. International experts are invited to give public lectures about the potential social consequences of the current paradigm shift brought about by information and communication technologies. The lecture series is named after the Austrian actress and inventor Hedy Lamarr (1914 – 2000), who made an important contribution to the development of today's mobile communication technology by inventing frequency hopping. In 2011, the four well-known and internationally respected lecturers chosen to speak at the event were: Media scholar and professor of empirical communication sciences, Uwe Hasebrink; Pulitzer prize-winner Philip Meyer; cultural scientist Nico Stehr and sociologist Saskia Sassen.

The current sustainability report provides detailed information about the Telekom Austria Group's CSR activities and is available at www.telekom-austria.com under the menu item "Responsibility."

TICKED OFF

- The Sustainability Report 2010/11 published
- Important advances and new goals in the field of CSR
- Projects to promote media literacy skills and education in all markets
- CSR Education Module at the Telekom Austria Group Business School
- Implementation of a group-wide CSR management system and the necessary structures

Let's Talk about the Future

future.talk is another Telekom Austria Group event that since 2001 has explored the challenges of the knowledge society and new trends. The future.talk 2011 posed the question "Who rules the Internet Society?" and analyzed the political and economic power structures in the Internet. The most prominent guest speaker was Sir Tim Berners-Lee, best known as the inventor of the World Wide Web. The key topics of the evening were the social media and the potential risk that the Internet could be abused as an economic and political instrument. The problem of data security was also analyzed and discussed.

The Telekom Austria Group's Sustainability Agenda

The initiatives described above are only a small selection of the extensive range of sustainability activities undertaken by the Telekom Austria Group. Detailed information about the projects, their progress and goals can be found in the current sustainability report. The report also explains which measures are being adopted to protect the environment and the climate and how the Telekom Austria Group's products and services contribute to these goals.

The extent to which sustainability and corporate responsibility are entrenched in all areas of the Telekom Austria Group is demonstrated by the fact that both members of the Management Board preside over the CSR structure. They are advised by a CSR Board made up of executives from all business units, which also prepares strategic decisions regarding the direction sustainability should take within the Group. The CSR Team consists of employees from all subsidiaries, who regularly meet to define key areas and share experiences. In fall 2011, the Telekom Austria Group Business School introduced a special CSR module for future executives, which complements previous measures for raising awareness about sustainability such as the Knowledge Quiz and competitions.

Employees as a Success Factor

Personnel management poses special challenges to a service provider like the Telekom Austria Group that is competing in a highly dynamic environment. Efficiency optimization and personnel restructuring measures, which go hand in hand with technological change, must be balanced against personnel development and employee motivation.
How well does the Telekom Austria Group manage this balancing act? A snapshot.

As the central educational institute, the Telekom Austria Group Business School has a clear mandate to systematically identify and promote high-potentials and to support and accompany them along their further development path.

SUCCESSFUL FIRST YEAR FOR THE TELEKOM AUSTRIA GROUP BUSINESS SCHOOL

"The Telekom Austria Group Business School has completed its first year with flying colors. We have not only laid the foundation for the success of an internal talent pool; the bringing together of employees from all companies and countries also promotes group-wide cooperation and a shared corporate culture. Students become ambassadors of our strategy and take our corporate spirit to their colleagues."

Silvia Buchinger, Group Chief Human Resources Officer

Room for Education

When the Telekom Austria Group Business School opened in fall 2010, the mission was clear: "to systematically identify and promote high-potentials and to support and accompany them along their further development path." Since then, more than 600 employees from the eight Telekom Austria Group operating countries have completed a wide range of courses and programs, which are tailored to the specific needs of staff members across all hierarchical levels. What all these programs have in common is that they make an important contribution to internal networking across all countries. Besides internal specialists and executives, the teaching staff includes respected international experts and professors from the Vienna University of Economics and Business, the London Business School and INSEAD.

EUR 11.9 million for Further Education

In addition to the centralized educational program offered at the Telekom Austria Group Business School, the local subsidiaries also organize their own training programs. In 2011, the Telekom Austria Group 2011 invested a total of EUR 11.9 million in the further education and professional training of its employees (2010: EUR 12.4 million) – the equivalent of EUR 691 per employee after EUR 754 in the previous year.

The range of further education and professional training activities covers an extremely broad spectrum. In addition to technical training, the main focus is upon promoting leadership qualities and soft skills. Vip mobile, for example, has developed a program for Serbian executives that concentrates on aspects of corporate culture, team building and employee motivation. In Croatia, Vipnet successfully offered special events for team building in 2011.

Talents: Wanted, Found and Supported

Another key area of education and training at the Telekom Austria Group is dedicated to identifying and supporting young talents, who are at the start of their career. In Austria, a graduate program for the best university graduates, a trainee program for school leavers and an apprentice training scheme provide targeted support for a "1A Career at A1". In 2011, 239 apprentices (21% of whom were women) were employed as commercial or ICT apprentices (2010: 287, of whom 30% were women). Vip mobile in the Republic of Serbia, Mobiltel in Bulgaria, Vipnet in Croatia and Vip Operator in the Republic of Macedonia also have local talent programs in place to help them find the best and brightest minds.

Promoting Personal Responsibility and Enabling Flexibility

Outstanding performance requires a working environment that also encourages entrepreneurial thinking and the sense of responsibility it produces. At the Telekom Austria Group, this includes flexible working schemes and telework. In addition to flexible working time models, the Telekom Austria Group's international subsidiaries also offer facilities to help working mums and dads, for example, the kindergardens of Mobiltel, Vip mobile and Vipnet.

Clear Goals, Better Performance

During the Objectives & Performance Cycle, the Telekom Austria Group's key corporate objectives are formulated in such a way that they are clear for everybody and can be influenced by individual employees. In 2010, a Long Term Incentive Program (LTI) was introduced for executives and selected employees, which is based on the allocation of Telekom Austria shares contingent upon the achievement of specific targets at the end of a defined period. (For further details about the LTI see page 43).

Diversity as an Opportunity

The diversity within the Telekom Austria Group is the result of the company's international orientation and is recognized as a valuable strength. Gender equality is also an intrinsic Telekom Austria Group value. With the help of various initiatives, the number of women as a proportion of the total workforce has been stabilized at the current level of 38%. However, in regional terms, there are significant differences. In Bulgaria, for example, woman account for approximately 57% of the workforce and in the Republic of Serbia for 54%, in Austria, however, for only 25%.

The Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions in all Group companies to 35% by 2015. Further examples of how the Telekom Austria Group fulfils its responsibility as an employer can be found in the latest sustainability report, which is available at www.telekomaustria.com under the menu item "Responsibility."

OUR CORPORATE VALUES

QUALITY INNOVATION RESPONSIBILITY DIVERSITY

DIVERSITY

Sharing with You

The Telekom Austria Group is formed by and home to a variety of strong local brands. In the heart of Central and Eastern Europe, we embrace the diversity of culture, background and heritage and incorporate it into the Telekom Austria Group as a valuable resource. Diversity at the Telekom Austria Group plays to the different cultures, skills and know-how that build synergies within our group. Our corporate culture is based on an open, two-way approach where we learn from one another.

