TELEKOM AUSTRIA GROUP

Annual Financial Report 2012

According to § 82 Para 4 Stock Exchange Act

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Group Management Report

audited pursuant to § 269 of the Austrian Commercial Code

Sovereign debt crisis and weak economic backdrop worldwide

Following the intensification of the global financial and economic crisis in 2011, the world economy weakened further in 2012. The recession in the Eurozone and persistent weak demand in the USA depressed global trade and consequently also led to falling exports in the emerging economies. There were signs of an economic slowdown in China also, for instance. The vitally-needed consolidation in many government budgets and, in some cases, high unemployment suggest that the world economy will improve only slowly in subsequent years.

In Austria economic output showed moderate growth in the first months of 2012, but stagnated in the second half of the year as a result of weaker demand for exports and a further deterioration of domestic consumption. The International Monetary Fund anticipates that GDP grew by 0.9% in the full year, compared with 2.7% in the previous year. In 2012 the unemployment rate is likely to have risen from 4.2% in the previous year to 4.3%, still among the lowest in the EU. The inflation rate is expected to fall from 3.6% to 2.3%.

The continuing crisis in the Eurozone also impacts the neighbouring economies in Central and Eastern Europe and depresses their growth dynamic to differing degrees. According to the International Monetary Fund real GDP in Bulgaria grew by a subdued 1.0% (2011: 1.7%), as was the case in the Republic of Macedonia (2011: 3.1%). In Belarus GDP growth weakened from 5.3% to 4.3%. Following stagnation in the previous year, Croatia slipped into recession in 2012 with a fall in economic output of 1.1%. GDP also fell in the Republic of Serbia, at minus 0.5% (2011: +1.6%) and in Slovenia, at minus 2.2% (2011: +0.6%).

The downturn in the global economy and renewed intensification of the sovereign debt crisis in the Eurozone shaped developments in the international financial markets from spring 2012. The European Central Bank (ECB) cut the benchmark interest rate to 0.75% in July 2012 to the lowest level since the foundation of the monetary union. In September the ECB approved an option of making unlimited government bond purchases as part of outright monetary transactions (OMTs), to reduce interest rates for government bonds in the secondary market. These unrestricted OMTs aim to boost confidence in the Euro as a stable currency temporarily and to reduce the extent of capital flight, most notably from Southern Europe.

In September 2012 the US central bank Federal Reserve (Fed) again confirmed its intention of maintaining the federal funds rate in a range between 0.0% and 0.25% and announced that it would keep the benchmark rate at a low level until mid-2015 at least. Meanwhile the ATX, the benchmark index of the Vienna Stock Exchange, rose in value by 26.9% in 2012, after having posted a fall of 34.9% in 2011. The DAX, the benchmark index of the Frankfurt Stock Exchange, rose by 29.1% (2011: –14.7%).

The market environment of the Telekom Austria Group

Both in the fixed line and mobile communications markets the Telekom Austria Group's market environment is extremely competitive with negative pricing trends visible in most of its segments. Regulatory provisions also impact business development negatively at home and abroad. This applies especially to mobile termination rates and roaming tariffs. The Telekom Austria Group counteracts these influencing factors through the successful implementation of a convergence strategy, a clear focus on high-value customers as well as innovative products and services.

In Austria the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communication solutions under the "A1" brand. However, intensive competition and the ongoing fixed-to-mobile substitution still continue to have a negative impact on business development.

In 2012 the Austrian mobile communications market saw a further increase in the level of competition. This resulted in a marked decline in pricing levels for product bundles as well as data tariffs. In the latest market report by the regulatory authority, which takes account of market data up to the second quarter of 2012, average revenues generated per customer fell by more than 10% year-on-year. However, at the same time, data consumption increased by more than 64%, while voice minutes and messaging usage remained virtually stable.

In the Austrian fixed line market fixed-to-mobile substitution and the associated decline in fixed line voice minutes still constitute one of the greatest challenges. In the year under review fixed line voice minutes fell by 10.6% year-on-year. At the same time the domestic market recorded a fall in average revenues for voice telephony per fixed access line in the Austrian fixed line network. Sustained strong demand for bandwidth and convergent product solutions counteracted this fall and led to fixed line revenues stabilising in the year under review. At the same time the number of mobile broadband customers in Austria also increased by 4.2%. Demand for smartphones remains strong.

According to Statistics Austria the proportion of Austrian households with some form of internet access rose from 75.4% in 2011 to 79.3% in 2012. All previously mentioned indicators imply increased use of telecommunications solutions. However, at the same time, telecom spending as a percentage of users' average income is generally declining. This is confirmed by the regular information and communication technology (ICT) price basket, published regularly by the International Telecommunication Union (ITU). The ITU calculates spending on the basis of 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 2011 the index value for Austria decreased from 1.1% to 0.7%.

In CEE strong macro-economic and regulatory headwinds as well as intense competition continue to impact business development in Bulgaria and Croatia and increasingly affect the markets of Slovenia, the Republic of Serbia and the Republic of Macedonia also. Particularly in Bulgaria and Croatia intense competition has a significant impact on the pricing of mobile communications services as well as convergent product bundles. The new glide path, which was introduced with effect from 1 July 2012 and more than halved domestic and international termination rates, is of key significance for business development in Bulgaria.

In the Republic of Serbia the catch-up process in mobile broadband, starting from a far lower level than in the Telekom Austria Group's other markets, continued in 2012. This development was helped by further upgrading the network infrastructure. The ICT market in the Republic of Macedonia is approaching western European standards in terms of customer usage.

Uncertainties in foreign currency markets continued to affect business development in Belarus and the Republic of Serbia in 2012. However, the exchange rate between the Euro and the Belarusian Ruble stabilised towards the middle of the year, following the volatile trend of the previous year, and towards the end of 2012 fell slightly below the rate at the beginning of the year. In contrast, the Serbian Dinar lost 8.0% compared with the Euro in the year under review.

The national and international developments described above reflect the diverse and far-reaching challenges 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' earnings power.

Regulation – fixed line telecommunication markets

In 2012 three key, sector-specific regulations were issued or amended in the course of implementing the new legal framework. The new cost-containment ordinance serves to improve transparency and help mobile subscribers – particularly retail and contract subscribers – manage their expenditure. They also provide explicit tariff limitations for retail customers, in particular in the area of mobile data services.

The communication Ordinance, which was also issued for the first time in the year under review and came into effect on 1 August 2012, governs the form in which operators must notify customers of changes to their general terms and conditions, tariff terms and service specifications. It aims to ensure that all customers receive information in writing, which is as transparent as possible, about changes to their contract and can decide on this basis whether they will terminate the contract extraordinarily or accept the change.

As part of the statutory market analysis the Austrian regulatory authority initiated the fourth round of the market review process on 9 January 2012. The purpose of these reviews is to assess the intensity of competition in the Austrian telecommunication markets. The reviews are followed by market analyses, which assess the extent to which regulatory restrictions should be prescribed for companies with significant market power (SMP). Market definitions and analyses were completed for all ten reviews by the end of 2012; proposals for regulatory restrictions were also drafted in the form of regulatory authority reports. However, with the exception of processes for fixed line termination, fixed line origination and mobile termination, which are discussed below, no draft regulations or final restrictions were issued. The reviews are expected to be completed in the first half of 2013. Only then will the final restrictions affecting Austrian market players in all market sectors investigated be decided.

Apart from British Telecommunications in the United Kingdom, A1 Telekom Austria AG is the only company in Europe which offers the innovative "virtual unbundling (VULA)" product already as part of its next-generation-access (NGA) expansion of the network. In 2012 some alternative network operators and internet service providers have already accepted this offer and offered these products to their retail clients. A quasi-contractual decision on "virtual unbundling" was issued by the regulatory authority for the first time in December 2012. This product is therefore likely to be disseminated on a grander scale in 2013.

As part of the latest market analysis fixed line termination rates were reset in the form of a draft regulatory decision on 4 December 2012. Following the European Commission's recommendation on the regulatory treatment of fixed and mobile termination rates within the EU as of May 2009, the previous rates averaging 0.7 Eurocents per minute are to be cut to 0.122 Eurocents per minute on average. This recommendation contains changes to the guidelines for calculating fixed and mobile termination rates. Generally the principal goal is to harmonise and significantly lower these rates throughout Europe. In contrast to the reduction in fixed line termination rates (FTR), the draft regulatory decision on fixed line origination charges envisages a marked rise in the existing charges in compensation. For origination services from its fixed network A1 Telekom Austria AG will in future be able to charge 2.135 Eurocents per minute during peak periods and 1.321 Eurocents at other times.

The European Commission's recommendation on non-discrimination and costing methodologies is expected in June 2013. With the new recommendation the European Commission aims to adjust regulatory restrictions to the changes resulting from the expansion of new high-speed networks. The programmes to promote broadband, which have been running for some years under the auspices of the European Union together with member countries and regions (EAFRD programmes), are clearly not sufficient to achieve the desired success as well as the goals of the Digital Agenda 2020.

The following fixed line regulatory provisions affect business development in the Telekom Austria Group's international markets. In Bulgaria rates will be based on the "pure LRIC" model from 1 July 2013 in compliance with EU recommendation. Until that date the regulatory authority (CRC) has established a two-stage glide path, which came into effect on 1 July 2012. The glide path sets the rates for local and national termination, regardless of whether the call is made from within Bulgaria or from abroad.

In Croatia the same symmetrical termination rates will apply to all operators from 1 January 2013. There has been no final decision by the regulatory authority (HAKOM) to date on the method for determining future rates.

Regulation – mobile communication markets

The Telekom Austria Group's mobile communication markets are subject to various regulatory systems. As members of the EU and the European Economic Area (EEA) respectively, the provisions of these organisations apply in Austria, Bulgaria, Slovenia and Liechtenstein respectively. They affect roaming tariffs and termination rates between individual market players. The regulatory frameworks in Croatia, Belarus, the Republic of Serbia and the Republic of Macedonia show various stages of development, but there are signs of gradual harmonisation with EU regulations.

The third EU roaming regulation came into effect on 1 July 2012. Unlike the previous regulation, it envisages a structural solution. The customer is allowed to choose an alternative provider for roaming services, independent of the national operator. This measure aims to foster additional competition between operators in Europe from 2014. Price regulation for voice, messaging and data services continues.

Already in April 2011 a report by the European Commission established that no further regulatory steps are necessary to ensure network neutrality on the internet. In combination with the current level of competition in European markets and existing transparency obligations for internet providers, the regulations that have been implemented suffice to ensure open internet access. In May 2012 the European Commission announced that it would publish traffic management recommendations based on a report drafted in cooperation with the Body of European Regulators for Electronic Communications (BEREC). These will be voluntary and aim to improve transparency for retail customers.

The first Multiannual Radio Spectrum Policy Programme for the period 2012 to 2015 was adopted in December 2011 at a meeting of the Council of European Telecommunications Ministers and came into force in May 2012. Its most important targets include increased spectrum use for mobile broadband services. By 1 January 2013 all EU member states should make frequencies in the 790-MHz to 862-MHz band, unless exceptions are granted, available for electronic communication services.

In Austria a decision was taken in the second half of 2011 concerning the joint allocation of frequencies in the 800-MHz, 900-MHz and 1,800-MHz bands. However, the auction, which was originally planned for September 2012, was postponed because of the takeover of the mobile operator Orange Austria Telecommunication GmbH ("Orange Austria") by Hutchison 3G Austria GmbH and is now expected to take place in September 2013. 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 are to take place simultaneously at this auction. In most of the other countries in which the Telekom Austria Group operates, new frequencies will also be awarded and current usage rights in the 900-MHz and 1,800-MHz bands extended during the next few years.

As described in the chapter "Subsequent Events" on page 70, the Telecom-Control-Commission approved the acquisition of frequencies from Orange Austria by A1 Telekom Austria AG in the year under review. The spectrum to be acquired consists of 2 x 13.2 MHz of paired frequencies in the 900-MHz spectrum, in the 2,100-MHz spectrum and in the 2,600-MHz spectrum in total. The planned acquisition of these frequencies will further improve the quality of the Telekom Austria Group network in Austria.

In Austria the universal service ordinance sets rules for the provision of a minimum set of telecommunication services, which have to be widely available and comply with certain quality standards 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 regular review. In November 2011 the European Commission published a communication setting out the results of the consultation regarding the principles and the third review of the scope of the universal service obligation. The Commission saw no need to change the basic concept of the universal service. Accordingly, mobile communication and broadband access with a defined transmission speed will also remain outside the scope of the universal service regime.

In addition, the European Commission holds the view that further guidance is required to guarantee a common European approach when implementing the universal service obligation. Contrary to its announcements, the European Commission has not published any respective proposals in 2012. These are now expected in early 2013.

The Austrian numbering ordinance, which was amended in the year under review, regulates the porting of phone numbers in the mobile sector and defines which information must be provided to the customer, and how. This amendment provided clarification on some issues, such as with regard to the network announcement necessary because of the new legal framework. Steps in the process were also optimised. For instance, a contract will not be automatically cancelled by porting a telephone number.

On 30 January 2012 the Croatian government announced the reintroduction of the 6% levy on revenues generated from mobile network services effective as of 26 January 2012, to remain in place until the date Croatia joins the EU. This decision reversed the temporary abolition of the mobile levy on 1 January 2012. However, the Croatian parliament again decided to abolish this levy for revenues from mobile network services effective as of 9 July 2012. The levy was abolished on all revenues from mobile services, such as voice minutes, messaging and multi-media messaging.

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 harmonise and significantly lower these rates throughout Europe. The new cost accounting models developed under these guidelines provide the basis for the glide paths applicable to fixed and mobile termination rates.

In Austria mobile termination charges came to 2.01 Eurocent per minute in the year under review. As part of the latest round of the market analysis, the regulatory authority published a draft regulation on 4 December 2012, under which mobile termination charges will be set at a uniform rate of 0.80 Eurocent from the end of the first quarter of 2013. The regulatory authority is therefore following the current recommendation by the European Commission.

In Bulgaria these developments led to a particularly rapid reduction in the mobile termination rate from 6.39 Eurocents per minute to 2.70 Eurocents within a few months in 2012. However, new cost accounting models are also being introduced in non-EU member states such as the Republic of Macedonia and the EU accession candidate Croatia, which are likely to lead to a comparably dramatic reduction in termination rates in 2013.

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.

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

The restructuring programme 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. EBITDA comparable also includes expenses for the transfer of civil servants to the Austrian government.

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

Application of IAS 29 "Financial Reporting in Hyperinflationary Economies"

Taking into account macroeconomic developments, Belarus was classified as a hyperinflationary economy in December 2011, which is why the provisions for financial reporting in hyperinflationary economies under IAS 29 were then applied to the Telekom Austria Group's 2011 Consolidated Financial Statements for the first time. IAS 29 defines the following indicators which 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, 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%.

The provisions concerning "financial reporting in hyperinflationary economies" have an impact on several areas of the Consolidated Financial Statements of the Telekom Austria Group as of 31 December 2011 and 2012, as well as for subsequent periods. For further information please refer to Note (1) in the Notes to the Consolidated Financial Statements.

Revenue and earnings development

The 2012 financial year was characterised by an intensely competitive environment in practically all the Telekom Austria Group markets, regulatory cuts leading to lower roaming and termination rates, and a macroeconomic climate which remains difficult. In the Austrian segment substantial pricing pressure, the migration to "all-in" tariffs and negative regulatory provisions led to lower revenues in mobile communication, while convergent products benefitted the fixed-line business, which was stabilised. Following the introduction of a new glide path in the second half of 2012, lower domestic and international interconnection rates negatively impacted results in the Bulgarian segment. Fierce competition also led to price erosion in the mobile and fixed-line businesses. In Croatia higher revenues from fixed-line services offset negative effects resulting from intense competitive pressure and the strained macroeconomic situation. Despite negative foreign exchange rate effects, Belarus posted strong operating earnings. The Additional Markets segment made a positive results contribution through growth in customers and voice minutes.

In mobile communication the Telekom Austria Group posted an increase of 3.1% to just under 20.9 million customers. The most rapid growth was achieved in the Republic of Serbia and in Belarus, where subscriber numbers increased by around 217,100 and 180,000 respectively. This development was also driven by mobile broadband in 2012, with the acquisition of

KEY FINANCIAL FIGURES

in EUR million	2012	2011	Change in %
Revenues	4,329.7	4,454.6	–2.8
EBITDA comparable	1,455.4	1,527.3	–4.7
EBITDA comparable margin	33.6%	34.3%	
EBITDA incl. effects from restructuring and impairment tests	1,420.8	1,044.7	36.0
Operating income	456.8	–7.6	n.m.
Net result	103.8	–252.8	n.m.
Earnings per share (in EUR)	0.23	–0.57	n.m.
Free cash flow per share (in EUR)	0.74	1.08	–32.1
Capital expenditure[1]	728.2	739.0	–1.5
Net debt	3,248.9	3,380.3	–3.9

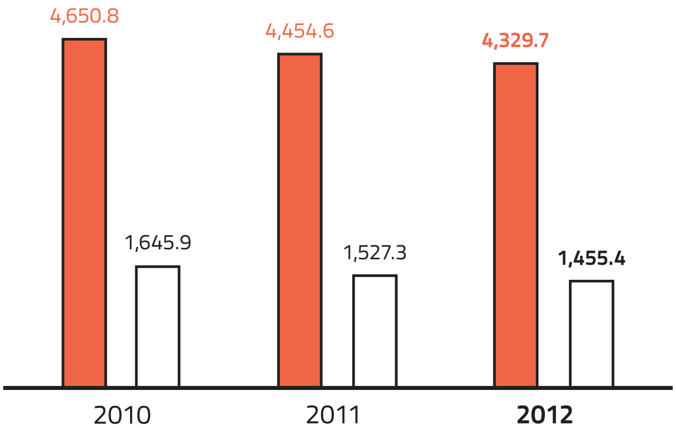
1) Excluding expenditure for asset retirement obligations

EXPENSES

in EUR million	2012	2011	Change in %
Material expenses	474.7	442.0	7.4
Employee costs	833.6	805.0	3.5
Other operating expenses	1,648.1	1,780.6	–7.4
Restructuring charges	34.7	233.7	–85.2
Impairment charges	0.0	248.9	n.a.
Depreciation and amortisation	964.0	1,052.4	–8.4

REVENUE AND EBITDA COMPARABLE[1)]

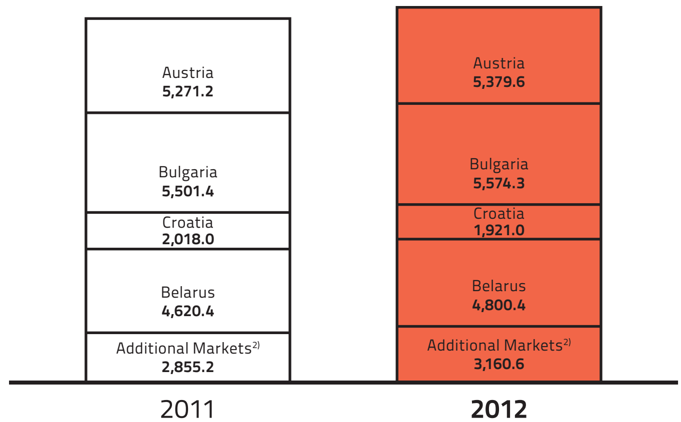
in EUR million



1) EBITDA excluding effects from restructuring and impairment tests

MOBILE COMMUNICATION CUSTOMERS BY SEGMENT[1)]

in '000 / as of 31 Dec 2012



1) Chart excludes business segment M2M
2) Slovenia, Republic of Serbia, Republic of Macedonia and Liechtenstein

600,000 new customers, equivalent to an increase of 36.8% year-on-year. The fixed line business was successfully stabilised at 2.6 million access lines. Access line growth in Bulgaria and Croatia balanced a slight decrease in Austria.