Participants in the Telekom Austria Group Young Potential Program

Change Needs Solutions

In recent years, the rapid pace of technological progress has led to functional changes, especially in the fixed line business, and to the loss of employment opportunities. Towards the end of 2008, a comprehensive restructuring program was initiated for employees affected by this paradigm shift. The social plans presented in January 2011 included early retirement, temporary leave and special severance packages and were accepted by a total of 685 employees. These social plans as well as additional personnel measures resulted in total restructuring expenses of EUR 233.7 million. Total provisions for the restructuring program amounted to EUR 888.8 million as of December 31, 2011 (2010: EUR 721.9 million).

As of year-end 2011, 649 employees were classified as being permanently released from their duties. As part of efforts to offer these individuals an attractive professional perspective, Servicekom was established in the year under review as an operating unit of Telekom Austria Personalmanagement to support employees who wish to transfer to government service. This opportunity to change careers has been offered since 2009 and so far 264 members of staff have taken it up, 106 of them in 2011.

Parallel to this, Servicekom develops marketable services that can be offered to other companies.

Overview of Personnel Policy Goals of the Telekom Austria Group

- Increasing internal transfer of know-how by the Telekom Austria Group Business School
- Promote career opportunities within the Group by means of talent management
- Continue to establish employee feedback instruments within the Group

KEY PERSONNEL FIGURES – TELEKOM AUSTRIA GROUP

	2011	2010	Change in %
Full-time employees	17,217	16,501	4.3
in Austria	9,292	9,717	–4.4
International	7,761	6,634	17.0
Revenues per employee (in EUR '000)	258.7	281.8	–8.2
EBITDA comparable per employee (in EUR '000)	88.7	99.7	–11.1
Spending on further education per employee (in EUR)	691	754	–8.4
Personnel expenses (in EUR million)	805.0	806.8	–0.2

The Stock Markets in 2011 – Not for the Faint-Hearted

2011 was another turbulent year for the international capital markets. Overshadowed by the debt crisis in the USA and Europe, prolonged periods of optimism were rare, while sharp price fluctuations in both directions were the order of the day.

Stock markets went on a roller-coaster ride: they rose slightly and plummeted again, plunging into a tailspin especially toward the middle of the year and in late fall. The Dow Jones Global Index, which covers some 95% of the world's stocks, lost more than 10% of its value year-on-year. While US stocks showed an almost stable development on average, massive drops were reported in Europe. Stock price declines in the United Kingdom remained within a reasonable range, with the FTSE 100, the leading index on the London Stock Exchange, falling by 6% compared to the previous year. In contrast, the DAX in Germany dropped by 15%, and the CAC 40 in France by 17%.

ATX 2011: 35% Decline

After rising by 16% in 2010, the leading index on the Vienna Stock Exchange, the ATX, experienced a significant loss in value in 2011, closing the year at 1,891.7 points, down 35% on the previous year. At the same time, the trading volume in domestic stocks in monetary terms dropped by 18% to EUR 59.7 billion. Yet despite this valuation level, which can be considered historically low, especially in comparison with other European capital markets, experts disagree about the actual potential for a rally. Given the strong exposure of key Austrian companies in the markets of Central and Eastern Europe, any recovery of the Vienna Stock Exchange is likely to depend on the economic development of this region.

Telekom Austria Share Falls by 12%

After sideways development until May 2011, the Telekom Austria share suffered a significant loss in value during the summer months, falling to an annual low of EUR 6.80 on September 23, 2011. Although the Telekom Austria share price rose sharply during the remainder of the year, it was still down 12% at EUR 9.24 at year-end.

BASIC INFORMATION ABOUT THE TELEKOM AUSTRIA SHARE

Stock Number (Austria)	72000
Symbol	TKA
ISIN	AT0000720008
Reuters	TELA.VIE
Bloomberg	TKA AV
Traded on	Vienna Stock Exchange

In contrast, the industry index DJ Stoxx Telecom fared somewhat better but still lost 7% of its value.

The Telekom Austria share has been listed on the Vienna Stock Exchange since November 2000. With a weighting of almost 9% and a market capitalization of EUR 4.1 billion at year-end 2011, it remains one of the heavyweights on the Vienna trading floor and, measured by capitalization at year-end 2011, it ranks third after OMV and Erste Bank.

Changes to Shareholder Structure

In mid October 2011, RPR Privatstiftung, Vienna, informed the Telekom Austria Group that it directly and indirectly held 5.485% of the shares of Telekom Austria AG through stocks and options. In November 2011, the Telekom Austria Group was informed that 15.810% of Telekom Austria AG shares were held directly and indirectly by RPR Privatstiftung through stocks and options. On January 16, 2012 it was announced that this shareholding had been increased to 20.118%. 28.42% of the shares continue to be held by Österreichische Industrie Holding AG on behalf of the Republic of Austria. Including the 436,031 Telekom Austria AG treasury shares, 51.46% of the shares were classified as free float as of January 31, 2012.

Shareholder Structure by Country

The shareholder analysis carried out by Telekom Austria AG as of December 31, 2011 identified 95.27% of the shares. Approximately 53.81% of all shares issued are held by Austrian shareholders, approximately 5.55% by investors in the United Kingdom and 15.54% by US investors. 13.82% of the shares are held in other European countries and 6.55% in the rest of the world.

Active Investor Relations

An active, and above all, open dialogue with shareholders and other interested parties is crucial, especially in economically turbulent times marked by major upheavals in the international capital markets. In addition to the legally required publications, the Telekom Austria Group also uses a broad range of communication instruments and channels to ensure transparent and real-time flow of information. In 2011, the Investor Relations Team of Telekom Austria Group organized 12 (2010: 13) road shows and participated in 9 (2010: 12) international investor and telecommunication conferences. In addition, some 154 (2010: 207) one-on-one meetings, 57 (2010: 52) group presentations and 204 (2010: 164) telephone conferences were held. The website www.telekomaustria.com/ir is regularly updated with new applications and ensures that information is disseminated in real time. It also contains a list with the contact details of the 22 financial institutions that carry out regular analyses of the Telekom Austria Group. Electronic newsletters and RSS news feeds also ensure real-time information dissemination.

Cash Use Policy

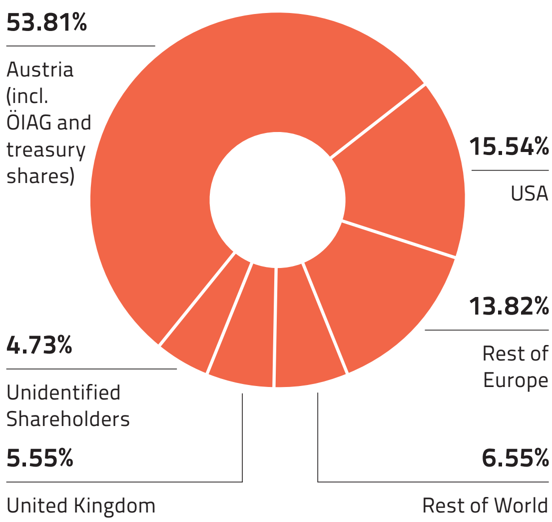
Maintaining a stable investment grade rating of BBB (stable outlook) is central to the Telekom Austria Group's cash use policy. A leverage corridor of 2.0x to 2.5x Net debt to EBITDA comparable offers sufficient financial flexibility. Potential growth projects will be benchmarked against share buybacks on the basis of the cash flow they can generate per share. However, cash will always be returned to shareholders via share buybacks if the Net debt to EBITDA comparable ratio falls below 2.0x. A stable business and currency environment remains the basic prerequisite for share buybacks.