As a result of the developments described above the Telekom Austria Group saw a fall in revenues of 2.8% to EUR 4.3 billion. Higher revenues in Belarus and the Additional Markets segment were not sufficient to offset lower revenues in the Austrian and Bulgarian segments. Revenues in the Croatian segment remained virtually stable year-on-year.

The Telekom Austria Group's international activities accounted for 36.7% of total Group revenues in 2012 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).

In the year under review the Telekom Austria Group continued to adopt extensive, group-wide measures to optimise operating expenses with a view to improving operational excellence. Supported by strict cost management, these optimisation measures achieved a total reduction in operating expenses by 2.4% to EUR 2,956.3 million in 2012. Material expenses included therein, however, increased by 7.4% compared to the previous year's level, due to smartphone demand and higher average prices for handsets. Employee costs also showed an increase of 3.5% to EUR 833.6 million. This was due to the fact that the Austrian, Bulgarian, Croatian and Belarusian headcount reductions could not compensate for the one-off effects which were posted in the Austrian segment in the fourth quarter.

Other operating expenses fell by 7.4% to EUR 1,648.1 million in the year under review. This development was driven by lower interconnection expenses and declining costs for services received as a result of lower interconnection rates, as well as by a reduction in expenses for repair and maintenance plus lower advertising expenses.

EBITDA comparable fell by 4.7% in the 2012 financial year from EUR 1,527.3 million to EUR 1,455.4 million. An increase of 29.7% to EUR 117.3 million was recorded in the Additional Markets segment, and an increase of 16.7% to EUR 124.4 million in Belarus. However, these positive developments could not offset the revenue-related reduction in EBITDA comparable in Austria and Bulgaria of 7.2% and 20.8% year-on-year respectively. In total, these developments led to a reduction in the EBITDA comparable margin from 34.3% in the previous year to 33.6% in 2012.

Restructuring charges, which are entirely attributable to the Austrian segment, amounted to EUR 34.7 million in the year under review, compared to EUR 233.7 million in the previous year, and include expenses relating to social plans, liabilities for inactive employees released from work and costs incurred under the scheme for transferring civil servants to the Austrian government. While an impairment charge of EUR 248.9 million was recognised in the previous year, no impairment charges were required in the year under review.

Consequently, EBITDA including effects from restructuring and impairment tests increased by 36.0% from EUR 1,044.7 million in the previous year to EUR 1,420.8 million. At EUR 964.0 million depreciation and amortisation was 8.4% below the previous year's level, inter alia due to the completion of the write-down of Mobiltel's mobile customer base in Bulgaria. This reduction led to a positive operating result of EUR 456.8 million in the year under review, compared to a negative operating result of EUR 7.6 million in the previous year.

After foreign exchange translation effects caused by the devaluation of the Belarusian Ruble in the previous year led to a negative financial result of EUR 246.8 million, the Telekom Austria

Group financial result in the year under review amounts to EUR 212.7 million. Total interest expenses increased by 7.3% to EUR 232.7 million partly due to a bond issue, while interest income remained stable at around EUR 16.9 million. Due to a stronger Belarusian Ruble, which had fallen by 63.2% in the previous year, foreign exchange differences in the year under review amounted to positive EUR 2.5 million compared to negative EUR 43.5 million in the previous year.

In the year under review tax expenses came to EUR 140.3 million versus tax assets of EUR 1.7 million in 2011, since loss carryforwards capitalised as deferred taxes in the past could no longer be recognised in 2012 and were therefore reversed.

For the full year 2012 the Telekom Austria Group reported net income of EUR 103.8 million compared to a net loss of EUR 252.8 million in the previous year.

KEY FINANCIAL FIGURES BY SEGMENT

in EUR million

Revenues	2012	2011	Change in %
Austria	2,787.1	2,942.1	–5.3
Bulgaria	469.1	527.7	–11.1
Croatia	420.4	420.7	–0.1
Belarus	301.2	260.9	15.5
Additional Markets	426.6	396.4	7.6
Corporate & Other, Eliminations[1]	–74.7	–93.1	n.m.
Total	**4,329.7**	**4,454.6**	**–2.8**

EBITDA comparable	2012	2011	Change in %
Austria	902.9	972.6	–7.2
Bulgaria	207.4	261.9	–20.8
Croatia	136.6	134.5	1.5
Belarus	124.4	106.6	16.7
Additional Markets	117.3	90.4	29.7
Corporate & Other, Eliminations[1]	–33.1	–38.6	n.m.
Total	**1,455.4**	**1,527.3**	**–4.7**

EBITDA incl. effects from restructuring and impairment tests	2012	2011	Change in %
Austria	868.2	738.9	17.5
Bulgaria	207.4	242.6	–14.5
Croatia	136.6	134.5	1.5
Belarus	124.4	–172.4	n.m.
Additional Markets	117.3	139.8	–16.1
Corporate & Other, Eliminations[1]	–33.1	–38.6	n.m.
Total	**1,420.8**	**1,044.7**	**36.0**

Operating income	2012	2011	Change in %
Austria	313.6	129.7	141.8
Bulgaria	55.2	42.3	30.7
Croatia	69.4	67.9	2.2
Belarus	29.5	–255.2	n.m.
Additional Markets	17.0	43.4	–60.8
Corporate & Other, Eliminations[1]	–28.0	–35.8	n.m.
Total	**456.8**	**–7.6**	**n.m.**

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.

COMPANY KEY FIGURES	2012	2011	2010
Earnings per share (in EUR)	0.23	–0.57	0.44
Dividend per share (in EUR)	0.05[1]	0.38	0.75
Free cash flow per share (in EUR)	0.74	1.08	1.46
ROE	12.1%	–21.4%	12.6%
ROIC	3.8%	–0.1%	6.2%

1) Proposal to the Annual General Meeting, which will take place on 29 May 2013

Balance sheet structure

The balance sheet total of the Telekom Austria Group amounted to EUR 7,251.5 million as of 31 December 2012, a decrease of 2.6% compared to previous year's level.

Current assets increased by 3.3% in the year under review due to higher cash and cash equivalents. Non-current assets fell by 4.5%, since deferred taxes were reduced by some EUR 112.4 million and other intangible assets also decreased by 6.0% to EUR 1,522.6 million. The amount of goodwill remained effectively constant at EUR 1,289.5 million in the year under review.

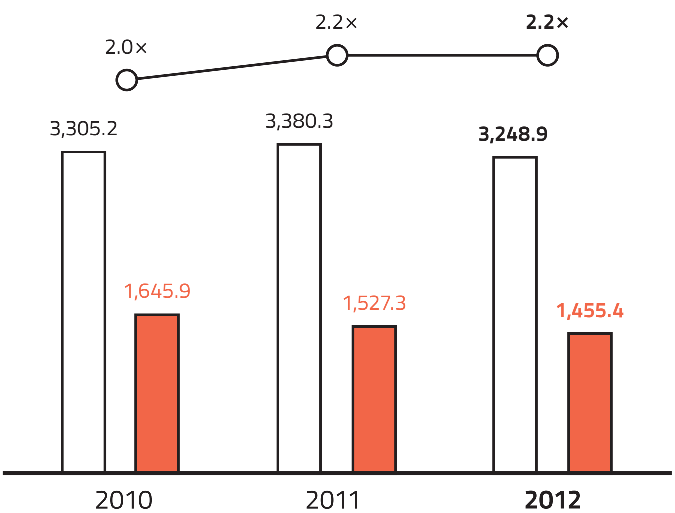
In 2012 current liabilities decreased by 3.7% to EUR 2,322.1 million, mainly because of a reduction in accounts payable and lower other current liabilities. Long-term debt was reduced by 3.5% to EUR 2,832.0 million. The increase in provisions of 3.9% to EUR 923.1 million was largely attributable to an interest rate adjustment.

Dividend payments for the 2011 reporting year amounted to around EUR 168.2 million. The reduction in equity of 5.3% to EUR 836.1 million is attributable to the fact that net income and hyperinflation adjustment did not offset the dividend payment. This also led to a fall of the equity ratio as at 31 December 2012 to 11.5% compared with 11.9% one year previously.

BALANCE SHEET STRUCTURE in EUR million	31 Dec 2012	As % of the balance sheet total	31 Dec 2011	As % of the balance sheet total
Current assets	1,809.3	24.9	1,751.4	23.5
Property, plant and equipment	2,426.4	33.5	2,462.2	33.1
Goodwill	1,289.5	17.8	1,289.7	17.3
Other intangible assets	1,522.6	21.0	1,619.3	21.7
Other assets	203.8	2.8	326.1	4.4
ASSETS	**7,251.5**	**100.0**	**7,448.8**	**100.0**
Current liabilities	2,322.1	32.0	2,412.0	32.4
Long-term debt	2,832.0	39.1	2,934.9	39.4
Employee benefit obligation	139.0	1.9	129.0	1.7
Long-term provisions	923.1	12.7	888.2	11.9
Other long-term liabilities	199.2	2.8	201.6	2.7
Stockholders' equity	836.1	11.5	883.1	11.9
LIABILITIES AND STOCKHOLDERS' EQUITY	**7,251.5**	**100.0**	**7,448.8**	**100.0**

NET DEBT AND EBITDA COMPARABLE

in EUR million



Net debt

In 2012 the Telekom Austria Group reduced net debt by 3.9% to EUR 3,248.9 million. Due to the fall in EBITDA comparable of 4.7% to EUR 1,455.4 million, the ratio of net debt to EBITDA comparable remained unchanged year-on-year at 2.2×.

NET DEBT[1)]

in EUR million	31 Dec 2012	31 Dec 2011
Long-term debt	2,832.0	2,960.4
Short-term borrowings	1,078.6	1,052.4
Cash and cash equivalents, short-term and long-term investments, financing with related parties	–715.3	–657.7
Derivative financial instruments for hedging purposes	53.6	25.2
Net debt Telekom Austria Group	3,248.9	3,380.3
Net debt/EBITDA comparable	2.2×	2.2×

1) Finance lease obligations and the remaining performance based consideration related to the acquisition of SBT are included in long-term debt and short-term borrowings. As of 31 December 2011 the remaining performance based consideration related to the acquisition of Megalan/Spectrumnet is included in short-term borrowings.

Development of cash flow

In the year under review cash flow generated from operating activities declined by 13.6% to EUR 1,047.9 million, primarily as a result of increased requirements for working capital. The increase in working capital was mainly caused by changes in accounts receivable and accounts payable, as well as the use of provisions for restructuring.

Cash outflow from investing activities decreased by 25.6% to EUR 636.3 million in the year under review. The previous year's figure included payments for the acquisitions of the fixed line operators in Bulgaria and Croatia.

The long-term cash outflow from financing activities increased from EUR 3.7 million to EUR 269.6 million due to higher payments on long-term debt. These were partly compensated for by a lower payment for dividends and changes to short-term borrowings.

The above-mentioned factors resulted in an increase in cash and cash equivalents of EUR 140.8 million to EUR 600.8 million as of year-end 2012.

Due to the reduction in cash flow generated from operating activities, free cash flow also fell by EUR 153.9 million to EUR 325.4 million (including income from the disposal of property, plant and equipment and intangible assets).

CASH FLOW

in EUR million	2012	2011	Change in %
Cash flow generated from operations	1,047.9	1,213.3	–13.6
Cash flow used in investing activities	–636.3	–854.8	n.m.
Cash flow generated from (used in) financing activities	–269.6	–3.7	n.m.
Effects of exchange rate changes	0.0	1.3	n.a.
Loss of purchasing power on cash and cash equivalents	–1.2	–16.4	n.m.
Change in cash and cash equivalents	140.8	339.8	–58.6

Capital expenditure

Capital expenditure totalled EUR 728.2 million in the year under review, 1.5% less than in the previous year.

The fall in capital expenditure for tangible assets of 7.1% to EUR 550.7 million is largely ascribable to the Austrian and Belarusian segments. In the Belarusian segment investments in local currency were higher than in the previous year. However, due to the currency devaluation a decline in Euro-denominated capital expenditure was registered in Belarus in 2011. In Croatia investments in fixed line infrastructure led to an increase in capital expenditure for tangible assets of 12.2% to EUR 51.1 million.

Capital expenditure for intangible assets increased by 21.5% to EUR 177.5 million in the year under review. This growth is mainly the result of the acquisition of 800-MHz frequencies in the Croatian segment, of 2,100-MHz frequencies in Belarus and 1,800-MHz frequencies in the Republic of Macedonia.

CAPITAL EXPENDITURE[1]

in EUR million	2012	2011	Change in %
Tangible Austria	353.6	383.4	–7.8
Tangible Bulgaria	48.3	50.8	–4.8
Tangible Croatia	51.1	45.5	12.2
Tangible Belarus	28.2	41.6	–32.2
Tangible Additional Markets	69.5	71.5	–2.9
Total tangible	**550.7**	**592.8**	**–7.1**
Intangible Austria	94.6	101.7	–6.9
Intangible Bulgaria	20.5	19.7	4.0
Intangible Croatia	27.8	5.0	n.m.
Intangible Belarus	15.5	3.3	n.m.
Intangible Additional Markets	19.3	16.4	18.1
Total intangible	**177.5**	**146.2**	**21.5**
Total capital expenditure[1]	**728.2**	**739.0**	**–1.5**

1) Excluding capital expenditures arising from asset retirement obligations

Segment Austria

In 2012 the Austrian market was characterised by a further intensification of competition, severe regulatory stipulations in the area of roaming and continued fixed-to-mobile substitution. Competition was focused on smartphone offers and attractive mobile bundles, which – combined with the continuing trend toward no-frills brands – led to very low pricing levels in comparison with other European countries.

As a result of mobile broadband growth and the growing customer base of no-frills brand bob, the Austrian segment posted an increase in total mobile subscribers of 2.1% to around 5,379.6 million in 2012. Market share, however, simultaneously fell from 40.0% to 38.8% due to intense competition in mobile communication.

Altogether attractive products and pricing structures helped achieve an increase in fixed broadband access lines of 3.0% to 1.3 million. The increase was even more marked for A1 TV, which grew by 10.2% to end the year with just under 218,800 customers. The success of product bundles confirmed the expediency of Telekom Austria Group's convergence strategy. Notwithstanding these positive developments, fixed-to-mobile substitution led to a 10.6% decline in fixed line voice minutes and a fall in fixed access lines of 2.3% to just under 2.3 million.

Operational achievements in the mobile business were not sufficient to compensate for the negative effects of price competition and regulatory provisions on revenues, which is why the Austrian segment reported a fall in revenues of 5.3% to EUR 2,787.1 million for the year under review.

Monthly fee and traffic revenues decreased by 5.5% to EUR 1,915.7 million, due to the migration of existing customers to cheaper tariffs and declining fixed line voice minutes. Due to a higher number of information and communication technology (ICT) projects, revenues from data and ICT solutions increased by 6.2% to EUR 214.8 million in the year under review.

KEY PERFORMANCE INDICATORS AUSTRIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	2,787.1	2,942.1	–5.3
of which monthly fee and traffic	1,915.7	2,027.4	–5.5
of which data and ICT solutions	214.8	202.3	6.2
of which wholesale (incl. roaming)	164.5	203.6	–19.2
of which interconnection	327.1	341.7	–4.3
of which equipment	148.7	126.1	17.9
of which other	16.3	41.0	–60.1
EBITDA comparable	902.9	972.6	–7.2
EBITDA comparable margin	32.4%	33.1%	
EBITDA incl. effects from restructuring and impairment tests	868.2	738.9	17.5
Operating income	313.6	129.7	141.8
Capital expenditure	448.2	485.1	–7.6

Fixed Line			
ARPL (in EUR)	32.1	32.2	–0.5
Total access lines (in '000)	2,282.3	2,336.2	–2.3
of which fixed broadband lines (in '000)	1,312.1	1,273.4	3.0
of which retail	1,270.4	1,230.5	3.2
of which wholesale	41.7	42.9	–2.7
Unbundled lines (in '000)	267.6	271.5	–1.5
Fixed line voice traffic (in million minutes)	2,335.9	2,612.2	–10.6
of which domestic traffic	1,531.2	1,749.4	–12.5
of which fixed-to-mobile traffic	553.4	586.5	–5.6
of which international fixed line traffic	251.3	276.4	–9.1
Broadband penetration in Austria in % of households	119.4%	111.7%	

Mobile Communication			
Mobile communication subscribers ('000)	5,379.6	5,271.2	2.1
Share of contract customers	77.4%	77.6%	
Market share	38.8%	40.0%	
Penetration	164.2%	156.6%	
Mobile broadband subscribers	776,359	744,941	4.2
ARPU (in EUR)	18.2	20.0	–9.0

Employees (full-time equivalent, as of 31 Dec 2012)	9,077	9,292	–2.3

The fall in wholesale revenues (including roaming) of 19.2% to EUR 164.5 million is attributable, inter alia, to lower tariffs between network operators. Interconnection revenues fell by 4.3% to EUR 327.1 million because of reduced usage and charges in the transit business. Equipment revenues increased by 17.9% to EUR 148.7 million in 2012, as a result of demand for and the increase in the average prices of higher-value handsets.

Thanks to the success of product bundles, average monthly revenues per fixed access line (ARPL) remained virtually stable, at EUR 32.1. Average monthly revenues per mobile user (ARPU) fell by 9.0% to EUR 18.2 because of lower traffic and the migration of customers to low-priced package tariffs.

Supported by a strict programme for managing costs, operating expenses decreased by 4.4% to EUR 1,974.3 million in 2012. Material expenses rose by 5.8% to EUR 287.9 million due to strong smartphone demand. Despite a falling headcount, employee costs increased by 4.1% to EUR 680.0 million. This increase is mainly due to a one-off effect.

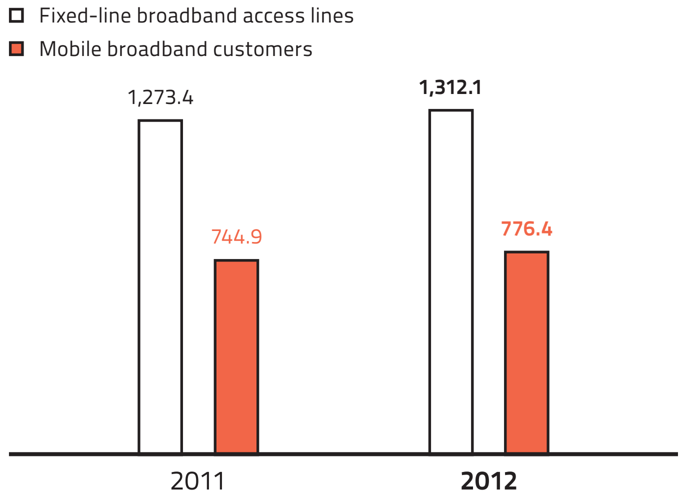
These negative factors were, however, offset by reductions in interconnection as well as marketing and sales expenses. Other operating income was also lower in 2012 because of a one-off effect in the previous year, the sale of the A1 subsidiary Mass Response Service GmbH. Despite the positive trend in costs, EBITDA comparable was reduced by 7.2% year-on-year to EUR 902.9 million as a result of the fall in revenues. The EBITDA comparable margin fell from 33.1% to 32.4% in 2012.

Restructuring expenses of EUR 34.7 million were recorded for the 2012 reporting year in the Austrian segment, which are attributable to expenses relating to social plans, liabilities for inactive employees released from work and expenses incurred under the scheme for transferring civil servants to the Austrian government. In the previous year this item came to EUR 233.7 million. In 2012 there were no negative effects from impairment tests. As a result, EBITDA including effects from restructuring and impairment tests amounted to EUR 868.2 million, up 17.5% year-on-year.

In the year under review depreciation expenses also declined by 9.0% to EUR 554.5 million. The above-mentioned developments resulted in positive operating income for Austria of EUR 313.6 million compared with EUR 129.7 million in the previous year.

BROADBAND CUSTOMERS IN AUSTRIA

in '000 / as of 31 Dec



OPERATING EXPENSES AUSTRIA

in EUR million	2012	2011	Change in %
Material expenses	287.9	272.0	5.8
Employee costs	680.0	653.1	4.1
Other operating expenses	1,006.4	1,140.1	–11.7
Restructuring charges	34.7	233.7	–85.2
Depreciation and amortisation	554.5	609.2	–9.0

Segment Bulgaria

In Bulgaria the market environment was dominated by a laggard domestic economy, a fierce competitive environment and drastic regulatory burdens in 2012.

Sustained strong demand for mobile data solutions manifested itself in an increase of 93.1% to 370,000 mobile broadband customers for Mobiltel in 2012. Mobile data thus also supported general subscriber development with an increase of 1.3% to almost 5.6 million mobile subscribers. Mobiltel's market share, however, fell by 1.7 percentage points in the year under review to 46.9%, although the company remains market leader. The acquisition of two Bulgarian fibre-optic cable network operators in 2011 allowed for a further increase in fixed broadband access lines of 23.2% to 151,600 in 2012.

Despite the company's operational achievements, 2012 saw a fall in Mobiltel revenues of 11.1% or EUR 58.6 million to EUR 469.1 million. This was driven by a decline in voice telephony pricing – caused by competition between operators – reduced voice minutes and a reduction in national and international termination rates as of 1 July 2012, by 57.5% and 70.6% respectively. Such regulatory developments affecting interconnection revenues alone were to blame for EUR 23.4 million of the above-mentioned decline. While handsets sold led to an increase in equipment revenues, wholesale revenues (including roaming) shrank because of lower roaming tariffs. Fixed-line service revenues fell by 12.7% to EUR 20.1 million, since a rising number of fixed access lines could not counteract the effects of price erosion.

The above-mentioned developments were also reflected in a fall in average monthly revenues per user (ARPU) of 17.6% to EUR 5.9. Average revenues per fixed access line (ARPL) fell by 21.9% to EUR 12.0 as a consequence of customers migrating to lower tariffs.

While material expenses rose as a result of subsidies for handsets in the high-quality customer business, other expenses declined due to lower marketing and sales expenses and lower bad debt provisions. Interconnection expenses decreased in line with revenues as a result of regulatory measures. In total, this led to a reduction in operating expenses of 5.6% to EUR 268.8 million.

Nevertheless, the strict focus on costs control failed to entirely compensate for the negative impact of reduced revenues on EBITDA comparable. EBITDA comparable dropped by 20.8% to EUR 207.4 million in 2012. EUR 17.1 million of this reduction stem from the effects of regulatory cuts in the area of interconnection. The EBITDA comparable margin thus also fell from 49.6% to 44.2%, which is still the highest EBITDA comparable margin among the Telekom Austria Group subsidiaries.

Following the completion of the depreciation of Mobiltel's mobile subscriber base, which was acquired by the Telekom Austria Group in 2005, in June 2012, the depreciation expense fell by EUR 48.1 million year-on-year in 2012. Operating income therefore amounts to EUR 55.2 million, equivalent to a 30.7% increase.

KEY PERFORMANCE INDICATORS BULGARIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	469.1	527.7	–11.1
EBITDA comparable	207.4	261.9	–20.8
EBITDA comparable margin	44.2%	49.6%	
EBITDA incl. effects from restructuring and impairment tests	207.4	242.6	–14.5
Operating income	55.2	42.3	30.7
Capital expenditure	68.8	70.5	–2.4
Fixed Line			
ARPL (in EUR)	12.0	15.4	–21.9
Total access lines (in '000)	156.4	128.8	21.5
of which fixed broadband lines (in '000)	151.6	123.1	23.2
Mobile Communication			
Mobile communication subscribers (in '000)	5,574.3	5,501.4	1.3
Share of contract customers	69.1%	67.4%	
Market share	46.9%	48.6%	
Penetration	159.9%	151.4%	
Mobile broadband subscribers	370,685	192,012	93.1
ARPU (in EUR)	5.9	7.2	–17.6
Employees (full-time equivalent, as of 31 Dec 2012)	2,937	3,380	–13.1

Segment Croatia

Economic challenges, fierce mobile competition and the integration of Croatia's largest cable operator B.net, which was acquired in 2011, shaped business development in the Croatian segment in 2012. With the launch of VIP TV, the convergence strategy and the increase in the proportion of contract customers also stood in focus.

The total number of mobile subscribers fell by 4.8% to 1.9 million in the year under review, mainly because of falling demand in the prepaid business. By contrast, the proportion of contract customers increased from 37.8% to 42.2%. Due to the focus on high-value customers, market share fell slightly from 39.2% to 38.3%. As far as the fixed line business is concerned, the total number of access lines increased from around 143,700 in the previous year to 163,000 in 2012.

Falling revenues from mobile traffic and roaming were countered with an increase in equipment sales driven by smartphones and rising interconnection revenues in the 2012 reporting year. Overall, sales revenues stabilised at EUR 420.4 million. This includes a negative currency translation effect of EUR 4.7 million.

The factors mentioned above were also reflected in a fall in average monthly revenues per user (ARPU) of 5.1% to EUR 12.3, which mainly resulted from growth in the price-sensitive business areas. Average monthly revenues per fixed line (ARPL) rose 7.9% to EUR 23.9.

Thanks to the strict management of costs operating expenses came down slightly to EUR 285.8 million. The main factors were a reduction in personnel costs, resulting from the previous year's restructuring programme and lower material expenses. The abolition of a mobile tax also had a positive impact of EUR 7.9 million on operating expenses. By contrast, interconnection expenses and costs for services received were higher than in the previous year because of the integration of B.net. EBITDA comparable reached EUR 136.6 million in the year under review compared with EUR 134.5 million in the previous year. The EBITDA comparable margin improved slightly versus the previous year to 32.5%. Increased pressure on margins in the fourth quarter due to higher expenses for marketing and subsidies for convergent and mobile products prevented a continuation of the positive trend of the first three quarters.

In net terms, these factors led to an improvement in operating income of 2.2% to EUR 69.4 million.

KEY PERFORMANCE INDICATORS CROATIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	420.4	420.7	–0.1
EBITDA comparable	136.6	134.5	1.5
EBITDA comparable margin	32.5%	32.0%	
EBITDA incl. effects from restructuring and impairment tests	136.6	134.5	1.5
Operating income	69.4	67.9	2.2
Capital expenditure	78.8	50.5	56.0
Fixed Line			
ARPL (in EUR)[1]	23.9	22.2	7.9
Total access lines (in '000)	163.0	143.7	13.5
of which fixed broadband lines (in '000)	86.8	68.6	26.6
Mobile Communication			
Mobile communication subscribers (in '000)	1,921.0	2,018.0	–4.8
Share of contract customers	42.2%	37.8%	
Market share	38.3%	39.2%	
Penetration	116.8%	119.9%	
Mobile broadband subscribers	181,138	170,617	6.2
ARPU (in EUR)	12.3	12.9	–5.1
Employees (full-time equivalent, as of 31 Dec 2012)	1,104	1,144	–3.5

1) As of Q3 2012 the calculation methods for mobile and fixed service revenues have been harmonised with Group standards and those revenues were restated for 2011.

Segment Belarus

Belarus was classified as a hyperinflationary country in December 2011, and a decision was taken to apply the financial reporting standard for hyperinflationary economies for the full year 2011. Since hyperinflation is determined on the basis of the cumulative inflation rate over three years, which was 108.7% for 2011, hyperinflation accounting will continue until 2013 at least.

While the macroeconomic environment in the Belarusian segment remained relatively stable in the year under review, the Belarusian Ruble fell by 4.8% against the Euro over the course of the year. In 2012 the inflation rate was 21.8%.

velcom countered these challenges with the ongoing optimisation of tariffs and its handset portfolio, as well as a strict management of costs. In March, April and November 2012, tariffs were amended in agreement with the regulator to counter currency and hyperinflation effects. velcom exploited strong demand for mobile data solutions with smartphone offers based around instalment payments. Strategically, the company also focused on optimising operating expenses and investment, as well as their decoupling from the US dollar.

In the year under review velcom achieved an increase in overall customer numbers of almost 4% to 4.8 million customers. It acquired over 350,300 mobile broadband customers. velcom's share of the mobile communication market increased from 41.1% in the previous year to 43.5%.

Following adjustments resulting from hyperinflation accounting and despite a negative currency translation effect of some EUR 15.1 million, revenues increased by 15.5% to EUR 301.2 million in the year under review, thanks to steady customer growth, optimised tariffs and increased data usage through smartphones.

In 2012 operating expenses amounted to EUR 181.2 million after an increase of 13.6% or EUR 21.7 million. Operating expenses also rose in local currency due to higher material and interconnection expenses. Thanks to positive growth in revenues, EBITDA comparable increased from EUR 106.6 million to EUR 124.4 million in the year under review. Continued efforts to reduce foreign exchange denominated costs helped mitigate the negative impact of the currency devaluation. The change in EBITDA comparable is therefore attributable to negative currency translation effects of EUR 6.2 million and positive operating effects as well as inflation-related adjustments to tariffs of EUR 24 million.

After the inflation-related adjustment of assets in the previous year, which resulted in a negative operating result of EUR 255.2 million, a positive operating result of EUR 29.5 million was achieved in the year under review.

KEY PERFORMANCE INDICATORS BELARUS

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	301.2	260.9	15.5
EBITDA comparable	124.4	106.6	16.7
EBITDA comparable margin	41.3%	40.9%	
EBITDA incl. effects from restructuring and impairment tests	124.4	–172.4	n.m.
Operating income	29.5	–255.2	n.m.
Capital expenditure	43.7	44.9	–2.7
Mobile Communication			
Mobile communication subscribers (in '000)	4,800.4	4,620.4	3.9
Share of contract customers	80.3%	79.7%	
Market share	43.5%	41.1%	
Penetration	116.6%	118.8%	
Mobile broadband subscribers	803,364	453,054	77.3
ARPU (in EUR)	4.6	4.2	8.5
Employees (full-time equivalent, as of 31 Dec 2012)	1,680	1,784	–5.8

Segment Additional Markets

Slovenia

Despite intensive competition Slovenia's Si.mobil increased its subscriber base by 3.6% to over 662,600 mobile customers in 2012. This is due to a further improvement in the proportion of contract customers as well as the expansion of the no-frills business with the launch of the brand bob in November 2011. As the second largest mobile communication provider in Slovenia, Si.mobil expanded its market share slightly from 29.7% to 30.3% in 2012.

Fee and traffic revenues increased in 2012, inter alia thanks to the focus on high-value customers and the higher monthly revenues associated therewith. While lower termination rates following the introduction of a new glide path reduced interconnection revenues, revenues from wholesale (including roaming) increased significantly. In total, an increase in revenues of 3.6% to EUR 199.6 million was achieved. Average revenues per user (ARPU) increased by 4.1% from EUR 20.9 to EUR 21.8.

Higher personnel costs resulting from the increase in headcount of 4.9% were compensated for by lower interconnection expenses, meaning that operating expenses stabilised overall. Together with the positive growth in revenues this led to an increase in EBITDA comparable of 12.3% to EUR 58.0 million. The EBITDA comparable margin improved in turn from 26.8% in the previous year to 29.1% in 2012. Operating income for 2012 amounts to EUR 36.3 million compared with EUR 30.2 million in the previous year.

KEY PERFORMANCE INDICATORS SLOVENIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	199.6	192.7	3.6
EBITDA comparable	58.0	51.7	12.3
EBITDA comparable margin	29.1%	26.8%	
EBITDA incl. effects from restructuring and impairment tests	58.0	51.7	12.3
Operating income	36.3	30.2	20.0
Capital expenditure	18.6	19.5	–4.4
Mobile Communication			
Mobile communication subscribers (in '000)	662.6	639.7	3.6
Share of contract customers	76.4%	74.5%	
Market share	30.3%	29.7%	
Penetration	107.1%	105.6%	
Mobile broadband subscribers	18,249	15,935	14.5
ARPU (in EUR)	21.8	20.9	4.1
Employees (full-time equivalent, as of 31 Dec 2012)	366	348	4.9

Republic of Serbia

In the Republic of Serbia Vip mobile continued to grow successfully in 2012, increasing the number of mobile subscribers by 13.2% to over 1.8 million, and expanding its proportion of contract customers. This also meant an increase in market share to 17.6% from 15.7% in 2011. Higher usage also led to an increase in interconnection revenues. Overall, these developments resulted in an increase in revenues of 12.1% to EUR 160.4 million. The combination of strong growth in the business segment and negative currency translation effects caused average monthly revenues per user (ARPU) to remain virtually flat at EUR 7.1 (2011: 7.2). The negative currency translation effects, which were caused by a devaluation of the Serbian Dinar against the Euro of 8.0% over the year, came to EUR 17.4 million.

Higher interconnection expenses and an increase in personnel costs triggered an increase in operating expenses of 1.5% to EUR 118.7 million. Despite this trend, an improvement in EBITDA comparable of 55.6% to EUR 49.0 million was achieved in the 2012 reporting year. The EBITDA comparable margin also improved from 22.0% in the previous year to 30.6%. The negative impact of foreign currency translations on EBITDA comparable amounted to EUR 5.3 million.

The decrease in operating income from EUR 21.1 million in the previous year to a loss of EUR 18.4 million in the year under review can be explained largely by the reversal of an impairment charge taken against the 3G licence, which took place in the previous year.

KEY PERFORMANCE INDICATORS REPUBLIC OF SERBIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	160.4	143.1	12.1
EBITDA comparable	49.0	31.5	55.6
EBITDA comparable margin	30.6%	22.0%	
EBITDA incl. effects from restructuring and impairment tests	49.0	80.9	–39.4
Operating income	–18.4	21.1	n.m.
Capital expenditure	57.0	55.9	2.0
Mobile Communication			
Mobile communication subscribers (in '000)	1,859.9	1,642.7	13.2
Market share	17.6%	15.7%	
Penetration	147.2%	141.3%	
ARPU (in EUR)	7.1	7.2	–1.2
Employees (full-time equivalent, as of 31 Dec 2012)	898	889	1.0

Republic of Macedonia

Through a sharp rise in the number of mobile subscribers of 11.5% to around 632,000, Vip operator was able to expand its market share in the Republic of Macedonia from 24.9% to 27.3% by the end of 2012.

Revenues rose by 12.9% to EUR 60.3 million in a year-on-year comparison. The expanding subscriber base and higher traffic volumes led to increased monthly fee and traffic revenues as well as higher interconnection revenues. The increase in customers, which was noticeable especially in the contract customer business, caused a rise in material expenses. By contrast, marketing and sales expenses were reduced. At EUR 48.7 million, operating expenses showed an increase of 1.8% versus the previous year.

Building on these developments, Vip operator improved EBITDA comparable by 91.7% to EUR 12.1 million. After an operating loss of EUR 10.3 million in the previous year, positive operating income of EUR 0.4 million was achieved in 2012.

KEY PERFORMANCE INDICATORS REPUBLIC OF MACEDONIA

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	60.3	53.4	12.9
EBITDA comparable	12.1	6.3	91.7
EBITDA comparable margin	20.1%	11.8%	
EBITDA incl. effects from restructuring and impairment tests	12.1	6.3	91.7
Operating income	0.4	–10.3	n.m.
Capital expenditure	13.0	11.8	10.2
Mobile Communication			
Mobile communication subscribers (in '000)	632.0	566.6	11.5
Market share	27.3%	24.9%	
Penetration	113.1%	111.0%	
ARPU (in EUR)	7.5	7.5	0.8
Employees (full-time equivalent, as of 31 Dec 2012)	205	203	1.0

Liechtenstein

At year-end 2012 the subscriber base of mobilkom liechtenstein, numbering 6,160, was down 0.3% versus year-end 2011. In the year under review revenues fell by 11.3% to EUR 6.8 million and EBITDA comparable decreased from EUR 1.9 million to EUR 1.2 million. After EUR 1.0 million in the previous year, operating income in the year under review amounted to EUR 0.3 million.