On December 16, 2011 the Telekom Austria Group updated its dividend policy by lowering the minimum dividend floor for the years 2011 and 2012 from EUR 0.76 to a dividend of EUR 0.38. The payout ratio for 2013 will remain at 55% of the free cash flow provided this does not lead to a reduction in Group equity.

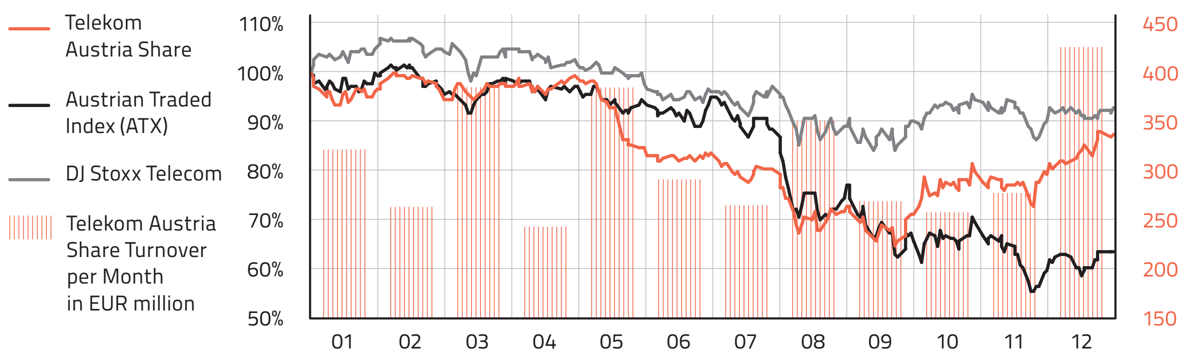
This step was prompted by expectations that a difficult macroeconomic climate and volatile foreign currency markets will continue to have a negative impact on the development of the Telekom Austria Group's operations. A further reason behind this move was to ensure that

SHAREHOLDER STRUCTURE BY COUNTRY

as of Dec. 31, 2011



DEVELOPMENT OF TELEKOM AUSTRIA SHARE PRICE since January 1, 2011



TELEKOM AUSTRIA GROUP OUTSTANDING BONDS

(Issuer Telekom Finanzmanagement GmbH)

	Term (Maturity)	Volume in EUR million	Coupon	ISIN
Bond 2003	10 years (July 22, 2013)	750	5%	XS0172844283
Bond 2005	12 years (Jan. 27, 2017)	500	4.25%	XS0210629522
Bond 2009	7 years (Jan. 29, 2016)	750	6.375%	XS0409318309

KEY FIGURES TELEKOM AUSTRIA SHARE

	2011	2010	2009
Stock price low in EUR	6.80	8.90	9.23
Stock price high in EUR	10.69	11.40	12.07
Stock price as of Dec. 31, in EUR	9.24	10.52	9.95
Earnings per share in EUR	–0.57	0.44	0.22
Free cash flow per share in EUR	1.08	1.46	1.52
Market capitalization in EUR billion	4.1	4.7	4.4
Average stock exchange turnover/day in EUR million	15.1	17.5	23.8
Number of shares of common stock	443,000,000	443,000,000	443,000,000
Number of outstanding shares as of Dec. 31	442,563,969	442,563,969	442,536,969
Share capital in EUR	966,183,000	966,183,000	966,183,000
Weighting ATX in %	8.5	9.5	9.1
Weighting DJ Stoxx Telecom in %	0.9	1.1	1.0

investments in connection with the anticipated finalization of the acquisition of assets from Orange Austria, planned for the middle of the current business year subject to approval by the competition authority, or in relation to the forthcoming spectrum auctions would not lead to an increase in the Telekom Austria Group's Net debt to EBITDA comparable ratio beyond the target corridor of 2.0x to 2.5x. This should prevent the stable investment grade rating of at least BBB (stable outlook) from being jeopardized.

Balanced Financing Basis

The debt financing of the Telekom Austria Group is based on a well-diversified and long-term portfolio. At year-end 2011, 51% of this portfolio was made up of bonds with a total volume of EUR 2 billion, which are due for repayment in 2017 at the latest. In addition, the Group has access to unused committed lines of credit with a total volume of EUR 1 billion and an average remaining maturity of 1.5 years made available by some 20 banks.

External Ratings

Telekom Austria AG has been subject to regular evaluations by Moody's Investor Service and Standard & Poor's since issuing its first bond in 2003. As of January 31, 2012 the following long-term and short-term ratings were given or confirmed.

Rating and Outlook	Moody's	S&P
Outlook	Stable	Stable
Long-term rating	Baa1	BBB
Short-term rating	P–2	A–2

FINANCIAL CALENDAR

Feb. 23, 2012	Results for the Financial Year 2011
May 10, 2012	Results for the First Quarter 2012
May 23, 2012	Annual General Meeting
May 25, 2012	Ex-Dividend Day
May 30, 2012	Dividend Payment Date
Aug. 16, 2012	Results for the First Half 2012
Nov. 14, 2012	Results for the First Nine Months 2012

Contact

Telekom Austria Investor Relations
Telephone: +43 (0)50 664 47500
investor.relations@telekomaustria.com
www.telekomaustria.com/ir

Matthias Stieber, Director Investor Relations
matthias.stieber@telekomaustria.com

Corporate Governance Report

Responsible Company Management and Control

In the reporting year, accusations of corruption and wrongdoing in the past were raised against the Telekom Austria Group. The Management Board and Supervisory Board of the Telekom Austria Group have a vital interest in a full and thorough investigation of these matters. Telekom Austria is therefore actively supporting the investigating authorities. In early September 2011, the Control Committee of the Supervisory Board was set up to investigate and prevent fraudulent activities at Telekom Austria. The Group Compliance position was significantly upgraded and reports directly to the entire Management Board. Moreover, Group Compliance also has to report to the Audit Committee and the entire Supervisory Board.

To strengthen the Telekom Austria Group's culture of integrity and further develop the compliance management system, the Telekom Austria Group is currently tightening up its compliance standards, structures and processes in the interests of transparent company management.

To ensure sustainable, value-enhancing corporate development, the Telekom Austria Group adheres to strict principles and is committed to transparency and a policy of open communication. The Group-wide areas of competency and responsibility are clearly regulated by law, the Articles of Association of Telekom Austria AG and the Rules of Internal Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the company's current situation including its risk situation. Furthermore, the Supervisory Board is authorized to ask the Management Board at any time to report on matters concerning the Telekom Austria Group. The Rules of Internal Procedure for the Supervisory Board, the Audit Committee and the Management Board provide the legal framework for their duties, scope of action and working methods.

In the course of the restructuring of the Telekom Austria Group in 2010, the strategic holding company was expanded to become a management holding company. Since then the Management Board of Telekom Austria AG has been supported by four Group Chief Officers who are responsible for Human Resources, Technology, Marketing and Finances.

Austrian Corporate Governance Code

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code enjoys general acceptance. The current version of the Code can be viewed at www.corporate-governance.at or on the website at www.telekomaustria.com.

In 2003, the Telekom Austria Group committed itself to voluntary compliance with the Code. The Group complies with all the legal requirements laid down in the so-called "L Rules." As potential deviations from the Code's "C Rules" must be explained, the Telekom Austria Group has made the following statement regarding Rules 28 and 28a:

Programs for the beneficial transfer of shares, including the stipulated long-term exercise hurdles, are decided upon by the Supervisory Board to ensure that they are in line with the business plan. At the Annual General Meeting on May 27, 2010 a Long Term Incentive Program was introduced, which replaced the previous stock option program ESOP as of the 2010 financial year.