KEY PERFORMANCE INDICATORS LIECHTENSTEIN

Key Financials (in EUR million)	2012	2011	Change in %
Revenues	6.8	7.6	–11.3
EBITDA comparable	1.2	1.9	–33.6
EBITDA comparable margin	18.2%	24.4%	
EBITDA incl. effects from restructuring and impairment tests	1.2	1.9	–33.6
Operating income	0.3	1.0	–74.2
Capital expenditure	0.2	0.7	–71.0
Mobile Communication			
Mobile communication subscribers (in ’000)	6.2	6.2	–0.3
Market share	15.9%	16.5%	
Penetration	106.4%	102.8%	
ARPU (in EUR)	50.9	54.9	–7.4
Employees (full-time equivalent, as of 31 Dec 2012)	15	13	15.3

Employees

On 31 December 2012 the Telekom Austria Group had 16,446 employees, 4.5% less than at the end of the previous year. As part of the multi-year restructuring programme, the headcount of the Austrian segment was reduced by 2.3% to 9,077. Approximately 53% of these employees have civil servant status. The international segments saw a fall of 7.2% to 7,205 employees.

With a view to maintaining its competitiveness and innovative strength the Telekom Austria Group continuously invests in well-founded further education and professional training for its personnel. In autumn 2010 the Telekom Austria Group Business School was set up as a centralised in-house training and educational institution. To date, some 1,850 employees have made use of its facilities. In addition to the training offered by this centralised educational institution, the Telekom Austria Group subsidiaries have also developed their own further education and training programmes, tailored to the needs of their respective markets.

Total spending on further education and professional training in the year under review amounted to almost EUR 10.0 million (2011: EUR 11.9 million), equivalent to an average of EUR 604 per employee (2011: EUR 691).

EMPLOYEES AT YEAR-END[1)]	2012	2011	Change in %
Austria	9,077	9,292	–2.3
Bulgaria	2,937	3,380	–13.1
Croatia	1,104	1,144	–3.5
Belarus	1,680	1,784	–5.8
Additional Markets	1,484	1,453	2.1
Corporate	164	164	0.2
Total	**16,446**	**17,217**	**–4.5**

1) Full-time equivalent, as of 31 Dec 2012

Changes to the Management and Supervisory Boards

In 2012 the following change took place with regard to the members of the Supervisory Board nominated by the Works Council: Silvia Bauer was nominated as a member of the Supervisory Board on 26 July 2012. The Extraordinary General Meeting on 23 October 2012 elected Oscar von Hauske Solís to the Supervisory Board (with effect from 23 October 2012) and Rudolf Kemler (with effect from 1 November 2012). Markus Beyrer left the Supervisory Board on 1 November 2012, whereupon Rudolf Kemler was elected as Chairman of the Supervisory Board with effect from 1 November 2012. The role of Deputy Chairperson of the Supervisory Board was held by Edith Hlawati until 23 May 2012. On 23 May 2012 the Supervisory Board elected Ronny Pecik as 1st Deputy Chairman; Edith Hlawati has been acting as 2nd Deputy Chairperson since then.

Innovation and technology

The Telekom Austria Group focuses its numerous research and development activities on the development of market-oriented products and services, as well as on the further technological development of network infrastructures. In order to ensure synergies and economies of scale, these activities are subject to Group-wide coordination and knowledge sharing.

The focus on the product side was on innovative applications in the business segment machine-to-machine (M2M) and the development of a uniform strategy for all cloud computing activities, which allow customers to reliably store their programmes and files on a central server. In the year under review considerable investments were made in all markets to maintain the excellent quality of the network. In Austria, for instance, the expansion of the fibre-optic network continued in selected areas, and the mobile network was upgraded with additional base stations for HSPA+ (evolved high-speed packet access) as well as LTE (long term evolution), the ultra-fast mobile broadband system of the future. As the world's first network operator A1 Telekom Austria also accelerated fixed line data transmission through the use of vectoring, an innovative process for optimising the use of copper wire pairs. LTE was tested successfully in Croatia and Bulgaria. In Croatia Vipnet set a new world record for high-performance data transfer. As part of a live demonstration, transmission rates of up to 4.3 Gbit/s were achieved on the basis of the latest standard in hybrid-fibre-coax (HFC) networks. In Slovenia and the Republic of Macedonia the mobile network was also upgraded to UMTS-900 technology, in addition to an upgrade to HSPA+. In Belarus velcom was able to implement not only HSPA+, but also the latest dual carrier HSPA (DC-HSPA technology).

Through partnerships in national and international forums as well as application-focused research partnerships with members of the scientific and industrial communities, Telekom Austria integrates different approaches to future information and communication technologies, to develop market and customer-oriented communication solutions. The Telekom Austria Group currently has research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the University of Vienna and the Technical University Sofia. Beyond its own radius of action, A1 Telekom Austria AG also encourages innovations by new companies, through a start-up initiative which was founded in the year under review and provides expertise and infrastructure.

Corporate Social Responsibility

The Telekom Austria Group's corporate strategy aims to achieve a sustainable increase in corporate value, while taking account of all relevant 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. An integrated Corporate Social Responsibility (CSR) management system, pre-defined standards and clear CSR structures and processes ensure that strategies and corporate goals are developed further and that all business units and hierarchies are involved.

Modern information and communication technologies help to replace CO_2-intensive products and services and consequently play a key role in dealing with climate change. The infrastructure of the Telekom Austria Group also provides an essential foundation for electromobility and the development of intelligent power networks, so-called "Smart Grids". However, through the efficient use of resources such as electricity, fuel and heating as well as the recycling of waste, the Telekom Austria Group is also reducing its own CO_2 emissions; the company further participates in various national and international initiatives to lower CO_2 emissions. A1 Telekom Austria AG's energy management system has been certified in accordance with EN ISO 50001 since 2009 and was the first company in Austria to achieve this.

The company's social commitment is focussed on enabling every individual to participate in a knowledge-based society. The Austria-wide initiative "A1 Internet for All" was set up with this intention in 2012, for instance. This initiative, which provides free internet access for special stakeholder groups as well as customised training programmes, enables individuals previously excluded from the knowledge-based society to participate equally and without barriers.

Cash use policy

Maintaining a stable investment-grade rating of at least BBB (stable outlook) from Standard & Poor's is the highest priority of the Telekom Austria Group's finance strategy.

The Telekom Austria Group has also set a medium-term leverage target of 2.0x net debt to EBITDA comparable. The strategy aims to maintain the financial flexibility needed for strategic investments and protect the Telekom Austria Group from operational uncertainties.

The Telekom Austria AG also plans to distribute a dividend of EUR 0.05 per share for the years 2012 and 2013.

Shareholder structure and disclosures about the share capital

On 31 December 2012 48.81% or 216.2 million Telekom Austria AG shares were classified as free-float compared to 56.56% or 250.6 million shares in the past year. Of this figure, 0.1% or 0.4 million shares were held by the company, as in the previous year. The remaining stake amounting to 51.18% or 226.8 million shares was held by the Republic of Austria through ÖIAG (28.42%) and by América Móvil (22.76%).

The most important changes in the shareholder structure were as follows:

On 16 January 2012 RPR Privatstiftung, Vienna, reported that it held a direct and indirect stake totalling 15.02% of the shares of Telekom Austria AG. RPR Privatstiftung also held call options for 5.10% of the share capital of Telekom Austria AG indirectly via its subsidiary Marathon Zwei Beteiligungs GmbH, Vienna. Consequently, 20.12% of the shares in Telekom Austria AG were directly or indirectly ascribable to RPR Privatstiftung. On 19 January Marathon Zwei Beteiligungs GmbH exercised the existing call options.

On 15 June 2012 América Móvil S.A.B. de C.V., Mexico, reported a direct and indirect stake totalling 6.75% of the share capital of Telekom Austria AG. This direct and indirect stake was made up as follows: América Móvil held 7,935,700 shares or 1.79% of Telekom Austria AG's share capital directly. Moreover, América Móvil acquired 21,977,284 shares or 4.96% of the share capital of Telekom Austria AG indirectly via its 100% subsidiary AMOV Europe B.V. ("AMOV"), Netherlands on 15 June 2012. AMOV is a 100% subsidiary of Sercotel S.A., Mexico, which is wholly owned by América Móvil.

On 25 September 2012 América Móvil Europa B.V., Netherlands, reported that it had purchased 16.01% of the shares of Telekom Austria AG from a subsidiary of RPR Privatstiftung, Vienna. On completion of this share purchase agreement, América Móvil held a total of 100,836,874 shares or 22.76% of the share capital of Telekom Austria AG directly and indirectly. As Telekom Austria AG was informed on 15 June 2012, following completion of the share purchase agreement RPR Privatstiftung continued to hold 64,721 Telekom Austria AG shares, which equated to 0.015% of the share capital. There have been no further reports of any related changes since then.

Several financing agreements contain "change-of-control" clauses, which can ultimately lead to termination of contract and apply to about half of the funds raised. None of these clauses had an impact in the 2012 financial year. Apart from these, the company has entered into no significant agreements that will become effective, change or be terminated upon a takeover bid or change of control in the company. The funding volume has slightly increased compared to the previous year.

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

Risk management

Risk management at the Telekom Austria Group focuses on market and competitive risks, regulatory interventions and uncertain legal situations, which could influence the company's success, as well as on maintaining a high level of availability and reliability of the services and products offered. Risks and opportunities are regularly analysed at Group level and effective measures implemented to reduce or identify them. The effects of deviations from plan, for example, are evaluated using, inter alia, 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 also has a leading position in seven other international telecommunication markets, which ensures both sectoral and broad geographical diversification. As the individual markets of the Telekom Austria Group are exposed to diverse risk sets, risk is not centrally managed but falls under the responsibility of the respective operating units. A central risk manager is responsible for Group-wide monitoring and coordination. By way of structured interviews and workshops with top management risks are identified, assessed and summarised in a risk report. On the basis of this report processes are drawn up, put in place and evaluated to reduce and avoid risks. The close integration of business planning and risk management ensures appropriate risk control.

Risk management at the Telekom Austria Group is monitored by the Audit Committee of the Supervisory Board on the basis of a risk catalogue. After risks have been assessed and categorised according to their threat potential, measures designed to deal with them are drawn up and implemented. Management receives a regular status report 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. Furthermore, a Compliance Officer is responsible for monitoring compliance risks at the Telekom Austria Group.

Market and competitive risks

A high level of competition – a trend also increasingly affecting the Group's foreign markets – is leading to sharp price cuts in both mobile communication 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 addressing this risk by means of attractive product bundles and by expanding its convergent business strategy to include foreign markets. The trend towards smartphones is being exploited to make higher-value tariffs more attractive and to consequently increase customer value in the medium term. The “Combine and Save” campaign in Austria is also helping to stabilise existing customer value and optimise customer loyalty.

The economic and financial crisis created a volatile macro-economic environment in Telekom Austria Group’s operating markets. The monitoring of key macro-economic indicators in order to evaluate potential changes in customer behaviour is therefore an important aspect of risk management, as well as 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 regulations. In Austria the Telekom Austria Group falls into this category in several sub-markets, and its foreign subsidiaries are also subject to equivalent regulatory frameworks. Regulation at both retail and wholesale levels restricts operational flexibility with regard to products and product bundles. There is also an obligation to provide access to infrastructure and fixed line services for alternative providers. Additional regulatory decisions and a possible reduction in mobile and fixed termination rates could negatively impact the Telekom Austria Group’s earnings performance.

In 2011 the European Union decided to introduce additional comprehensive regulatory measures for intra-communal roaming tariffs as part of its third Roaming Regulation, which came into effect on 1 July 2012. In comparison with the previous regime, a structural solution is now envisaged, which aims to allow customers a choice of provider for roaming services, independent of the national operator. This stipulation fosters additional competition between operators in Europe from 2014. Price regulation continues also for voice, messaging 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 also become effective in Croatia as soon as the country joins the EU.

Telekom Austria AG and its subsidiaries are party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the company, enable the Group to identify problems early on and develop measures to counteract them. In the interests of clearing up compliance violations from the past, an independent panel of experts has been commissioned to carry out forensic investigations. The results of these investigations will be considered within the framework of the company’s compliance risk management.

Financial and economic risks

The Telekom Austria Group is exposed to liquidity, default, currency, transfer and interest-rate risks. Medium and short-term financing instruments in a variety of currencies and with different legal frameworks can only limit these risks. A liquidity reserve is held in the form of available credit lines and cash in order to safeguard solvency and financial flexibility. The Telekom Austria Group’s financing company, Telekom Finanzmanagement GmbH (TFG), employs derivative financial instruments to manage sustained fluctuations in interest rates and minimise the risk of currency translation effects. A control environment was created for this purpose, which includes guidelines and procedures for the assessment of risks, approval processes, reporting standards and the monitoring of applied derivative financial instruments. The guidelines in question prohibit the holding or issuing of financial instruments for speculative purposes. The value-at-risk models used serve to quantify the market risk of long-term debt and derivative instruments. In 2003 and 2011 the Telekom Finanzmanagement GmbH entered into interest rate swaps. Due to business activities in Belarus, which has been classified as a hyperinflationary economy since 2011, as well as in Bulgaria, Croatia, the Republic of Serbia and the Republic of Macedonia foreign exchange losses cannot be ruled out in the future either.

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 for impairment, in particular equity stakes in other companies. In the course of 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 a detailed examination 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 not only drawn up a number of social plans in cooperation with workforce representatives, but it has also developed models which enable employees with civil servant status to transfer to government ministries.

Technical and geographical risks

Maintaining a high level of availability and reliability of services and products offered is a key aspect of risk management, as a host of threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impact their quality. Long-term planning takes technological developments into account, while the multiple effectuation of critical components ensures fault tolerance, and efficient operating and security processes safeguard high quality standards. In December 2012 the Management Board issued a directive, which ensures a uniform methodology is used in recognising and managing the most important risks to operating processes.

Internal Control System for financial reporting

After delisting from the New York Stock Exchange in 2007, Telekom Austria Group has retained its Internal Control System (ICS) for financial reporting as required by law. The ICS is supposed to ensure adequate certainty regarding the reliability and accuracy 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 identified promptly in real time and reported properly. The most important contents and principles apply to all Telekom Austria Group subsidiaries. Each significant financial transaction has a risk and control matrix to ensure that its financial reporting is correct and complete. The effectiveness of this system is reviewed, analysed and evaluated at regular intervals. At the end of each year management evaluates the relevant companies in consultation with the business units. Based on the evaluation results and the defined criteria, management declared the Internal Control System effective as of 31 December 2012.

Subsequent events

On 2 February 2012 Telekom Austria AG and A1 Telekom Austria AG agreed to acquire assets owned by Orange Austria Telecommunication GmbH ("Orange Austria") for a total amount of up to EUR 390.0 million. The transaction includes the following assets, acquired by the following entities:

- 2 x 13.2-MHz frequencies in the 900-MHz, 2,100-MHz and 2,600-MHz frequency range by A1 Telekom Austria AG
- A company, into which base stations are spun off, by Telekom Austria AG
- Collocation rights to base stations, by A1 Telekom Austria AG
- Mobile operator YESSS! Telekommunikation GmbH ("YESSS!"), by Telekom Austria AG
- Certain intangible property rights, including the brand "One", by A1 Telekom Austria AG

On 3 January 2013 Telekom Austria AG completed the acquisition of "YESSS!" and A1 Telekom Austria AG completed the acquisition of the intangible property rights from Orange Austria. The acquisition of all other assets will be completed in stages.

On 24 January 2013 Telekom Austria AG issued a subordinate EUR 600 million hybrid bond with perpetual maturity. The settlement took place on 1 February 2013. The redemption can take place for the first time after five years, except in certain circumstances, and the annual coupon for this five-year period amounts to 5.625%. Coupon payments can be deferred.

Outlook

Telekom Austria Group's operations are affected by a number of external factors that will continue to weigh on results. Fierce competition remains a key factor in the company's major markets, such as Austria, Bulgaria and Croatia, and is expected to persist for the foreseeable future. In Telekom Austria Group's home market Austria the deterioration of mobile pricing further encourages the ongoing fixed-to-mobile voice substitution and hampers fixed line data tariff initiatives. Regulatory burdens such as lower roaming charges as well as cuts in national and international mobile termination rates will continue to impact the Group in all major markets.

In the CEE region economic headwinds are expected to remain strong. This will continue to impact customer demand and pricing levels. Markets such as Belarus or the Republic of Serbia are likely to exhibit further foreign exchange volatility.

The management of Telekom Austria Group will address these challenges by means of a continuation of its successful convergence strategy and a clear focus on high value customers in its mature mobile markets. In its mobile-only markets Telekom Austria Group will continue to concentrate on achieving its growth targets. Moreover, the management of Telekom Austria Group will further intensify its efforts of fostering operational excellence and targets cost cuts of at least EUR 100 million for the year 2013 to counteract the effects of revenue pressure on margins.

Telekom Austria Group expects to generate Group revenues of approximately EUR 4.1 billion in 2013. Group CAPEX, before investments for licenses and spectrum and acquisitions, is expected to amount to approximately EUR 700 million.

In this challenging environment a conservative financial profile based on a solid investment-grade rating of BBB (stable) remains the highest strategic priority of Telekom Austria Group. A medium-term leverage target of approximately 2.0x net debt/ EBITDA comparable is also part of this strategy. For the year 2013 the Management of Telekom Austria Group intends to distribute a dividend of 5 Eurocents per share.

The outlook for 2013 is given on a constant currency basis for all markets of Telekom Austria Group and excludes any effects of hyperinflation accounting in the Belarusian segment.