In accordance with Rule 62 of the Austrian Corporate Governance Code, the Telekom Austria Group's compliance with the provisions of the Code and the correctness of the reporting are externally evaluated every three years. 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 regarding observance and compliance with the "C" and "R" rules of the Austrian Corporate Governance Code for the 2010 business year.

The Telekom Austria Group participates in the Austrian Working Group for Corporate Governance and is involved in the further development of the standard.

Members of the Management Board

In 2011, the Management Board of Telekom Austria AG consisted of Hannes Ametsreiter, the Chairman, and Hans Tschuden, the Vice Chairman and Chief Financial Officer.

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

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the USA, he started his professional life as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunication industry began in 1996 at mobilkom austria. After various stations in Austria, he became Chief Marketing Officer in 2001. In 2008, Booz & Company awarded him the international marketing prize CMO of the Year.

Since April 2009, Hannes Ametsreiter has held the position of Chairman of the Management Board of the Telekom Austria Group and A1 Telekom Austria. He is also the only Austrian to serve on the Board of the international GSM Association and is ranked 58th on the GTB Power 100, a list of the most powerful executives in the telecom industry published by the international trade journal Global Telecoms Business.

Areas of Responsibility

Hannes Ametsreiter

- Marketing (Group)
- Technology (Group)
- Human Resources (Group) / Personnel Office
- International Business Development / Group Strategy
- Mergers & Acquisitions
- Regulation & European Affairs
- General Secretariat
- Communication (Group)
- Internal Audit (Group)

Hans Tschuden

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

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics and the International Executive Program (INSEAD) in Paris. In 1989, Hans Tschuden joined the Wienerberger Group, first in Controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. In 1995, he moved to Keramo Wienerberger in Belgium to take up a position as Managing Director and, in 1998, to Steinzeug Abwassersysteme GmbH in Cologne. In 1999, Hans Tschuden became a member of the Wienerberger Management Committee and, in May 2001, he was appointed Chief Financial Officer of Wienerberger AG. Since April 1, 2007 Hans Tschuden has been Chief Financial Officer of Telekom Austria AG. On January 1, 2009 he was appointed Vice Chairman of the Management Board of Telekom Austria AG.

Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK Pensionskasse AG and HFA Zwei Mittelstandsfinanzierungs-AG.

Areas of Responsibility

Hans Tschuden

- Investor Relations
- Controlling (Group)
- Treasury (Group)
- Accounting (Group)
- Purchasing (Group)
- Legal / General Counsel
- Group Compliance*

* Reports to the entire Management Board but is organizationally located under the CFO

Members and Committees of the Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises eight members who are elected by the Annual General Meeting, three members who are delegated by the Central Works Council of A1 Telekom Austria AG and one member who is delegated by the Trade Unions of Telekom Austria AG. Employee participation on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

The Supervisory Board has set up four committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board.

The **Audit Committee** is responsible for auditing and preparing the approval of the annual financial statements, auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report and the Group Management Report as well as the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. It also prepares the selection of the auditor and monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. As of December 31, 2011 the members of the Audit Committee were Markus Beyrer,

MEMBERS OF THE SUPERVISORY BOARD

Name (Year of Birth)	Profession	Other Supervisory Board Positions and Comparable Functions
Markus Beyrer, Chairman (1965)	CEO of the Österreichische Industrieholding Aktiengesellschaft	OMV AG (Chairman), Österreichische Post AG (Chairman), APK Pensionskasse AG (Chairman), Österreichische Nationalbank (member of the General Council)
Edith Hlawati, Vice Chairwoman (1957)	Partner in the law firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG
Henrietta Egerth-Stadlhuber (1971)	Managing Director of the Austrian Research Promotion Agency	
Peter Michaelis* (1946)		
Franz Geiger (1950)	CEO of Donau Chemie AG	
Peter J. Oswald (1962)	Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa), CEO of Mondi AG and Mondi Services AG	Chairman of the Supervisory Board of Mondi Swiecie SA
Wolfgang Ruttenstorfer (1950)		Vienna Insurance Group AG, Wiener Versicherung Gruppe, Flughafen Wien AG, CA Immobilien Anlagen AG
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	ATP Planungs- u. 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
Harald Stöber (1952)	Business consultant	Simia AG (Chairman), Vodafone D2 GmbH, Vodafone Holding GmbH
Rainer Wieltsch* (1944)	Managing Director of Aabar Automotives GmbH, Aabar Europe Holdings GmbH, Aabar Infrastructure GmbH, Aabar Infrastructure Holding GmbH, IPIC Ferrostaal Holdings GmbH, IPIC Gamma Holdings GmbH and NOVA Chemicals Holding GmbH	Ferrostaal AG
Members of the Supervisory Board Delegated by the Works Council		
Wilhelm Eidenberger** (1962)		
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Tele-Post Privatstiftung, APK Pensionskasse AG
Werner Luksch (1967)	Deputy Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG
Alexander Sollak (1978)	Chairman of the Trade Union Committee of Telekom Austria AG	
Gottfried Zehetleitner (1962)	Member of the Central Works Council of A1 Telekom Austria AG	

* retired on May 19, 2011 ** retired on May 5, 2011
*** The term of office ends at the Annual General Meeting that grants discharge for the financial year 2012 (probably May 2013).

First Appointed	End of Current Term of Office or Date of Retirement	Independent Pursuant to Rule 53 and 54 of the Austrian Corporate Governance Code
May 19, 2011	2013***	Independent Pursuant to Rule 53, but not Rule 54
June 28, 2001	2013***	yes
May 20, 2008	2013***	yes
June 28, 2001	May 19, 2011	Independent pursuant to Rule 53, but not Rule 54
May 19, 2011	2013***	yes
May 20, 2008	2013***	yes
May 27, 2010	2013***	yes
July 15, 2005	2013***	yes
June 4, 2003	2013***	yes
June 12, 2002	May 19, 2011	yes
April 30, 2001	May 5, 2011	
Reappointed on May 6, 2011		
August 3, 2007 to October 20, 2010, Reappointed on January 11, 2011		
November 3, 2010		
October 27, 2010		

who replaced Peter Michaelis as the Chairman on May 19, 2011, Wilfried Stadler, who acts as the financial expert, Peter Oswald, Wolfgang Ruttenstorfer, Walter Hotz (since May 6, 2011) and Alexander Sollak as the employee representative.

The **Chairing** and **Remuneration Committee** is made up of Markus Beyrer, who replaced Peter Michaelis as the Chairman on May 19, 2011, and Edith Hlawati. The Chairing Committee confers regularly with the Chairman of the Management Board, prepares the meetings of the Supervisory Board and is authorized to make decisions on matters of urgency. In its capacity as the Remuneration Committee, the Chairing Committee is responsible for concluding contract negotiations with the Management Board and defining the remuneration of the Management Board; it also sets the targets for the calculation of the performance-related bonuses and monitors the achievement of goals.

The **Personnel and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become vacant and also deals with questions of succession planning. This Committee comprises Markus Beyrer, who succeeded Peter Michaelis as Chairman on May 19, 2011, Edith Hlawati and Werner Luksch.

The **Control Committee** is tasked with investigating and preventing fraudulent activities at the Telekom Austria Group until the investigations carried out by the external control team set up by the Supervisory Board have been completed. The members of this Committee are Markus Beyrer, Franz Geiger and Walter Hotz.

Supervisory Board Activities in the Year under Review

In 2011, the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, its business development and the investigation of compliance-related misconduct in the past at nine meetings of the Supervisory Board, one strategy workshops, six meetings of the Audit Committee and three meetings of the Control Committee. The focus areas of the Supervisory Board's work are set out in the Supervisory Board's Report to the Annual General Meeting.

In the year under review, no member of the Supervisory Board attended fewer than 50% of the Supervisory Board meetings.

Independence of the Supervisory Board Members

The guidelines laid down by the Supervisory Board in 2006 to determine the independence of its members were adjusted in 2009 to comply with the modified provisions of the Austrian Corporate Governance code and now conform to Appendix 1 of the Code. According to these provisions, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behavior. The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati (CHSH), in which Edith Hlawati, the Vice Chair of the Supervisory Board, is a partner, was authorized by the Supervisory Board in 2006. The hourly rates charged by this firm conform to local practice and are consistent with those billed to third parties. Consultancy fees paid to Cerha Hempel Spiegelfeld Hlawati in 2011 amounted to EUR 0.753 million (2010: EUR 0.627 million). The law firm CHSH has provided written confirmation that Edith Hlawati will not receive any portion of the income derived from the partnership's work for the Telekom Austria Group while she is a member of the Supervisory Board.

The Annual General Meeting held on May 19, 2011 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairwoman and EUR 15,000 for all other members for the 2010 financial year, which remained unchanged from the previous year. Remuneration for the Supervisory Board for 2010 was paid out following the discharge by the Annual General Meeting in May 2011. Until further notice, the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2011, remuneration amounting to EUR 0.181 million, including expenses (2010: EUR 0.179 million) was paid to members of the Supervisory Board.

Management Board Remuneration Report

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. Besides a basic salary, a variable performance-based component was agreed with the members of the Management Board. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the basic salary. The targets for the variable salary component are based equally on key financial figures such as Economic Value Added (EVA) or free cash flow and on strategic objectives. The amount of the variable salary is calculated on the basis of the annual financial statements, which are approved by the Supervisory Board, and the implementation of the strategic projects discussed by the Supervisory Board and authorized by the Remuneration Committee. The performance-based remuneration payments for the achievement of the 2010 performance targets are included in 2011. In 2010, the stock option program ESOP was replaced by a Long Term Incentive Program and continued in the year under review.

Total expenses for the basic salaries of members of the Management Board in 2011 amounted to EUR 0.936 million (2010: EUR 0.899 million), with additional performance-based remuneration of EUR 1.095 million (2010: EUR 0.704 million). No benefits were derived from the Multi-Year Stock Option or Long Term Incentive Program in 2011.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

Name	Remuneration awarded for the 2010 financial year and paid in 2011 in EUR	Meeting attendance allowance in 2011 in EUR
Markus Beyrer	–	3,000
Edith Hlawati	22,500	2,700
Henrietta Egerth-Stadlhuber	15,000	2,100
Franz Geiger	–	1,800
Stephan Koren*	6,000	–
Peter Michaelis**	30,000	2,100
Peter J. Oswald	15,000	2,400
Wolfgang Ruttenstorfer	9,000	3,600
Wilfried Stadler	15,000	4,200
Harald Stöber	15,000	2,100
Rainer Wieltsch**	15,000	1,800
Walter Hotz	–	3,300
Wilhelm Eidenberger***	–	600
Werner Luksch	–	1,800
Alexander Sollak	–	4,200
Gottfried Zehetleitner	–	2,700

* retired on May 27, 2010 ** retired on May 19, 2011 *** retired on May 5, 2011

REMUNERATION OF THE INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD

Management Board's remuneration in TEUR	Basic salary (incl. remuneration in kind)		Performance-based remuneration		Multi-year stock-based remuneration		Total remuneration	
	2010	2011	2010	2011*	2010	2011	2010	2011
Hannes Ametsreiter	458	465	357	560	-	-	815	1,025
Hans Tschuden	441	471	346	535	-	-	787	1,006
Total	899	**936**	704	**1,095**	0	**0**	1,603	**2,031**

* The performance-based remuneration payments for the achievement of the 2010 performance targets are included in 2011.

Members of the Management Board receive a contribution to a voluntary pension plan amounting to 10% of their fixed gross annual salary. When they leave the company upon termination of contract, the amount of the severance payment is based upon the length of their employment and is limited to one gross annual salary. In the event that a Management Board member's contract is terminated prematurely due to a change of control, the member is entitled to 50% of the contractually agreed benefits and conditions, however, for at least a twelve month period. A change of control is deemed to have taken place if an investor holds at least 26% of all Telekom Austria AG shares or more shares than the Österreichische Industrieholding.

Long Term Incentive Program

The Long Term Incentive Program (LTI) of the Telekom Austria Group introduced in 2010 replaced the "ESOP" stock option program established in 2004. This new incentive scheme aimed at Management Board members, executives and selected employees runs in three-year cycles and started for the first time on January 1, 2010. Unlike the previous model, LTI is not based on options but on the allocation of shares contingent upon the achievement of specific targets. At the end of the 3-year period, the targets or key figures defined by the Supervisory Board must have been met. Participants in the program must hold an investment in the company through the purchase of Telekom Austria shares until the end of the incentive scheme period. The minimum amount of this investment is based upon the number of shares allocated to each of the participants. Payments are made in cash. The amount of the payment depends on the achievement of the key figures defined by the Supervisory Board within a three-year period, ranging from no less than 0% and no more than 175% of the participant's investment. A detailed description of the Long Term Incentive Program and ESOP can be found in the Notes to the Annual Financial Statements.

The Long Term Incentive Program of the Telekom Austria Group complies with the requirements of the Corporate Governance Code (C Rule 28). The relevant target figures focus on the long-term development of the company; moreover, the investment required by the participants is also an important motivating factor.

On December 31, 2011, the members of the Management Board Hannes Ametsreiter and Hans Tschuden held 25,674 and 40,000 Telekom Austria shares respectively, 25,674 of which constitute the minimum investment required to ensure eligibility for the LTI program. In compliance with legal regulations, transactions effected with Telekom Austria shares by executives, members of the Supervisory Board and persons close to them are reported to the Austrian Financial Market Authority (see www.fma.gv.at under the menu item "Directors' Dealings").

Promotion of Female Executives

Two out of eight, or 25%, of shareholder representatives on the Supervisory Board of Telekom Austria AG are women. This is considerably higher than the average quota within the ATX. If the employee representatives are included, the proportion of women is 17%. Since 2001, the important function of Vice Chair of the Supervisory Board has been held by a woman, Edith Hlawati. A further eight Supervisory Board positions within the Telekom Austria Group are held by women as are five Management Board and managing director positions. One of the four Chief Group Officers is a woman. The proportion of women in management positions at the Telekom Austria Group in 2011 amounted to approximately 32%. The new Telekom Austria Group Business School promotes a common understanding of the company's values, which explicitly include aspects such as general diversity and thus also gender equality.

Directors and Officers (D&O) Insurance

The Telekom Austria Group has concluded and also pays the costs of a Directors and Officers (D&O) insurance policy for the members of the Group's Management Board, managing directors and the members of the Supervisory Board.

Auditor's Fees

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting pursuant to § 270 para. 1a of the Austrian Commercial Code. A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. On May 19, 2011 the Annual General Meeting elected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors of the annual financial statements and consolidated financial statements for the 2011 financial year.