Vienna, 18 February 2013

The Management Board

Hannes Ametsreiter Hans Tschuden

Consolidated Financial Statements 2012

TELEKOM AUSTRIA AG – Consolidated Statements of Operations

Notes		2012	2011
(4)	Operating revenues	4,329,703	4,454,626
(5)	Other operating income	82,086	100,379
	Operating expenses		
	Materials	–474,677	–442,044
	Employee expenses, including benefits and taxes	–833,578	–805,042
(6)	Other operating expenses	–1,648,095	–1,780,575
	EBITDA comparable	**1,455,439**	**1,527,343**
(22)	Restructuring	–34,685	–233,703
(17)(18)(19)	Impairment and reversal of impairment	0	–248,906
	EBITDA incl. effects from restructuring and impairment tests	**1,420,754**	**1,044,735**
(18)(19)	Depreciation and amortization	–963,972	–1,052,376
	OPERATING INCOME	**456,783**	**–7,641**
	Financial result		
(7)	Interest income	16,937	16,942
(7)	Interest expense	–232,674	–216,773
(7)	Foreign exchange differences	2,494	–43,533
(7)	Other financial result	–425	–4,544
(15)	Result from investments in affiliates	981	1,089
	EARNINGS BEFORE TAXES	**244,095**	**–254,460**
(30)	Income taxes	–140,316	1,654
	NET RESULT	**103,779**	**–252,806**
	Attributable to:		
	Owners of the parent	103,637	–251,972
	Non-controlling interests	142	–834
(29)	Basic and fully diluted earnings per share	0.23	–0.57

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

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TELEKOM AUSTRIA AG – Consolidated Statement of Comprehensive Income

Notes		2012	2011
	Net result	**103,779**	–252,806
(8)(16)	Unrealized result on securities available-for-sale	321	–647
	Income tax (expense) benefit	–80	163
(7)	Realized result on securities available-for-sale	495	18
	Income tax (expense) benefit	–122	–5
(33)	Unrealized result on hedging activities	–27,430	–27,365
	Income tax (expense) benefit	6,857	6,841
(29)	Foreign currency translation adjustment	–27,819	–5,096
	Other comprehensive income (loss)	**–47,778**	–26,090
	Total comprehensive income	**56,001**	–278,896
	Attributable to:		
	Owners of the parent	55,858	–278,062
	Non-controlling interests	142	–834

See accompanying notes to the consolidated financial statements.
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in EUR '000

TELEKOM AUSTRIA AG – Consolidated Statement of Financial Position

Notes		December 31, 2012	December 31, 2011
	ASSETS		
	Current assets		
	Cash and cash equivalents	600,763	459,952
(8)	Short-term investments	85,123	165,972
(9)	Accounts receivable – trade, net of allowances	746,856	737,621
(10)	Receivables due from related parties	7	85
(11)	Inventories	152,942	157,706
(12)	Prepaid expenses	106,692	101,010
(30)	Income tax receivable	21,140	40,633
(13)	Non-current assets held for sale	881	134
(14)	Other current assets	94,848	88,333
	TOTAL CURRENT ASSETS	1,809,252	1,751,446
	Non-current assets		
(15)	Investments in associates	3,661	3,699
(16)	Financial assets long-term	7,872	13,897
(17)	Goodwill	1,289,501	1,289,714
(18)	Other intangible assets, net	1,522,577	1,619,339
(19)	Property, plant and equipment, net	2,426,436	2,462,174
(20)	Other non-current assets	30,767	34,521
(30)	Deferred tax assets	161,475	273,908
(10)	Receivables due from related parties, long-term finance	0	106
	TOTAL NON-CURRENT ASSETS	5,442,288	5,697,359
	TOTAL ASSETS	7,251,541	7,448,804
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	−1,049,424	−1,014,185
	Accounts payable – trade	−567,145	−642,177
(22)	Current provisions and accrued liabilities	−301,789	−311,573
(10)	Payables due to related parties	−7,775	−9,816
(30)	Income tax payable	−37,158	−41,259
(23)	Other current liabilities	−195,092	−226,490
(24)	Deferred income	−163,710	−166,517
	TOTAL CURRENT LIABILITIES	−2,322,093	−2,412,018
	Non-current liabilities		
(25)(26)	Long-term debt	−2,831,983	−2,935,053
(27)	Employee benefit obligations	−138,966	−128,976
(22)	Non-current provisions	−923,146	−888,208
(30)	Deferred tax liabilities	−115,192	−127,260
(28)	Other non-current liabilities and deferred income	−84,014	−74,178
	TOTAL NON-CURRENT LIABILITIES	−4,093,301	−4,153,675
	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	219,076	219,772
(29)	Available-for-sale reserve	191	805
(29)	Hedging reserve	48,459	27,887
(29)	Translation adjustments	438,062	410,243
	Equity attributable to equity holders of the parent	−835,094	−882,177
	Non-controlling interests	−1,052	−934
	TOTAL STOCKHOLDERS' EQUITY	−836,146	−883,111
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	−7,251,541	−7,448,804

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

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TELEKOM AUSTRIA AG – Consolidated Statement of Cash Flows

Notes		2012	2011
	Cash flow from operating activities		
	Net result	103,779	−252,806
	Adjustments to reconcile net result to cash flow		
(18)(19) (17)	Depreciation, amortization, impairment and reversal of impairment	963,972	1,301,282
(27)	Employee benefit obligation – non-cash	16,814	7,633
(6)	Bad debt expenses	49,885	65,667
(30)	Change in deferred taxes	97,139	−51,886
(15)	Result from investments in affiliates	−981	599
(31)	Share-based compensation	15	1,713
(22)	Change in asset retirement obligation – non-cash	8,357	7,039
(22)	Provision for restructuring – non-cash	63,497	222,070
(7)	Result on sale of investments	495	3,970
(6)	Result on disposal/retirement of equipment	4,330	7,117
(7)	Gain on monetary items – non cash	−4,112	−30,431
(32)	Other	−7,286	57,668
	Gross cash flow	**1,295,903**	**1,339,633**
	Changes in assets and liabilities		
(9)	Accounts receivable – trade	−60,830	−13,936
(10)	Receivables due from related parties	15	−18
(11)	Inventories	6,677	−9,959
(12)(14)	Prepaid expenses and other assets	8,288	−1,716
	Accounts payable – trade	−76,123	−23,871
(27)	Employee benefit obligation	−6,554	−8,099
(22)	Provisions and accrued liabilities	−97,751	−53,550
(23)(24)	Other liabilities and deferred income	−19,663	−11,854
(10)	Payables due to related parties	−2,041	−3,355
		−247,981	**−126,358**
	Cash flow from operating activities	**1,047,922**	**1,213,275**
	Cash flow from investing activities		
(18)(19)	Capital expenditures	−728,223	−738,979
(2)(15)	Acquisitions of subsidiaries, net of cash acquired	−44	−135,749
(2)(15)	Sale of subsidiaries, net of cash disposed	1,080	928
(18)(19)	Sale of property, plant, equipment, intangible assets	5,672	4,940
(8)(16)	Purchase of investments	−766,737	−111,323
(8)(16)	Proceeds from sale of investments	851,964	125,431
	Cash flow from investing activities	**−636,288**	**−854,751**
	Cash flow from financing activities		
(25)	Proceeds from issuance of long-term debt	838,425	755,274
(25)	Principal payments on long-term debt	−918,909	−224,095
(21)	Change in short-term borrowings	13,842	−185,162
(29)	Dividends paid	−168,198	−331,923
(2)	Deferred consideration paid for business combinations	−34,727	−17,767
	Cash flow from financing activities	**−269,566**	**−3,673**
	Effect of exchange rate changes	**−49**	**1,274**
	Monetary loss on cash and cash equivalents	**−1,208**	**−16,367**
	Change in cash and cash equivalents	**140,811**	**339,756**
	Cash and cash equivalents at beginning of the year	459,952	120,196
	Cash and cash equivalents at end of the year	600,763	459,952

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

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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, 2011	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 non-controlling interests	0	0	0	0
Balance at December 31, 2011	966,183	–8,196	582,896	–219,772
Net result	0	0	0	103,637
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	103,637
Distribution of dividends	0	0	0	–168,174
Hyperinflation adjustment	0	0	0	65,233
Balance at December 31, 2012	966,183	–8,196	582,896	–219,076

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

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Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
−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
0	**0**	**0**	**103,637**	**142**	**103,779**
240	0	0	240	0	240
373	0	0	373	0	373
0	−20,572	0	−20,572	0	−20,572
0	0	−27,819	−27,819	0	−27,819
613	−20,572	−27,819	−47,778	0	−47,778
613	−20,572	−27,819	55,858	142	56,001
0	0	0	−168,174	−24	−168,198
0	0	0	65,233	0	65,233
−191	−48,459	−438,062	835,094	1,052	836,146

in EUR ‘000

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

2012	Austria	Bulgaria	Croatia
External revenues	2,763,741	448,316	405,380
Intersegmental revenues	23,394	20,752	15,005
Total revenues	**2,787,134**	**469,068**	**420,385**
Other operating income	90,067	7,181	1,997
Segment expenses	−1,974,343	−268,828	−285,784
EBITDA comparable	**902,859**	**207,421**	**136,598**
Restructuring	−34,685	0	0
Impairment and reversal of impairment	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**868,174**	**207,421**	**136,598**
Depreciation and amortization	−554,526	−152,200	−67,167
Operating income	**313,648**	**55,221**	**69,431**
Interest income	4,554	1,172	1,846
Interest expense	−61,692	−6,358	−6,922
Equity in earnings of affiliates	981	0	0
Other financial income	−938	−110	−1,207
Earnings before income taxes	**256,552**	**49,925**	**63,148**
Income taxes			
Net result			
Segment assets	3,915,941	1,326,843	532,911
Segment liabilities	−2,161,119	−197,529	−331,851
Capex other intangible assets	94,634	20,514	27,758
Capex property, plant and equipment	353,605	48,335	51,061
Total capital expenditures	448,238	68,849	78,819
Cost to acquire property, plant, equipment and intangible assets	510,184	70,557	79,288
Other non-cash items	109,365	7,703	5,284

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, equipment and intangible assets	489,439	71,111	51,171
Other non-cash items	260,049	48,300	7,283

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

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Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
301,174	411,093	0	0	4,329,703
61	15,510	0	−74,721	0
301,235	**426,603**	**0**	**−74,721**	**4,329,703**
4,339	7,766	23,512	−52,776	82,086
−181,203	−317,087	−56,717	127,611	−2,956,350
124,370	**117,282**	**−33,205**	**114**	**1,455,439**
0	0	0	0	−34,685
0	0	0	0	0
124,370	**117,282**	**−33,205**	**114**	**1,420,754**
−94,905	−100,278	0	5,104	−963,972
29,465	**17,004**	**−33,205**	**5,217**	**456,783**
3,801	630	34,810	−29,876	16,937
−2,264	−1,039	−184,370	29,972	−232,674
0	0	0	0	981
5,055	−271	376,093	−376,553	2,069
36,056	**16,325**	**193,328**	**−371,240**	**244,095**
				−140,316
				103,779
598,204	805,513	7,221,944	−7,149,815	7,251,541
−52,909	−179,440	−4,660,879	1,168,333	−6,415,394
15,544	19,329	0	−241	177,537
28,189	69,495	0	0	550,686
43,733	88,824	0	−241	728,223
43,962	91,298	0	−241	795,048
−3,801	5,804	1,834	0	126,189

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

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, 2011	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**
Hyperinflation adjustment	12,220	13,447	8,442	47,886	383	584	82,962
Additions	5,099	0	76,631	48	88,147	7,611	177,537
Disposals	–144	–1,612	–153,081	–30,757	–242	–37,431	–223,266
Transfers	9,609	0	83,341	2	–66,376	–19,419	7,157
Translation adjustment	–19,970	–75	–1,975	–166	–196	–4,839	–27,220
Balance at December 31, 2012	**1,041,083**	**549,820**	**1,093,913**	**1,099,088**	**76,630**	**182,584**	**4,043,118**
Accumulated amortization							
Balance at January 1, 2011	– 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**
Hyperinflation adjustment	–3,297	0	–6,590	–22,613	0	–536	–33,036
Additions	–47,955	–2,368	–159,724	–84,961	0	–17,737	–312,745
Disposals	144	1,612	152,532	30,757	0	36,960	222,004
Transfers	0	0	–17,915	0	0	17,413	–502
Translation adjustment	4,582	6	1,300	103	0	4,357	10,348
Balance at December 31, 2012	**–667,750**	**–27,493**	**–792,572**	**–904,621**	**0**	**–128,105**	**–2,520,541**
Carrying amount at							
December 31, 2012	373,333	522,327	301,341	194,467	76,630	54,479	1,522,577
December 31, 2011	413,046	511,316	318,381	254,168	54,914	67,516	1,619,339

For further information on other intangible assets, see accompanying notes to the consolidated financial statements, Note (18).
The use of automated calculation systems may give rise to rounding differences.
Impairment charges and their reversals are disclosed in the consolidated statement of operations in the line “Impairment and reversal of impairment”.

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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, 2011	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**
Hyperinflation adjustment	5,442	60,282	0	3,851	69,575
Additions	30,088	448,723	0	138,700	617,512
Disposals	−16,978	−1,296,597	0	−1,158	−1,314,732
Transfers	5,057	165,635	0	−180,744	−10,052
Translation adjustment	−626	−18,039	0	−1,238	−19,903
Balance at December 31, 2012	**892,542**	**10,480,897**	**390**	**153,421**	**11,527,250**
Accumulated depreciation					
Balance at January 1, 2011	−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**
Hyperinflation adjustment	−331	−36,891	0	0	−37,221
Additions	−35,534	−615,653	−40	0	−651,227
Disposals	14,999	1,284,069	0	0	1,299,068
Transfers	1,964	640	0	0	2,604
Translation adjustment	333	8,306	0	0	8,639
Balance at December 31, 2012	**−573,357**	**−8,527,213**	**−244**	**0**	**−9,100,814**
Carrying amount at					
December 31, 2012	319,185	1,953,684	146	153,421	2,426,436
December 31, 2011	314,771	1,953,208	186	194,008	2,462,174

For further information on property, plant and equipment, 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

(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, 2012 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, 2012 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, 2012.

IFRS 7	Financial Instruments: Disclosures (amended)
IAS 12	Income Taxes (amended)
IFRS 1	Regulations for Hyperinflationary Economies

The initial application of the IFRS and IAS mentioned above had an insignificant impact on the consolidated financial statements as of December 31, 2012 since the amendments and revisions were not fully applicable. Thus, the initial application did not result in any changes in accounting principles.

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The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2012. 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	January 1, 2013
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	Offsetting Financial Assets and Financial Liabilities (amended)	January 1, 2014	January 1, 2014
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)	January 1, 2013	January 1, 2013
IFRS 10	Consolidation	January 1, 2013	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013	January 1, 2013
IFRS 12	Disclosures of Interests in Other Entities	January 1, 2013	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013	January 1, 2013
IFRS 1	Government Loans (amended)	January 1, 2013	not endorsed
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	January 1, 2013
	Amendments as a Result of Improvements Project 2009 – 2011	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 (2011: 26) subsidiaries in Austria and 33 (2011: 37) 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. The consolidated financial statements include two investments (2011: three) 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).

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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,	
	2012	2011	2012	2011
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.5575	7.5370	7.5214	7.4387
Czech Koruna (CZK)	25.1510	25.7870	25.1445	24.5914
Hungarian Forint (HUF)	292.3000	314.5800	289.2950	279.3587
Serbian Dinar (CSD)	113.7183	104.6409	113.0237	101.9674
Swiss Franc (CHF)	1.2072	1.2156	1.2052	1.2330
Rumanian Leu (RON)	4.4445	4.3233	4.4583	4.2381
Turkish Lira (TRY)	2.3551	2.4432	2.3141	2.3374
Macedonian Denar (MKD)	61.5050	61.5050	61.5305	61.5292
Belarusian Ruble (BYR)*	11,340.0000	10,800.0000	11,340.0000	10,800.0000
US Dollar (USD)	1.3194	1.2939	1.2852	1.3921

*Year-end rates are used for the translation of revenues and expenses as 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.

The financial statements of the subsidiaries in Belarus are generally based on historic cost. Since 2011, this basis has to be restated due to changes in the value of money of its functional currency. The financial statements of the subsidiaries 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 in %
2008	13.4
2009	9.8
2010	10.1
2011	108.7
2012	21.8

Monthly inflation in %	2012	2011
January	1.9	1.4
February	1.5	2.7
March	1.5	1.9
April	1.7	4.5
May	1.6	13.1
June	1.8	8.6
July	1.3	3.5
August	2.3	8.9
September	1.3	13.6
October	1.8	8.2
November	1.7	8.1
December	1.4	2.3

Assets and liabilities as well as the 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

Telekom Austria Group defines EBITDA as the net result 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 Telekom Austria Group'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.

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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 related expenses are generally recognized over the minimum contract term. 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 or do not meet the relevant recognition criteria, the development costs as well as research costs are expensed as incurred according to IAS 38. In 2012 and 2011, research and development expenses of EUR 18,000 and EUR 36,756, respectively, are recognized based on their origination as employee expenses, depreciation and amortization as well as other operating expenses in the consolidated statements of operations. For information on the capitalization of internally developed software, see Note (18).

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 shares granted in the course of the long-term incentive program in cash. Thus no related dilutive effect has been considered in 2012 and 2011 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 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 evaluates whether there is any indication for a complete loss of a debtor (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 financial 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 of 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 the 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 of 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 is based on 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. Rather, Telekom Austria Group examines if impairment losses recognized in the past (with the exception of goodwill) have to be reversed. 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	3–30
Patents and proprietary rights	1–30
Subscriber base	2–13
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	5–10
Furniture, fixtures and other	1–10
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.

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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 with finite useful lives, 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 in pensions. For severance and pension obligations, Telekom Austria Group recognizes actuarial gains and losses in accordance with the corridor method, therefore actuarial gains and losses are not recognized directly in other comprehensive income (OCI).

For severance and pensions, Telekom Austria Group recognizes these actuarial gains and losses as income or expense to the extent that 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 cost is recognized over the remaining service period. Actuarial gains and losses for service awards are recognized in the statements of operations 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 expense 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 in 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.

Investment tax credits are recognized as a reduction in 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 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 a financial instrument. Telekom Austria Group uses the settlement date for 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, 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). For derivatives designated as fair value hedges, changes in the 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 the 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 for entering 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, 2012 and 2011, 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 necessitating 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

In the second quarter 2012 and in the first quarter 2011, EUR 28,727 and EUR 15,767, respectively of the outstanding performance-based deferred consideration for the acquisition of SB Telecom Limited (SBT), the sole owner of FE VELCOM ("velcom"), were 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 29,201 (present value as of December 31, 2012) will be performed in the first quarter 2013 based on the annual net income for 2012 of SBT and velcom. As of December 31, 2012 and 2011, this consideration was recorded in other current and other long-term liabilities (see Notes (23) and (28)).

In the second and third quarter 2012, EUR 4,200 and EUR 1,800, respectively of the outstanding performance-based deferred consideration for the acquisition of Megalan Network AD ("Megalan"), a Bulgarian fixed line service provider, were paid to the extent the predetermined performance criteria agreed at the acquisition in 2011 had been fulfilled. In the fourth quarter 2012, Megalan as well as Spectrum Net AD ("Spectrum Net"), a subsidiary acquired in 2011, were merged into the Bulgarian subsidiary Mobiltel EAD ("Mobiltel"). The merger had no impact on the consolidated financial statements. The final allocation of the consideration transferred for Spectrum Net resulted in a goodwill of EUR 44.

(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, cable television, value-added services as well as mobile and fixed line internet access in Croatia.

The segment Belarus comprises mobile communication services in Belarus. Since 2011, hyperinflation accounting in accordance with IAS 29 has been applied to the segment Belarus, which results in a 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.

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. These 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.

In 2012 and 2011, other non-cash items mainly consist of restructuring expenses, pension and severance expense, accrued interest, interest expense on restructuring provisions and asset retirement obligations, bad debt expenses and the net monetary gain in the segment Belarus resulting from the application of hyperinflation accounting. Additionally in 2011, unrealized foreign exchange losses, impairment charges and the reversal of impairments 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 the Group'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)) and in the segment Belarus to the goodwill of velcom (see Note (17)). In 2011, the reversal of an impairment in the segment Other Markets related to the license in Serbia recognized in 2009 (see Note (18)).