The expenses of the Telekom Austria Group for the audit of the 2011 annual financial statements and the consolidated financial statements amounted to EUR 1.7 million after EUR 1.9 million in the previous year. Expenses for additional consultancy services provided by the KPMG network amounted to EUR 1.2 million in 2011 compared to EUR 0.2 million in 2010. Expenses for tax consultancy and other services totaled EUR 0.4 million (2010: EUR 0.5 million).

Other Corporate Governance Instruments

The Telekom Austria Group's risk management system enables a group-wide structured identification, evaluation and management of risks on the basis of a defined risk policy as well as strategic and operational objectives. Its suitability and effectiveness is subject to external evaluation by the auditors pursuant to Rule 83 of the Corporate Governance Code and, along with the effectiveness of the internal control system, is monitored by the Audit Committee.

The internal control system of the Telekom Austria Group is aimed at ensuring the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. To prevent the misuse or passing on of confidential information that might affect the share price, a group-wide capital market compliance guideline has been implemented and classified units defined within the company.

The Telekom Austria Group has also implemented a group-wide Information Security Policy that governs the use of confidential information such as customer data, traffic data, content data, and business and industrial secrets. This policy is supplemented by country-specific guidelines at the local level. All Group subsidiaries have appointed their own information security and data protection managers. Regular internal and external audits as well as staff training ensure the effective implementation of this corporate policy. A1 is the only network operator in Austria to be certified according to the ISO 27001 standard. The processes laid down in this standard ensure the highest level of data security within the company.

To strengthen the culture of integrity and prevent corruption, the compliance standards, structures and processes at the Telekom Austria Group are currently being significantly tightened up. Details of the Telekom Austria Group's compliance management system and the newly established Group Compliance unit can be found in the Compliance section of the Annual Report 2011 on page 22.

Vienna, February 22, 2012

The Management Board

Hannes Ametsreiter

Hans Tschuden

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

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 preconditions, 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 employment 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.

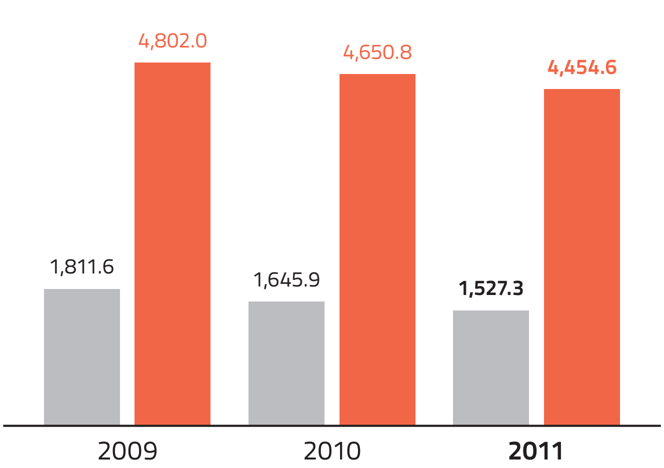
Revenue and Earnings Development

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

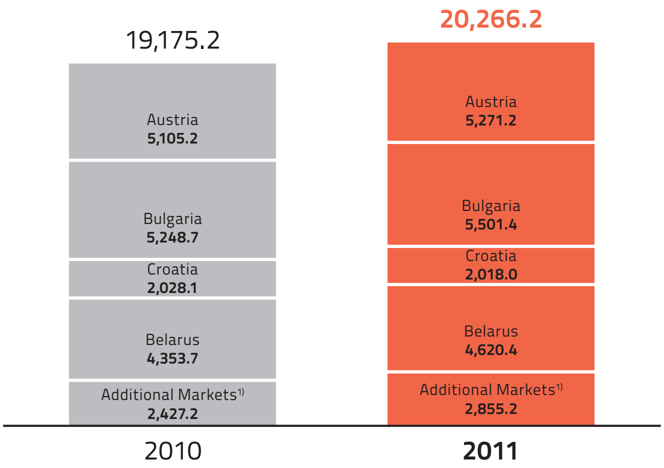
in EUR million



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**

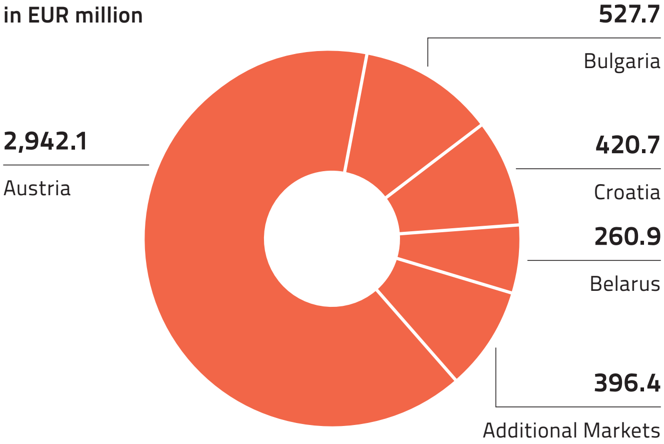
EBITDA incl. effects from restructuring and impairment tests	2011	2010	Change in %
Austria	738.9	890.0	–17.0
Bulgaria	242.6	298.6	–18.8
Croatia	134.5	150.5	–10.6
Belarus	–172.4	155.6	n.a.
Additional Markets	139.8	41.1	240.2
Corporate & Other, Eliminations[1]	–38.6	–32.3	19.8
Total	**1,044.7**	**1,503.5**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

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. Impairment 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.

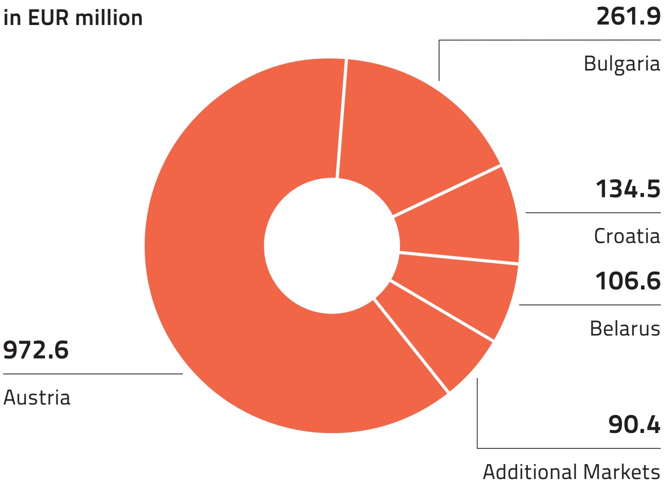
The financial result of the Telekom Austria Group decreased by 25.8% from a loss of EUR 196.3 million in 2010 to a loss of EUR 246.8 million in 2011 mainly due to the devaluation of the Belarusian ruble in a year-on-year comparison. Total interest expenses increased by 4.7% to EUR 216.8 million, while 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 million**[1]