The item other financial income includes other financial result as well as foreign exchange differences. Other financial income in the segment Corporate & Other relates to dividend income from subsidiaries which are 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:

	2012	2011
Monthly fee and traffic	3,107,808	3,193,557
Data and ICT solutions	215,034	202,551
Wholesale (incl. roaming)	205,487	248,011
Interconnection	493,350	519,672
Equipment	284,282	243,894
Other revenues	23,741	46,941
Total revenues	**4,329,703**	**4,454,626**

(4) Revenues

	2012	2011
Services	4,045,421	4,210,732
Equipment	284,282	243,894
Operating revenues	**4,329,703**	**4,454,626**

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(5) Other Operating Income

	2012	2011
Rental revenue	15,006	16,452
Own work capitalized	37,692	44,534
Other	29,389	39,394
Other operating income	**82,086**	100,379

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

In 2012 and 2011, other operating income includes research and educational tax credits amounting to EUR 2,136 and EUR 3,465, respectively. In 2011, other operating income includes contractual penalty payments.

(6) Other Operating Expenses

	2012	2011
Interconnection	439,249	457,774
Repairs and maintenance	167,525	165,542
Services received	216,566	236,867
Advertising and marketing	158,221	216,825
Other support services	152,695	155,027
Rental and lease expenses	154,488	148,604
Commissions	73,144	75,121
Bad debt expenses	49,885	65,667
Other consulting	17,449	14,005
Legal consulting	6,668	6,281
Travel expenses	17,207	19,104
Other taxes	12,558	13,285
Energy	58,364	52,510
Transportation	30,201	29,120
Training expenses	9,934	11,945
Net loss from retirement of fixed assets	4,330	7,117
Other	79,609	105,779
Other operating expenses	**1,648,095**	1,780,575

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.

In 2012, the structure of other operating expenses was adjusted to take account of changes in internal reporting. Comparative amounts were adjusted accordingly.

At the Annual General Meeting on May 23, 2012, KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Wien ("KPMG Austria") was appointed as group auditor for Telekom Austria Group. Expenses related to the group auditor amount to:

	2012	2011
Audit fees	896	910
Other reviews	300	0
Fees KPMG Austria	**1,196**	910

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(7) Financial Result

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

	2012	2011
Interest income on loans and receivables	13,154	7,251
Interest income on bank deposits	3,337	8,073
Interest income on held-to-maturity investments	0	238
Interest income on available-for-sale financial assets	355	827
Net gain on hedging transactions	91	0
Interest income from sale of tax benefit	0	553
Interest income	**16,937**	16,942

	2012	2011
Interest expense on financial liabilities	181,758	173,568
Interest expense on restructuring provision	36,273	29,892
Interest expense on employee benefit obligations	6,286	6,248
Interest expense on asset retirement obligations	8,357	7,039
Net loss on hedging transactions	0	27
Interest expense	**232,674**	216,773

Changes in the fair value of a hedging instrument (interest rate swap) designated as a 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:

	2012	2011
Result on interest rate swaps – fair value hedge	–4,531	–6,512
Result from fair value measurement of EMTN bonds	4,623	6,485
Interest income (expense)	**91**	–27

Foreign exchange differences

	2012	2011
Foreign exchange gains	13,188	22,480
Foreign exchange losses	–14,806	–96,555
Net monetary gain	4,112	30,542
Foreign exchange differences	**2,494**	–43,533

In 2011, foreign exchange losses result mainly from the devaluation of the Belarusian Ruble.

Other financial result

	2012	2011
Dividends received	70	70
Impairment on investments measured at cost	0	–20
Gain on disposal of available-for-sale securities transferred from other comprehensive income	39	3
Loss on disposal of available-for-sale securities transferred from other comprehensive income	–534	–21
Result from sale of subsidiaries	0	–4,576
Result from financial assets	**–425**	–4,544

in EUR '000

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

(8) Short-term Investments

Short-term investments consist of the following items:

At December 31,	2012	2011
Marketable securities short-term – available-for-sale	53,060	2,069
Other short-term investments	32,063	163,903
Short-term investments	**85,123**	165,972

Available-for-sale securities are classified as short-term, based on Management's intention to sell these marketable securities within the next twelve months. As of December 31, 2012, these comprise substantially commercial papers.

As of December 31, 2012, other short-term investments relate to US Dollar fixed deposits. As of December 31, 2011, they relate to Euro and US Dollar fixed deposits.

(9) Accounts Receivable – Trade

At December 31,	2012	2011
Accounts receivable – trade, gross	950,307	934,774
Allowances	–203,451	–197,153
Accounts receivable – trade, net	**746,856**	737,621

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

	2012	2011
Allowance at the beginning of the year	197,153	165,345
Foreign currency adjustment	–919	–2,505
Change in reporting entities	–162	284
Reversed	–7,906	–4,472
Charged to expenses	57,791	70,139
Amounts written-off	–42,506	–31,639
Allowance at the end of the year	**203,451**	197,153
Thereof		
Specific allowance	15,356	13,755
General allowance	188,095	183,398

Accounts receivable – trade are classified as short-term and non-interest bearing. Beginning 2012, prepaid marketing expenses of EUR 30,273 relating to customer loyalty programs are reported in accounts receivable – trade. Comparative amounts as of December 31, 2011 were increased by EUR 29,324 (see Note (12)).

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The aging of accounts receivable – trade as of December 31, 2012 and 2011 is as follows:

	Gross 2012	Allowance 2012	Gross 2011	Allowance 2011
Not yet due	613,599	11,231	622,550	8,777
Past due 0–90 days	81,200	12,343	75,915	13,830
Past due 91–180 days	30,917	17,687	41,108	24,443
Past due 181–360 days	44,322	27,578	63,861	46,398
More than one year	180,268	134,612	131,340	103,703
Total	**950,307**	**203,451**	934,774	197,153

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 mainly relate to accounts receivable – trade due from business and private customers. 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.

As of December 31, 2012, accounts receivable contain receivables sold under civil law to a special purpose entity under the asset backed security program as described in Note (33) amounting to EUR 378,357. In accordance with SIC 12 ("Consolidation – Special Purpose Entities"), the special purpose entity was consolidated, which resulted in the recognition of the accounts receivable in Telekom Austria Group's consolidated financial statements despite their sale.

(10) Related Party Transactions

The significant shareholder ÖIAG is considered a related party due to its participation in Telekom Austria AG allowing 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 2012 and 2011, services received from the related parties mentioned above mainly relate to postage fees, transportation and commissions and amount to less than 1.9% and 1.3%, respectively, of the material expense and other operating expense recognized in the segment Austria. In 2012 and 2011, revenues generated by transactions with these related parties were below 2.7% and 2.4%, respectively, of the total revenues in the segment Austria. The services to and by Telekom Austria Group from and to government entities are 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 24,834 and EUR 32,765 in 2012 and 2011, respectively.

Regarding the transfer of 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.

in EUR '000

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 2012 and 2011, respectively, Telekom Austria Group was charged EUR 1,679 and EUR 753 for legal services by this law firm.

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

	2012	2011
Revenues	111	132
Other operating income	1	19
Expenses	24,337	40,145
Interest income	0	5

In 2012 and 2011, expenses of EUR 22,357 and EUR 38,734 relate to advertising and marketing services provided by media.at group (formerly Omnimedia – see Note (15)).

As of December 31, 2012 and 2011, EUR 7,519 and EUR 9,788 of total accounts payable due to related parties relate to media.at group (formerly Omnimedia – see Note (15)).

The following table sets out compensation of executives:

	2012	2011
Short-term employee benefits	11,952	12,144
Pensions	446	462
Other long-term benefits	90	48
Termination benefits	1,036	364
Share-based payments	28	717
Compensation of executives	**13,553**	**13,736**

Expenses for pensions and severance for other employees amounted to EUR 23,918 and EUR 24,025 in 2012 and 2011, 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,	2012	2011
Spare parts, cables and supplies	79,830	76,358
Merchandise	72,977	81,327
Prepayments	135	21
Inventories	**152,942**	**157,706**

As of December 31, 2012 and 2011, the carrying amount of merchandise measured at fair value less cost to sell, amounted to EUR 15,125 and EUR 26,173, respectively. In 2012 and 2011, Telekom Austria Group recognized impairment charges related to inventories amounting to EUR 24,337 and EUR 23,814. Reversals of impairment charges amounting to EUR 11,567 and EUR 7,277 were recognized in 2012 and 2011 and relate to material used for the construction of networks. As of December 31, 2012 and 2011, no inventories were pledged as collateral for liabilities.

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(12) Prepaid Expenses

Prepaid expenses include the following items:

At December 31,	2012	2011
Advances to employees	16,690	15,043
Rent	7,185	10,130
Prepaid marketing expenses	36,988	35,922
Other	45,829	39,916
Prepaid expenses	**106,692**	101,010

Prepaid marketing expenses mainly consist of subsidies for mobile handsets, which are expensed over the minimum contractual term. Beginning 2012, prepaid marketing expenses relating to customer loyalty programs are reported in accounts receivable – trade. Comparative amounts as of December 31, 2011 were reduced by a total of EUR 29,324 (see Note (9)).

(13) Non-current Assets Held for Sale

At December 31,	2012	2011
Land and buildings	881	134
Non-current assets held for sale	**881**	**134**

As of December 31, 2012 and 2011, long-term assets held for sale relate to land and buildings in the segment Austria. In 2012 and 2011, a profit of EUR 365 and EUR 32, respectively, relating to the retirement of assets held for sale is reported in the net result from retirement of fixed assets (see Note (6)).

(14) Other Current Assets

Other current assets consist of the following items:

At December 31,	2012	2011
Derivative financial instruments	11,003	3,279
Other financial assets	33,942	39,549
Finance lease receivables	13,721	11,417
Other non-financial assets	37,864	35,561
Other current assets, gross	**96,530**	89,806
Less allowance for financial assets	–670	–581
Less allowance for non-financial assets	–1,012	–893
Other current assets	**94,848**	88,333

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

As of December 31, 2012 and 2011, 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.

in EUR '000

The following table sets forth the aging of derivative financial instruments, finance lease receivables and other current financial assets as of December 31, 2012 and 2011:

	Gross 2012	Allowance 2012	Gross 2011	Allowance 2011
Not yet due	56,039	650	51,992	560
Past due 0–90 days	813	0	962	0
Past due 91–180 days	322	0	252	0
Past due 181–360 days	1,316	0	901	0
More than one year	175	20	138	21
Total	**58,666**	**670**	**54,245**	**581**

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

	2012	2011
Allowance at the beginning of the year	581	834
Foreign currency adjustment	–1	–31
Reversed	0	–73
Charged to expenses	90	3
Amounts written off	0	–152
Allowance at the end of the year	**670**	**581**

(15) Investments in Associates

Investments in associates accounted for using the equity method as of December 31, 2012, are set forth in Note (38).

In 2012, Omnimedia Werbegesellschaft mbH ("Omnimedia") was renamed media.at GmbH ("media.at"). Restructuring of the media.at-group resulted in a minor reduction in Telekom Austria Group's share from 26.0% as of December 2011 to 25.3228% as of December 2012, but had no substantial impact on the consolidated financial statements. As of December 31, 2012, the investment in media.at is included in the investments in associates with the proportionate total consolidated equity of the media.at-group, as of December 31, 2011, with that of its legal predecessor Omnimedia. media.at-group comprises media.at, OmniMedia GmbH and MediaSelect GmbH.

The reporting date of media.at is June 30. Telekom Austria Group's share of income is based on interim financial statements as of December 31, 2012 and 2011.

In October 2012, Telekom Austria Group sold its 40.0% interest in netdoktor.at GmbH in the segment Austria resulting in a profit of EUR 1,080, which is reported in the result from investments in affiliates.

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

	2012	2011
At January 1,	3,699	4,298
Dividends received	0	–1,688
Recognized income	–39	1,089
At December 31,	**3,661**	**3,699**

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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	2012	2011
Revenues	154,070	121,381
Operating income	1,500	4,754
Net income	–424	3,511

In 2012, financial information includes the consolidated financial statements of media.at, while in 2011 only those of Omnimedia are included. Financial information for netdoktor.at is no longer included in 2012.

At December 31,	2012	2011
Total assets	27,492	25,024
Total liabilities	26,102	23,359
Total stockholders' equity	1,391	1,665

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

At December 31,	2012	2011
Other investments carried at cost	554	554
Other financial assets, long-term	2,194	0
Marketable securities – available-for-sale, long-term	5,124	13,343
Financial assets, long-term	**7,872**	**13,897**

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, 2012, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

As of December 31, 2012, other long-term financial assets comprise fixed deposits.

Marketable securities available-for-sale serve partially 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 2012 and 2011:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2011	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**
Acquisitions	0	44	0	0	0	44
Translation adjustment	0	0	–257	0	0	–257
Balance at December 31, 2012	**416,101**	**642,691**	**94,450**	**0**	**136,260**	**1,289,501**

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

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The application of IAS 29 "Financial Reporting in Hyperinflationary Economies" for Belarus in 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.

As of December 31, 2012 and 2011, the accumulated impairment charges on goodwill totaled EUR 581,779 and EUR 581,779, 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,	2012	2011
A1 Telekom Austria	414,862	414,862
World-Direct	1,239	1,239
Total Austria	**416,101**	416,101
Mobiltel	642,691	642,646
Total Bulgaria	**642,691**	642,646
Vipnet	94,450	94,706
Total Croatia	**94,450**	94,706
Si.mobil	136,260	136,260
Total Additional Markets	**136,260**	136,260
Total Goodwill	**1,289,501**	1,289,714

In 2012 and 2011, the following parameters were used to calculate the value in use:

	Growth rates terminal value		Pre-tax interest rates*	
	2012	2011	2012	2011
Segment Austria	0.0%	0.0%	8.7%	11.2%
Segment Bulgaria	0.0%	1.0%	8.9% – 9.5%	11.5% – 13.2%
Segment Croatia	0.0%	1.0%	9.6% – 11.0%	12.2% – 13.7%
Segment Belarus	0.0%	2.0%	20.1% – 32.2%	13.4% – 64.2%
Segment Additional Markets	0.0%	0.0% – 2.0%	6.5% – 13.8%	9.2% – 18.0%

* 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. If the growth rate applied to the terminal value of velcom were reduced by 4.5 percentage points or if the pre-tax interest rate of velcom were increased by 1.0 percentage points, the carrying amount would equal the value in use. For velcom, a change in the growth rate of the terminal value of 4.5 percentage points or in the interest rate before taxes of 1.0 percentage points would lead to the carrying amount corresponding to the value in use.

(18) Other Intangible Assets

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

As of December 31, 2012 and 2011, the line item software comprises internally developed software with a carrying amount of EUR 32,992 and EUR 43,912, acquisition cost of EUR 144,921 and EUR 144,534 and the related accumulated amortization of EUR 111,929 and EUR 100,622, respectively. Additions in 2012 and 2011 amounted to EUR 4,586 and EUR 17,740, respectively.

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In 2012 and 2011, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2012 and 2011, interest capitalized totaled EUR 525 and EUR 474, respectively. For details on the interest rate applied, see Note (19).

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

	GSM licenses	UMTS licenses	LTE licenses
License cost	742,576	278,266	33,137
End of the term	2013–2024	2017–2025	2024–2026

Telekom Austria Group holds mobile telecommunication licenses provided by 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 of a license recognized in 2009 amounting to EUR 49,379 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 2012, the useful lives of certain items of software in the segment Austria were reduced, which led to an increase in amortization of EUR 213. 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.

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

2013	261,678
2014	203,684
2015	153,527
2016	103,771
2017	58,225
Thereafter	225,290

The following table presents the changes of the carrying values of brand names by segment for 2012 and 2011, respectively:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2011	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**
Amortization	0	–1,333	–1,034	0	0	–2,368
Translation adjustment	0	0	–77	0	8	–69
Hyperinflation adjustment	0	0	0	13,447	0	13,447
Balance at December 31, 2012	**145,897**	**245,706**	**28,996**	**97,422**	**4,305**	**522,327**

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

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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 in 2011 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 longer and are therefore amortized over their useful lives. The useful life in Croatia amounts to five years. In 2012, the useful life in Bulgaria was reduced from six to 3.4 years, which led to an increase in amortization of EUR 677.

As of December 31, 2012 and 2011, brand names were allocated to the following cash-generating units:

At December 31,	2012	2011
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
Total Austria	**145,897**	145,897
Mobiltel	243,704	243,704
Megalan	846	1,410
Spectrum Net	659	1,099
Orbitel	496	827
Total Bulgaria	**245,706**	247,040
Vipnet	25,308	25,377
B.net	3,688	4,730
Total Croatia	**28,996**	30,107
velcom	97,422	83,974
Total Belarus	**97,422**	83,974
mobilkom liechtenstein	1,157	1,149
Si.mobil	3,148	3,148
Total Additional Markets	**4,305**	4,297
Total Brand Names	**522,327**	511,316

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

	Growth rates terminal value		Pre-tax interest rates*	
	2012	2011	2012	2011
Segment Austria	0.0%	0.0%	8.7%	11.2%
Segment Bulgaria	0.0%	1.0%	8.9% – 9.5%	11.5% – 13.2%
Segment Croatia	0.0%	1.0%	9.6% – 11.0%	12.2% – 13.7%
Segment Belarus	0.0%	2.0%	20.1% – 32.2%	13.4% – 64.2%
Segment Additional Markets	0.0%	0.0% – 2.0%	6.5% – 13.8%	9.2% – 18.0%

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

As of December 31, 2012 and 2011, purchase commitments for intangible assets amounted to EUR 28,408 and EUR 24,266, 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.

In 2012 and 2011, borrowing cost capitalized totaled EUR 1,520 and EUR 1,549, respectively. Calculation of capitalized borrowing costs was based on an interest rate of 4.4% for the years ended December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the carrying amount of land amounted to EUR 55,368 and EUR 55,741, respectively.

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In 2012 and 2011, Telekom Austria Group reduced the estimated useful lives of certain technical equipment in the segments Austria and Bulgaria due to the rapid technological progress in certain markets. The changes resulted in an increase in depreciation of EUR 2,990 and EUR 12,411 in 2012 and 2011, respectively.

Government grants totaling EUR 3,792 and EUR 151 were deducted from acquisition cost in 2012 and 2011, respectively.

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

As of December 31, 2012 and 2011, no property, plant and equipment is pledged as collateral.

As of December 31, 2012 and 2011, purchase commitments for property, plant and equipment amounted to EUR 71,581 and EUR 73,717, 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 211,374. A reduction in the useful lives of one year would lead to an increase in depreciation and amortization expense of EUR 230,320.

(20) Other Non-current Assets

Other non-current assets include the following items:

At December 31,	2012	2011
Finance lease receivables	8,424	6,835
Other financial assets	5,990	14,753
Other non-financial assets	16,548	13,064
Other non-current assets, gross	**30,962**	**34,652**
Less allowance for financial assets	–195	–131
Other non-current assets	**30,767**	**34,521**

For information on finance lease receivables, see Note (26). As of December 31, 2012 and 2011, other non-current financial assets mainly consist of long-term receivables – trade and loans to employees, and as of December 31, 2011, of derivative financial assets (fair value hedges – see Note (33)). Other non-financial assets mainly include prepayments for maintenance agreements and rent.

The following table sets forth the aging of long-term finance lease receivables and other non-current financial assets as of December 31, 2012 and 2011:

	Gross 2012	Allowance 2012	Gross 2011	Allowance 2011
Not yet due	14,414	195	21,324	131
Past due 0–90 days	0	0	2	0
Past due 91–180 days	0	0	0	0
Past due 181–360 days	0	0	0	0
More than one year	0	0	263	0
Total	**14,414**	**195**	**21,588**	**131**

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

	2012	2011
Allowance at the beginning of the year	131	182
Reversed	0	–50
Charged to expenses	64	0
Allowance at the end of the year	**195**	**131**

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(21) Short-term Borrowings

Telekom Austria Group's short-term borrowings include:

At December 31,	2012	2011
Current portion of long-term debt	939,027	917,541
Accrued interest	103,511	83,805
Short-term bank debt	6,840	12,204
Current portion of lease obligations	45	636
Short-term borrowings	**1,049,424**	1,014,185

For further information regarding the current portion of long-term debt, see Note (25). Accrued interest includes interest on bonds and bank debt (see Note (25)). As of December 31, 2011, accrued interest on bonds of EUR 80,336 was reported as current portion of long-term debt, accrued interest on bank debt of EUR 3,469 was reported as short-term bank debt. Comparative amounts were adjusted to the classification of 2012. Average interest rates relating to short-term borrowings as well as further funding sources are listed in Note (33); for disclosure of lease obligations, see Note (26).

(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, 2012	875,283	84,786	49,364	126,371	17,082	25,493	21,402	1,199,781
Additions	55,982	39,369	38,245	2,815	3,323	5,669	24,004	169,407
Changes in estimate	61,440	0	0	55,680	0	0	0	117,120
Used	−88,197	−38,905	−30,448	−1,769	−1,521	−3,996	−7,192	−172,028
Released	−90,195	−9,284	−4,695	−285	−4,169	−15,253	−3,910	−127,792
Accretion expense	36,271	0	0	8,357	0	0	0	44,628
Reclassifications*	−12,839	8,239	0	0	0	0	0	−4,600
Translation adjustment	0	−32	0	−1,009	−6	−470	−64	−1,581
Balance at December 31, 2012	**837,743**	**84,175**	**52,465**	**190,160**	**14,709**	**11,443**	**34,240**	**1,224,935**
Thereof long-term								
December 31, 2012	732,986	0	0	190,160	0	0	0	923,146
December 31, 2011	761,837	0	0	126,371	0	0	0	888,208

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

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

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

Restructuring

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In 2008, a comprehensive restructuring program was initiated in the Segment Austria. As of December 31, 2012 and 2011, the provision for restructuring amounts to EUR 795,057 and EUR 820,888, respectively, and comprises 1,540 and 1,571 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. In 2009, 2011 and 2012, new social plans were initiated in the segment Austria which provide for early retirement, special severance packages and golden handshake options. The discount rate and salary increase rate used for employee benefit obligations (see Note (27)) was also applied to the calculation of the obligation for employees permanently leaving the service process. For the calculation of the provision for social plans, a discount rate of 2.0% and 4.5%, respectively, was applied in 2012 and 2011. The estimated salary increase rate equals the rate used for employee benefit obligations (see Note (27)). 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 handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2011.

In November 2009, Telekom Austria Group signed an agreement with the Austrian government relating to the 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, 2016 at the latest. In 2012 and 2011, the calculation of this provision is based on a discount rate of 2.0% and 4.5% respectively. The estimated salary increase rate equals the rate used for employee benefit obligations (see Note (27). At the same time, civil servants are compensated for any shortfall in salary or pension payments. For the calculation of this provision the discount rate and salary increase rate equals those used for employee benefit obligations (see Note (27)). As of December 31, 2012 and 2011, the provision amounts to EUR 42,686 and EUR 54,395 and comprises 308 and 264 employees, respectively. In addition, Telekom Austria Group recognized a liability for employees transferred to the government amounting to EUR 14,979 and EUR 13,477 (see Note (23)).

EBITDA was adjusted for restructuring expenses which comprise expenses of the restructuring program in 2012 and 2011 amounting to EUR 17,462 and EUR 196,550 respectively and for EUR 17,233 and EUR 37,153 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 51,845; an increase in the interest rate of one percentage point would lead to a reduction in the provision of EUR 46,596.

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 wooden masts impregnated with tar or salt, base stations, land and buildings including rented premises.

The asset retirement obligation for masts impregnated with tar or salt, is based on estimated settlement dates and expected cash flows.

Telekom Austria Group operates base stations on land, rooftops and other premises under various types of rental contracts. In estimating the fair value of the 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 concerning obligations for the disposal of hazardous substances and warfare material as well as the decontamination of land when decommissioning a building. Telekom Austria Group records asset retirement obligations for buildings and rented premises under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

In 2012, the parameters used for the measurement of asset retirement obligations were adjusted to reflect the current situation based on past experience. Among others, these include the minimum term and probable extensions of rental contracts for base stations, the risks associated with the disposal of hazardous substances, warfare material and contamination when decommissioning a building as well as the cost of refurbishing rented premises. The obligation related to the disposal of hazardous substances upon retirement of a building was based on a new external expert opinion.

Furthermore, in 2012 the discount rate applied to the calculation of asset retirement obligations was changed from 6.0% to 3.5% to reflect current market conditions in the individual countries. The change of this parameter resulted in an increase of the asset retirement obligation and a corresponding increase in related tangible assets. The anticipated inflation rate remained unchanged at 3.0%.

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), pension contributions, energy and penalties.

(23) Other Current Liabilities
Other current liabilities consist of the following items:

At December 31,	2012	2011
Fiscal authorities	63,331	52,647
Social security	8,383	8,447
Employees	17,141	14,819
Long-term incentive program	1,381	0
Employees – transferred to government	14,979	13,477
Prepayments from customers	6,595	4,760
Government	186	209
Other non-financial liabilities	2,227	3,316
Other current non-financial liabilities	**114,221**	**97,675**
Other current financial liabilities	80,871	128,815
Other current liabilities	**195,092**	**226,490**

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 allowances) and one-time termination benefits. The liabilities regarding employees – transferred to 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)).

For information on the long-term incentive program, see Note (31).

In 2012 and 2011, 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 the negative fair value of derivative financial instruments (cash flow hedges – see Note (33)) and the outstanding variable purchase price associated with the acquisition of Megalan (see Note (2)).

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(24) Deferred Income

At December 31,	2012	2011
Unearned income	125,064	135,170
Customer loyalty programmes	38,646	31,348
Deferred income, current portion	**163,710**	**166,517**

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.

(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, 2012				At December 31, 2011
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
EUR	2013	fixed	5.00%	750,000	756,118	fixed	5.00%	750,000	759,834
EUR	2017	fixed	4.25%	500,000	497,390	fixed	4.25%	500,000	496,747
EUR	2016	fixed	6.375%	750,000	750,000	fixed	6.375%	750,000	745,358
EUR	2022	fixed	4.00%	750,000	735,792			0	0
Total Bonds				**2,750,000**	**2,739,300**			**2,000,000**	**2,001,940**
Promissory Notes									
EUR	2012			0	0	fixed	6.08%	100,000	99,971
EUR	2012			0	0	variable	2.86%	200,000	199,942
Total Promissory Notes				**0**	**0**			**300,000**	**299,913**
Bank debt									
EUR	2012			0	0	variable	3.13%	142,000	142,000
EUR	2012			0	0	fixed	3.59%	224,000	224,000
EUR	2012			0	0	variable	1.95%	125,000	125,000
EUR	2012			0	0	fixed	4.84%	50,000	50,000
EUR	2012			0	0	fixed	5.27%	70,000	70,000
EUR	2012–2019	fixed	4.88%	37,284	37,284	fixed	4.88%	42,611	42,611
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	fixed	4.32%	168,000	168,000
EUR	2014	variable	0.99%	75,000	75,000	variable	2.11%	75,000	75,000
EUR	2015	fixed	3.51%	200,000	200,000	fixed	3.51%	200,000	200,000
EUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
EUR	2012–2017	fixed	4.22%	26,425	26,425	fixed	4.22%	29,008	29,008
EUR	2018	fixed	3.44%	200,000	200,000	fixed	3.44%	200,000	200,000
EUR	2014–2020	variable	1.24%	100,000	100,000			0	0
Total bank debt				**1,031,710**	**1,031,710**			**1,550,618**	**1,550,618**
Leases (Note (26))				**45**	**45**			**760**	**760**
Financial debt				**3,781,755**	**3,771,055**			**3,851,378**	**3,853,230**
Current portion of long-term debt				−939,072	−939,072			−918,176	−918,176
Long-term debt				**2,842,683**	**2,831,983**			**2,933,201**	**2,935,054**

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 5.0% 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.

In March 2012, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program with a maximum volume of EUR 2,500,000. On April 2, 2012, Telekom Austria Group issued a Bond under the EMTN Program with a face value of EUR 750.000, a maturity of ten years, and a coupon of 4.0%. The discount and the issue costs of EUR 11,575 are amortized over the related term.

Promissory notes

As scheduled, the promissory notes issued by Telekom Austria Group on August 6, 2008 were redeemed in 2012. Telekom Austria Group had entered into floating to fixed interest rate swap agreements for a total face value of EUR 200,000.

(26) 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 and vehicles.

Future minimum lease payments for non-cancelable operating and finance leases as of December 31, 2012 are:

	Other finance leases	Operating leases
2013	46	32,923
2014	0	25,134
2015	0	20,895
2016	0	10,989
2017	0	4,699
after 2017		11,099
Total minimum lease payments	**46**	**105,739**
Less amount representing interest	–1	
Present value of lease payments	**45**	
Less current portion	–45	
Non-current lease obligations	**0**	

Until December 31, 2011, non-current lease obligations were reported in a separate item of the statement of financial position. For comparative purposes, non-current lease obligations of EUR 124 were reclassified to long-term financial debt as of December 31, 2011.

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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, 2012 and 2011, the cost of this equipment amounted to EUR 51,002 and EUR 44,305, and the carrying amount to EUR 9,541 and EUR 12,233, respectively. The following table sets forth the future minimum lease payments to be received as of December 31, 2012:

	Operating leases
2013	3,488
2014	2,602
2015	1,491
2016	1,087
2017	623
after 2017	534
Total minimum lease payments	**9,825**

In Bulgaria, Telekom Austria Group leases mobile handsets to customers under finance leases. Furthermore, indefeasible rights of use in dark fibre are leased under finance leases, which have a term of 15 years. As of December 31, 2012, the future minimum lease payments for these transactions amount to:

	Finance lease
2013	14,277
2014	5,767
2015	331
2016	321
2017	311
after 2017	3,515
Total minimum lease payments	**24,523**
Less amount representing interest	−2,378
Present value of finance lease receivables	**22,145**
Less current portion	−13,721
Non-current finance lease receivables	**8,424**

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

At December 31,	2012	2011
Allowance finance lease receivables, long-term	195	131
Allowance finance lease receivables, short-term	501	411
Allowance at the end of the year	**697**	543

Cross-border lease transactions

In 2011, Telekom Austria Group prematurely terminated a cross-border lease (“CBL”) entered into in December 2001. 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 at legally and economically advantageous terms. As of December 2012 and 2011, there are no cross-border lease contracts.

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(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

At December 31,	2012	2011
Service awards	66,128	61,694
Severance	67,612	61,750
Pensions	5,206	5,420
Other	20	112
Long-term employee benefit obligations	**138,966**	128,976

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,	2012	2011
Discount rate	3.5%	4.5%
Rate of compensation increase – civil servants	5.5%	5.5%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of compensation increase – civil servants released from work	5.0%	5.5%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–3.3%	0.0%–4.5%

* depending on years of service

Interest expense related to employee benefit obligations is recorded in interest expense; service cost is recorded in employee expenses.

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, 2012 and 2011:

	2012	2011
Obligation at the beginning of the year	66,351	67,119
Service cost	2,329	2,482
Interest cost	2,903	2,949
Actuarial losses (gains)	4,688	–3,082
Benefits paid	–4,447	–3,118
Past service cost	0	1
Obligation at the end of the year	**71,825**	66,351
Less short-term portion	–5,698	–4,657
Non-current obligation	**66,128**	61,694

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2012 and 2011, respectively.

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

	2012	2011	2010	2009	2008
Defined benefit obligation	71,825	66,351	67,119	60,178	55,480
Experience adjustments	–17	3,075	1,281	360	–3,115

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 1,661 and EUR 1,474 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2012 and 2011, 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, 2012 and 2011:

	2012	2011
Service cost	4,233	4,469
Interest cost	3,079	2,984
Amortization of actuarial losses (gains)	88	–11
Net periodic benefit cost	**7,400**	**7,443**

The following table provides a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2012 and 2011:

	2012	2011
Defined benefit obligation at the beginning of the year	69,521	67,093
Foreign currency adjustments	–5	2
Change in reporting units	–4	20
Service cost	4,233	4,516
Interest cost	3,079	2,984
Curtailment loss/settlement	–113	0
Benefits paid	–1,105	–5,133
Actuarial losses (gains)	15,134	39
Defined benefit obligation at the end of the year	**90,740**	**69,521**
Unrecognized actuarial gain (loss)	–21,323	–6,278
Obligation at the end of the year	**69,417**	**63,243**
Less short-term portion	–1,804	–1,493
Non-current obligation	**67,612**	**61,750**

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of December 31, 2012 and 2011.

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

	2012	2011	2010	2009	2008
Defined benefit obligation	90,740	69,521	67,093	54,565	45,759
Experience adjustments	–574	–352	–1,256	–2,388	–3,904

in EUR '000

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 2012 and 2011, 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 39,358 and EUR 40,037 in 2012 and 2011, 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 expenses for this plan amounted to EUR 13,211 and EUR 12,658 in 2012 and 2011, respectively.

Defined benefit pension plans

Telekom Austria Group provides defined benefits for certain former employees in Austria. 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.

The components of net periodic pension cost for the years 2012 and 2011 are provided in the following table:

	2012	2011
Interest cost	302	303
Amortization of actuarial losses (gains)	222	0
Net periodic pension benefit cost	**524**	303

The following table provides a reconciliation of the changes in benefit obligations for the years ended December 31, 2012 and 2011:

	2012	2011
Defined benefit obligation at the beginning of the year	7,120	7,133
Interest cost	302	303
Benefits paid	−767	−801
Past service cost	0	90
Actuarial losses (gains)	641	394
Defined benefit obligation at the end of the year	**7,296**	7,120
Unrecognized actuarial gain (loss)	−1,353	−934
Obligation at the end of the year	**5,943**	6,186
Less short-term portion	−737	−766
Non-current obligation	**5,206**	5,420

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:

	2012	2011	2010	2009	2008
Defined benefit obligation	7,296	7,120	7,133	7,186	6,773
Experience adjustments	−84	−394	179	−610	−419

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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 the 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, 2012	2.5%	3.5%	4.5%
Service awards	77,582	71,825	66,695
Severance	108,567	90,740	76,366
Pensions	7,949	7,296	6,739

(28) Other Non-current Liabilities and Deferred Income

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

At December 31,	2012	2011
Long-term accounts payable – trade	568	472
Cash flow hedges	64,612	33,795
Other liabilities	826	26,228
Other non-current financial liabilities	**66,006**	**60,495**
Long-term incentive program	1,643	3,017
Deferred income, other	16,366	10,666
Other non-current non-financial liabilities	**18,008**	**13,683**
Other non-current liabilities and deferred income	**84,014**	**74,178**

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

In 2012 and 2011, the cash flow hedges relate to three forward-starting-interest rate-swap contracts (pre-hedges) (see Note (33)).

As of December 31, 2011, 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)).

Regarding the long-term incentive program see Note (31). Other deferred income mainly relates to rental revenue.

(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 subsidiaries 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 subsidiaries outside the Euro zone are reduced by appropriate measures.

At Group level, the Management of Telekom Austria Group gives absolute priority to assuring stable investment grade rating. Furthermore, a net debt/EBITDA comparable (Earnings before Interest, Taxes, Depreciation and Amortization excluding restructuring and impairment charges and reversal of impairment charges) ratio of 2.0x aims to provide financial flexibility for strategically important projects. A transparent policy of dividends strives to balance the return to stockholders and the potential for financing strategic projects.

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 regularly monitors the return on capital, defined by Telekom Austria Group as return on total stockholders' equity and as return on assets, of Telekom Austria Group as well as its subsidiaries.

in EUR '000

paybox Bank, a subsidiary holding a banking license, 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, 2012 and 2011, the 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, 2012, ÖIAG holds a stake of approximately 28.42%, América Móvil S.A.B. de C.V., Mexico ("América Móvil") directly and indirectly holds 22.76%, and 0.1% of the shares are held in treasury and the remaining shares are free floated. As of December 31, 2011, ÖIAG held a stake of approximately 28.42%, RPR Privatstiftung directly held shares and indirectly held options of 15.81%, and 0.1% of the shares were held in treasury and the remaining shares were free floated.

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2012 and 2011 are presented below:

At December 31,	2012	2011
Shares authorized	443,000,000	443,000,000
Shares issued	443,000,000	443,000,000
Shares in treasury	−436,031	−436,031
Shares outstanding	442,563,969	442,563,969

In 2012 and 2011, 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 23, 2012, the shareholders approved a dividend distribution of Euro 0.38 per share. The overall payment on May 30, 2012 amounted to EUR 168,174. At the Annual General Meeting held 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.

In 2012 and 2011, the net loss of Telekom Austria AG according to Austrian GAAP amounts to EUR 134,591 and EUR 224,455, respectively. 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 156,000 and EUR 393,400 from reserves reported in retained earnings for the years ended December 31, 2012 and 2011. These transfers resulted in unappropriated retained earnings of EUR 22,257 and EUR 169,022 as of December 31, 2012 and 2011, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute a dividend of EUR 0.05 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting held on May 23, 2012, the Management Board was authorized to acquire treasury shares for a period of 18 months until November 2013 up to the maximum of 5% of the share capital at a minimum price of Euro 5 and at a maximum price of Euro 15 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 or (c) to sell them on the stock exchange or through a public offering.