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

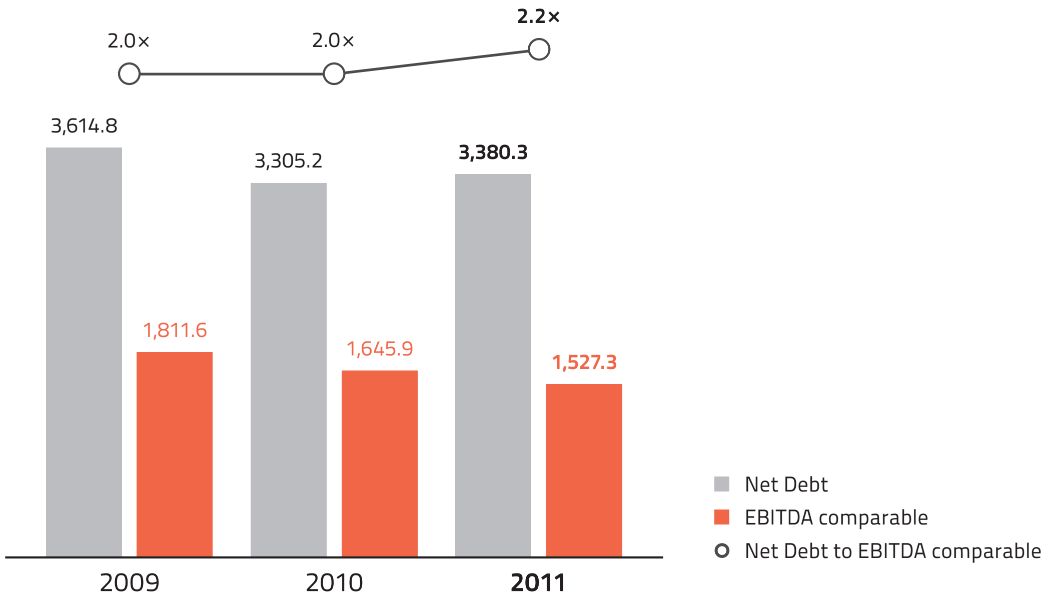
in EUR million	Dec. 31, 2011	As % of the Balance Sheet Total	Dec. 31, 2010	As % of the Balance Sheet Total
Current assets	1,751.4	23.5	1,437.7	19.0
Property, plant and equipment	2,462.2	33.1	2,549.0	33.7
Goodwill	1,289.7	17.3	1,489.2	19.7
Other intangible assets	1,619.3	21.7	1,718.1	22.7
Other assets	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 DEBT[1)]

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	2.2×	2.0×

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 EXPENDITURES[1)]

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 expenditures[1)]	**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

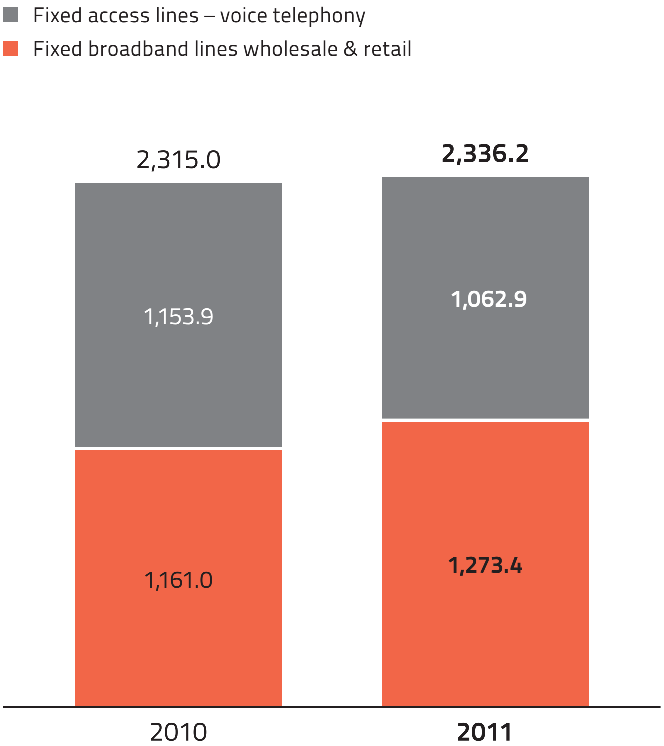
Monthly fee and traffic revenues decreased by 2.8% to EUR 2,027.4 million due to the migration of existing customers to cheaper tariffs and declining fixed line voice minutes. Revenues from data and ICT solutions declined by 6.3% to EUR 202.3 million due to weaker demand for data cash solutions, while 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



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 Mobiltel, 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 Mobiltel 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. Mobiltel 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 Communication[1]			
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 macroeconomic 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.

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

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, mobilkom 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-END[1)]

	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 Wieltsch 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 CO_2-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 CO_2 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 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.

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

Consolidated Financial Statements 2011

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.

in EUR '000

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.

in EUR '000 73

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.

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

in EUR '000

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.

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

in EUR '000

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 (18).
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.

in EUR '000 79

(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 theses 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).

in EUR '000 81

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.

in EUR '000 83

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 recognizes 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 decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the 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

in EUR '000 91

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 consolidate 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**

in EUR '000

	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**

in EUR '000 97

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.

in EUR '000

(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:

Statement of operations	2011	2010
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.

At December 31,	2011	2010
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:

At December 31,	2011	2010
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.

in EUR '000 101

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**
Mobiltel	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).

in EUR ’000

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**
Mobiltel	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**
mobilkom 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 EUR '000 105

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.

in EUR '000 107

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)).

in EUR '000

(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

in EUR '000

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.

in EUR '000 113

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**

in EUR ’000 115

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

in EUR '000

(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

in EUR '000

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).

in EUR ’000 121

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.

in EUR '000 123

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:

Numbers of options	2011	2010
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

in EUR '000 125

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.

in EUR '000 129

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:

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

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

c) The bonds are not prepayable.

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

in EUR '000 131

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)):

		2011			2010	
At December 31,	EUR	USD	Other	EUR	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.

in EUR '000 133

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.

in EUR '000 135

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 EUR '000 137

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
mobilkom Bulgarien Beteiligungsverwaltungsgmbh, Vienna	100.00
mobilkom Bulgarien Geschäftsentwicklungsgmbh, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00
mk Logistik GmbH, Vienna	100.00
JetStream Hungary Kft, Budapest	100.00
JetStream Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
JetStream RO s.r.l., Bucharest	100.00
JetStream Bulgaria EOOD, Sofia	100.00
JetStream Croatia Ltd., Zagreb	100.00
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00
JetStream Switzerland GmbH, Zürich	100.00
JetStream Poland Spolka Z Ograniczona Odopwiezialnoscia, 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
Mobiltel 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

in EUR '000 139

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
netdoktor.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 netdoktor.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.

Glossary

Information and Communication Technology Terms

ARPL: Average revenue per fixed access line.

ARPU: Average revenue per user (mobile communication).

Fiber to the Building (FTTB): The fiber optic cable runs all the way to the distribution box in a building, with the final connection to the individual living space being made via copper lines.

Fiber to the Curb (FTTC): The fiber optic cable runs from the switching center to the street cabinet. The signal is then carried to the customer's premises via copper lines.

Fiber to the Exchange (FTTEx): The fiber optic cable is only laid up to the switching center (telephone exchange). The "last mile" is still realized with copper lines.

Fiber to the Home (FTTH): The household is directly connected to the fiber optic cable.

HSPA+ (High Speed Packet Access Plus): A further evolution of the UMTS standard for fast mobile Internet. Supports download speeds of up to 42 Mbit/s.

ICT: Information and Communication Technology.

Internet Protocol (IP): Supplier-neutral transmission protocol for communication across different networks; specifies the format of the data packets and serves as an addressing scheme.

IPTV (Internet Protocol Television): Broadcasting of television programs and movies over the Internet.

LTE (Long Term Evolution): LTE is a further evolution of the existing mobile communication networks for even faster data transmission and greater transmission capacities. LTE enables transmission rates of up to 150 Mbit/s.

Machine2Machine (M2M): Connectivity services for the automated transfer of data between machines, devices, sensors and central servers with the purpose of remotely monitoring and controlling them with or without human interaction.

Mobile Penetration: Measures the percentage of the total population that uses mobile communication services.

Roaming: Makes it possible to use mobile phones in a third-party network abroad. The prerequisite is a roaming agreement between one's own mobile communication provider and at least one partner in the foreign country.

RSS (Really Simple Syndication): Enables websites' readers to track contributions and updates on the site in a standardized format.

Social Media: Social media are digital media and technologies that enable users to share information with one another and create media content either as individuals or in groups.

Termination Rate: The operator of a subscriber network delivers calls, which are initiated in a third-party telecommunication network, to a subscriber in its own network and charges a fee to the operator of the network, where the call originated.

Unbundling: Subscriber lines and thus access to the end-customer are made available to alternative network operators and Internet service providers.

Video on Demand: Allows users to retrieve and play videos from a video server any time and in real time.

Wholesale: Reseller market; in the telecommunication market, this refers to providers of voice telephony, data communications, mobile communication and Internet services.

Stock Exchange and Financial Terms

ATX (Austrian Traded Index): The key index of the Vienna Stock Exchange.

Capital Expenditures: Defined as "capital expenditures for tangible and intangible assets", included in the "cash flow used for investment activities" in the cash flow statement.

Code of Conduct: The Telekom Austria Group Code of Conduct provides group-wide behavior guidelines and regulates the relationship with customers, suppliers and employees as well as compliance with confidentiality requirements with regard to corporate and business developments. It guarantees the protection of assets, the fair settlement of conflicts of interest and lays down rules about the acceptance of gifts as well as compliance with capital market regulations.

Capital Market Compliance Guideline: Corporate regulations that specify organizational measures to prevent stock trading based on price-relevant information that is not yet available to the public as well as the confidential treatment of such insider information.

Corporate Governance: “Corporate constitution”; the Austrian Corporate Governance Code represents a set of rules for the responsible management and control of a company.

Cross-Border Leasing: Special cross-border form of leasing designed to arbitrage the difference in tax laws of different jurisdictions, e.g. different rules concerning depreciation.

Directors and Officers (D&O) Insurance: Corporate financial loss liability insurance that a company concludes for its governing bodies and senior executives.

Directors’ Dealings: The trading of shares in a publicly listed company by a director of that company.

DJ Stoxx Telecom: Index comprising telecommunication companies.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization): EBITDA is defined as net profit excluding financial result, income taxes, depreciation and amortization charges.

EBITDA Margin: EBITDA as a percentage of revenues.

EBITDA comparable: EBITDA comparable is defined as EBITDA adjusted for the effects of restructuring and impairment tests. Restructuring expenses include social plans for employees, 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 employment 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.

Euro Medium Term Note Program (EMTN): Internationally recognized documentation (terms and conditions) for bonds, which also forms the basis for subsequent issuances.

EVA (Economic Value Added): Operating income after taxes less cost of capital deployed. Indicator measuring a company’s creation of value.

Free Cash Flow: Cash flow generated from operations less capital expenditures in existing business areas.

GRI (Global Reporting Initiative): Guidelines that were drawn up in a participatory process and which are used for the preparation and evaluation of sustainability reports.

IFRS (International Financial Reporting Standards): Accounting standards drawn up by the International Accounting Standards Board (IASB; formerly the International Accounting Standards Committee, IASC). In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the IASB, they also comprise the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the interpretations of the Standing Interpretations Committee (SIC).

Market Capitalization: Number of shares multiplied by the share price.

Net Debt: Debt less cash and cash equivalents, investments and finance lease receivables and derivative financial instruments for hedging purposes.

Net Debt to EBITDA comparable: Net Debt in relation to EBITDA comparable; a measure of the pay-back period for debt on the basis of net debt and EBITDA comparable.

No-Frills: Users reap cost benefits by forgoing non-essential services.

ÖIAG: Acronym for Österreichische Industrie Holding AG, which administers the investments of the Republic of Austria in partially or fully state-owned companies.

Rating: A credit rating assesses the creditworthiness of a borrower. These evaluations are usually made by specialized rating agencies such as Standard & Poor’s or Moody’s Investor Service in the form of rating codes ranging from A to D.

ROE (Return on Equity): Net result divided by average equity, an indicator that measures the yield on equity.

ROIC (Return on Invested Capital): This is calculated by dividing operating income after taxes by the average invested capital.

This annual report is printed on Hello Silk matt paper sourced from verifiably and sustainably managed forests and is FSC-certified. The CO_2 emissions generated during printing were neutralized. The report is printed with vegetable-based ink derived from renewable resources by the AV+Astoria printing house, which has been awarded the Austrian environmental seal.

Print CO_2 compensated
Ident-Nr. A-10618
www.druckmedien.at

FSC
MIX
Paper
FSC® C068074

UZ 24
low-emission
print products
UW 734

Forward-looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as “believe”, “intend”, “anticipate”, “plan”, “expect” and similar expressions. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- competitive forces in liberalized markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- the effects of our tariff reduction initiatives or other marketing initiatives;
- the impact of insolvencies of our major customers or international suppliers;
- the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- our ability to achieve cost savings and realize productivity improvements;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings of our newly integrated subsidiaries;
- our ability to secure the licenses we need to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of our domestic and international investments, joint ventures and alliances;
- the impact of our new business strategies and transformation process including the reintegration of subsidiaries and restructuring of operations;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditures;
- the outcome of current and future litigation in which we are or will be involved;
- the level of demand for our shares which can affect our business strategies;
- our ability to further reduce our existing workforce;
- concerns over health risks associated with the use of wireless handsets or radio frequency emissions from transmission masts;
- changes in the law including regulatory, civil servants and social security, pensions and tax law; and
- general economic conditions, government and regulatory policies, new legislation and business conditions in the markets we serve.

This annual report was prepared by Mensalia (www.mensalia.at) on behalf of Telekom Austria AG.

Company Addresses

Telekom Austria AG
Lassallestrasse 9
1020 Vienna, Austria
Tel.: +43 50 664 0
www.telekomaustria.com

Vipnet d.o.o.
Vrtni put 1
10000 Zagreb, Croatia
Tel.: +385 1 4691 091
www.vipnet.hr

Vip mobile d.o.o.
Omladinskih brigada 21
11070 Novi Beograd, Republic of Serbia
Tel.: +381 60 1234
www.vipmobile.rs

A1 Telekom Austria AG
Lassallestrasse 9
1020 Vienna, Austria
Tel.: +43 50 664 0
www.a1.net

velcom
19 Masherov Ave
220002 Minsk, Belarus
Tel.: +375 172178494
www.velcom.by

Vip operator DOOEL
Vasil Adzilarski bb
1000 Skopje, Repulic of Macedonia
Tel.: +389 2311000 77
www.vip.mk

Mobiltel EAD
1, Kukush Str.
1309 Sofia, Bulgaria
Tel.: +359 88 85000 31
www.mtel.bg

Si.mobil d.d.
Šmartinska cesta 134
1000 Ljubljana, Slovenia
Tel.: +386 40 443000
www.simobil.si

mobilkom liechtenstein AG
Äulestrasse 20
9490 Vaduz, Liechtenstein
Tel.: +423 7970077
www.mobilkom.li

www.telekomaustria.com

2–000–028–532