Shares held in treasury as of December 31,	2012	2011
Number of treasury shares	436,031	436,031
Average price per share in Euro	18.80	18.80
Deduction in equity	8,196	8,196

Additional paid-in capital

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

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Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 are calculated as follows:

	2012	2011
Net income (loss) attributable to owners of the parent	103,637	−251,972
Weighted average number of common shares outstanding	442,563,969	442,563,969
Basic and diluted earnings per share (in Euro)	**0.23**	**−0.57**

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred in 2012 and 2011.

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 stockholders' equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in Serbia. The translation adjustment as of December 31, 2012 and 2011 relating to the consolidation of Vip mobile amounts to EUR 130,389 and EUR 102,826, respectively. Due to the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to the subsidiaries in Belarus since 2011, the relating translation adjustment of EUR 302,063 as of January 1, 2011 remains unchanged.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Current income tax	43,504	49,753
Deferred income tax	96,813	−51,407
Income tax	**140,316**	**−1,654**

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

	2012	2011
Continuing operations	140,316	−1,654
Other comprehensive income	−6,655	−7,000
Total income taxes	**133,661**	**−8,654**

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 2012 and 2011:

	2012	2011
Income tax expense (benefit) at statutory rate	61,024	−63,615
Foreign tax rate differential	−13,879	−6,552
Tax-non-deductible expenses	6,358	14,184
Tax incentives and tax-exempted income	−19,682	−8,253
Tax-free income (loss) from investments	−222	−41
Change in tax rate	−3,094	−22,399
Tax expense previous years	5,896	23,958
Deferred tax assets not recognized	78,575	119,197
Impairment of goodwill	0	66,956
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	26,039	−124,619
Other	−698	−470
Income tax	**140,316**	**−1,654**
Effective income tax rate	57.48%	0.65%

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In 2012 and 2011, non-deductible expenses mainly consist of tax-neutral expenditures resulting from investments 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 2012 and 2011 relate mainly to a tax incentive in Belarus, which allows for the tax-neutral revaluation of carrying amounts of property plant and equipment for tax purposes in order to increase the future basis of depreciation. Furthermore, research, education and investment incentives as well as other government grants are included.

In 2012, the effect of the change in tax rates resulted from the reduction of the corporate income tax rate in Slovenia and an increase in Serbia. In Slovenia, the aggregated corporate income tax rate was reduced from 18% to 17% at the beginning of 2013. In Serbia, the aggregated corporate income tax rate was increased from 10% to 15% at the beginning of 2013. In 2011, the effect of the change in tax rates resulted from the reduction in the corporate income tax rate in Belarus. The aggregated corporate income tax rate was reduced from 24% to 18% at the beginning of 2012.

The tax expense for prior periods recognized in 2012 and 2011 results mainly from the application of accounting in hyperinflationary economies in accordance with IAS 29 in Belarus.

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

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

At December 31,	2012	2011
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	135,129	198,388
Loss carry-forwards	9,006	77,218
Accounts receivable – trade	11,560	9,547
Deferred income and other liabilities	16,837	9,200
Other current assets and prepaid expenses	1,798	1,566
Provisions, long-term	56,021	30,684
Employee benefit obligations	14,137	12,155
Property, plant and equipment	1,876	1,888
Other	2,797	5,403
Deferred tax assets	**249,161**	346,049
Deferred tax liabilities		
Goodwill	−9,689	−9,689
Property, plant and equipment	−27,872	−27,354
Other intangible assets	−157,486	−156,976
Provisions	−2,305	0
Write down of treasury shares for tax purposes	−1,423	−1,042
Other	−4,103	−4,339
Deferred tax liabilities	**−202,879**	−199,400

At December 31,	2012	2011
Deferred tax assets	161,475	273,908
Deferred tax liabilities	−115,192	−127,260
Deferred taxes, net	**46,282**	146,649

in EUR ’000

Telekom Austria Group 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, 2012 and 2011, Telekom Austria Group did not recognize deferred tax assets amounting to EUR 525,734 and EUR 491,764, respectively. In 2012 and 2011, the unrecognized deferred tax assets relate to net operating loss carry-forwards of EUR 365,625 and EUR 285,506 and to temporary differences related to impairments of investments in consolidated subsidiaries of EUR 160,109 and EUR 206,258, 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, 2012, Telekom Austria Group had approximately EUR 1,822,186 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Serbia will expire in the following years:

Year	
2013	160
2014	16
2015	89,221
2016	2,709
2017	75,181
2018	101,246
2019	89,656
Total	**358,189**

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, 2012 and 2011, Telekom Austria Group did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 159 and EUR 111, respectively.

Income tax receivable relates to tax returns for prior years not yet filed. As of December 31, 2012, income tax receivable mainly relates to Austrian and Croatian companies while receivables as of December 31, 2011 relate to Austrian and Belarusian subsidiaries. As of December 31, 2012 and 2011, income tax payable relates mainly 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.

in EUR '000

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

On September 1, 2010 the first tranche (LTI 2010), on June 1, 2011 the second tranche (LTI 2011) and on August 1, 2012 the third tranche (LTI 2012) were granted. The following table summarizes the significant terms and conditions for each tranche:

	LTI 2012	LTI 2011	LTI 2010
Start of the program	January 1, 2012	January 1, 2011	January 1, 2010
Grant date	August 1, 2012	June 1, 2011	September 1, 2010
End of vesting period	December 31, 2014	December 31, 2013	December 31, 2012
Vesting date	August 1, 2015	June 1, 2014	September 1, 2013
Personal investment (at grant date)	510,986	527,094	472,770
Thereof Management Board	59,674	51,348	51,348
Personal investment (at reporting date)	499,705	484,514	433,726
Expected bonus shares	310,467	279,505	262,374
Maximum bonus shares	874,484	847,900	759,021
Fair value of program (in EUR '000s)	1,703	1,590	1,381

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 (income) is recognized in the consolidated statement of operations:

	2012	2011
LTI 2010	−689	764
LTI 2011	134	948
LTI 2012	569	0

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 100 basis points would result in the following fair values:

Expected dividend yield	100 bps increase	100 bps decrease
Fair value of LTI 2011 (in EUR '000s)	1,593	1,585
Fair value of LTI 2012 (in EUR '000s)	1,736	1,670

Stock Option Plan 2004 Extension

Options outstanding from the sixth tranche (ESOP 2009+) of "Stock Option Plan 2004 Extension" as of December 31, 2011, forfeited in 2012 as the hurdle was not met as of December 31, 2011, and the options therefore did not become exercisable. As of December 31, 2011, no liability was recorded for this tranche. The "Stock Option Plan 2004 Extension" neither led to an expense nor to an income in 2012 and 2011. As of December 31, 2012, there is no stock option plan.

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

	2012	2011
Cash paid for		
Interest	164,303	167,913
Income taxes	31,612	40,483
Cash received for		
Interest	12,458	11,704
Income taxes	0	4,435

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2012 and 2011 (see Note (7)) had already been settled in cash as of December 31.

In 2012 and 2011, the item "Other", which is part of the reconciliation of net result to gross cash flow, amounted to EUR 7,286 and EUR 57,648 respectively. In 2012, it mainly consists of non-cash changes in provisions (see Note (22)) and in 2011 it mainly consisted of unrealized foreign exchange losses.

In 2012, Telekom Austria Group neither acquired cash in the course of acquisitions of subsidiaries nor did Telekom Austria Group dispose of cash due to the sale of subsidiaries. In 2011, cash and cash equivalents acquired totaled EUR 5,758, and cash and cash equivalents of EUR 172 were disposed due to the sale of subsidiaries.

(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 in order 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).

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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 an investment grade rating 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. The program was concluded for an indefinite period. As of December 31, 2012 and 2011, no multi-currency notes were issued, thus no relating short-term liabilities were recognized.

In August 2012, Telekom Austria Group entered into a revolving period securitization of trade receivables with a maximum amount of EUR 225,000 ("Asset Backed Securitization (ABS) Program"). As of December 31, 2012, no amount was drawn, thus no relating short-term debt was recorded. For further information on accounts receivable – trade sold in the course of this program see Note (9). In accordance with SIC 12.10, Telekom Austria Group controls the SPE because the activities of the SPE are being conducted on behalf of Telekom Austria Group according to its specific business needs so that Telekom Austria Group obtains the benefits from the SPE's operations. In substance, Telekom Austria Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits of its activities. Consequently, Telekom Austria Group includes the SPE in the consolidated financial statements. In 2012, liquidity fees amounting to EUR 0.6 were recognized in interest expense.

As of December 31, 2012 and 2011, Telekom Austria Group had total credit lines (including ABS) of EUR 1,060,000 and EUR 1,013,000 respectively. These credit lines were not utilized. The credit line commitments will expire between August 2014 and July 2017.

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, 2012 and 2011. 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, 2012						
Financial liabilities						
Bonds	3,385,034	99,227	787,500	99,063	1,499,245	900,000
Bank debt	1,164,187	19,482	205,085	162,753	464,146	312,720
Accounts payable – trade	567,754	563,083	3,968	164	266	273
Lease obligations	46	39	7	0	0	0
Other financial liabilities	134,186	114,987	9,200	5,513	3,409	1,076
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	–10,984	2,426	–13,410	0	0	0
Variable to fixed IRS	68,211	0	–708	10,805	26,677	31,437
At December 31, 2011						
Financial liabilities						
Bonds	2,441,171	106,301	0	856,563	957,057	521,250
Bank debt	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

It is not expected that the cash flows of the financial liabilities 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.

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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	2012	2011
Short-term borrowings		
Variable rate carrying amount	6,840	12,204
Average interest rate in %*	20.49%	1.46%

* Weighted average of the year-end interest rates applicable to the outstanding amounts. In 2012 this relates mainly to financial liabilities of velcom.

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 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. The modified duration (sensitivity) for the years ended December 31, 2012 and 2011, is set forth in the following table.

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):

		Change in financial portfolio	
At December 31,	Capital amounts	100 bps increase	100 bps decrease
2012			
Fixed-rate financial liabilities	3,606,710		
Sensitivity at 4.217%		–152,095	152,095
2011			
Fixed-rate financial liabilities	3,324,291		
Sensitivity at 2.929%		–97,368	97,368

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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
2012			
Variable rate financial liabilities	181,840		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		**4,818**	**–4,818**
2011			
Variable rate financial liabilities	542,000		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		8,420	–8,420

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 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)).

The promissory note with a face value of EUR 300,000 issued by Telekom Austria Group on August 6, 2008, was redeemed in 2012. Telekom Austria Group had entered into floating-to-fixed interest rate swap agreements with a total value of EUR 200,000.

In 2013, the bond with a face value of EUR 750,000 issued in July 2003 under the EMTN Program will become due (see Note (25)). Due to the European financial and economic crisis the interest rates in the Euro zone were highly volatile in the first half of the year 2011. Therefore in spring 2011 three forward-starting interest rate swap contracts (pre-hedges) with a nominal value of EUR 100,000 each were entered into to partially hedge the interest rate risk related to future interest payments for the refinancing of the bond becoming due in July 2013.

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The following table indicates the types of swaps in use at December 31, 2012 and 2011, and their weighted average interest rates and the weighted average remaining terms of the interest rate swap contracts. The "average pay rate" represents the weighted average interest rate at December 31, 2012 and 2011. 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, 2012 and 2011. 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:

	2012	2011
Variable-to-fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	0	200,000
Average receive rate	0	2.56%
Average pay rate	0	5.68%
Average maturity in years	0	0.65
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	2.02%	2.34%
Average maturity in years	0.59	1.59
Variable-to-fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	300,000	300,000
Average pay rate	3.97%	3.97%
Average maturity in years	11.02	12.02

The interest rate swap transactions resulted in a change in effective interest rates of 2.98 percentage points and 0.35 percentage points in 2012 and 2011, respectively.

Information with respect to fair value hedges

To offset fair value changes attributable to interest rate variability of the bonds issued in 2003 under the EMTN Program (see Note (25)), Telekom Austria Group entered into interest rate swaps.

The key conditions of the interest rate swaps and the bonds are identical. Changes in the fair value of the derivative hedging instrument will offset changes in the fair value of the underlying liability due to fluctuations in interest rates (Dollar Offset Method).

According to IAS 39, the hedge effectiveness must be between 80 and 125 percent for a hedge to be considered effective. The effectiveness is calculated by dividing the hedged portion of the change in the fair value of the underlying liability by the corresponding change in the fair value of the derivative hedging instrument or vice versa. The following hedge effectiveness test assumes that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

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Hedge Effectiveness Test Fair Value Hedges

At December 31,	Notional amount	Fair value at origination	Fair value at reporting date	Fair value change	Effectiveness
2012					
Hedged items	300,000	299,315	306,622	−7,307	
Hedging instrument (interest rate swap)	300,000	1,265	−6,479	7,744	
Effectiveness in %					−94.36%
Ineffectiveness in EUR					437
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

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. To secure the promissory notes redeemed in 2012, 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, the derivative financial liability (including deferred interest) amounted to EUR 5,657. In 2012 and 2011, an income of EUR 2,540 and EUR 4,823, respectively, relating to the change in the fair value of the hedging instrument was recognized in other comprehensive income (OCI). In 2012 and 2011, no ineffectiveness was recognized.

As of December 31, 2012 and 2011, the negative fair value of the three forward-starting interest rate 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, amounted to EUR 64,612 and EUR 33,795, respectively. As of December 31, 2012 and 2011, a loss of EUR 23,112 and EUR 25,347, respectively, relating to the change in the fair value of the hedging instrument, was recognized in other comprehensive income (OCI). In 2012 and 2011, no ineffectiveness was recorded.

A change in the interest rate can have material effects on the fair value of the hedging instrument. At December 31, 2012, a change in interest rate of 50 basis points would have led to the following negative fair values:

	50 bps decrease	50 bps increase
Fair value of the hedging instrument	81,551	49,760

in EUR '000

Exchange rate risk
As of December 31, 2012 and 2011, the remaining purchase price liability from the acquisition of SBT in 2007 (see Note (2)) amounts to TUSD 38,211 and TUSD 74,887. This liability was not hedged but Telekom Austria Group invested US Dollars resulting from the initial forward exchange contract which expired in 2010 (see Note (8)).

As of December 31, 2012 and 2011, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities or their subsidiaries (for foreign exchange rates, see Note (1)):

At December 31,		2012			2011	
	EUR	USD	Other	EUR	USD	Other
Accounts receivable – trade	14,580	4,369	16,384	14,110	7,943	14,767
Accounts payable – trade	33,335	12,521	6,710	43,360	21,045	13,733

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by EUR 2,510 and EUR 2,313 in 2012 and 2011, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by EUR 11 and EUR 551 in 2012 and 2011, respectively. A sensitivity 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, 2012 and 2011, hedge accounting was not applied to foreign exchange agreements.

As of December 31, 2011, Telekom Austria Group had 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 table indicates the types of foreign exchange agreements in use at December 31, 2011 (amounts to be received are stated negative):

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

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

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

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

Telekom Austria Group does not require collateral in respect of financial assets. In order to reduce the risk of non-performance by the other parties all swap agreements are concluded under the standards of the “ISDA-Master Agreement” or the German Standards “Framework for Financial Forward Agreements”.

Accounts receivable – trade and other receivables

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

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

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

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

Investments

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

Guarantees

As of December 31, 2012 and 2011, no guarantees have 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,	2012	2011
Available-for-sale financial assets	92,440	179,315
Financial investments valued at cost	554	554
Loans and receivables	61,218	61,023
Cash and cash equivalents	600,763	459,952
Derivatives	0	209
Hedging instruments (fair value hedges)	11,003	14,080
Carrying amount of financial assets	**765,978**	**715,133**

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

At December 31,	2012	2011
Domestic	884,035	840,866
Foreign	66,272	93,908
Allowances	–203,451	–197,153
Accounts receivable - trade	**746,856**	**737,621**

Accounts receivable – trade from Telekom Austria Group’s most significant customer amount to EUR 2,011 and EUR 1,280 as of December 31, 2012 and 2011, respectively. Thus, no major concentration of credit risk exists. With respect to the aging of accounts receivable – trade and the allowance for doubtful accounts, see Note (9).

in EUR ‘000 87

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 2012	Carrying amount	Fair value 2011
Financial assets				
Cash and cash equivalents	**600,763**	**600,763**	459,952	459,952
Accounts receivable – trade	746,856	746,856	737,621	737,621
Receivables due from related parties	7	7	191	191
Other current financial assets	46,993	46,993	50,385	50,385
Other non-current financial assets	14,219	14,219	10,447	10,447
Loans and receivables	**808,075**	**808,075**	798,644	798,644
Long-term investments	7,317	7,317	13,343	13,343
Short-term investments	85,123	85,123	165,972	165,972
Available-for-sale investments	**92,440**	**92,440**	179,315	179,315
Investments at cost	**554**	**554**	554	554
Derivatives	0	0	209	209
Hedging instruments (fair value hedges)	11,003	11,003	14,080	14,080
Financial assets carried at fair value	**11,003**	**11,003**	14,290	14,290

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.

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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 2012	Carrying amount	Fair value 2011
Financial liabilities				
Liabilities to financial institutions	6,840	6,840	12,204	12,698
Bonds	2,432,820	2,679,937	1,691,259	1,790,401
Other current financial liabilities	133,336	133,336	172,522	172,687
Non-current liabilities to financial institutions	1,031,710	1,127,312	1,850,531	1,948,180
Lease obligations	45	45	760	760
Other non-current liabilities	1,394	1,394	26,700	26,700
Accounts payable – trade	567,145	567,145	642,177	642,177
Payables due from related parties	7,775	7,775	9,816	9,816
Accrued interest	103,511	103,511	83,805	83,805
Financial liabilities at amortized cost	**4,284,577**	**4,627,295**	4,489,772	4,687,222
Bonds – hedged item	**306,480**	**307,097**	310,680	309,509
Hedging instruments (cash flow hedges)	64,612	64,612	39,452	39,452
Financial liabilities carried at fair value	**64,612**	**64,612**	39,452	39,452

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 financial institutions, 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.

in EUR '000 89

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, 2012				
Available-for-sale & other investments	8,194	84,246	0	92,440
Fair value hedges	0	11,003	0	11,003
Financial assets measured at fair value	**8,194**	**95,249**	**0**	**103,443**
Bonds – hedged item	0	306,480	0	306,480
Cash flow hedges	0	64,612	0	64,612
Financial liabilities measured at fair value	**0**	**371,092**	**0**	**371,092**
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**

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

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 2012, the Supreme Administrative Court in Bulgaria overruled the decision of the Commission for Regulation of Communication "CRC" imposing an adjustment of the international termination rates for incoming calls into individual mobile networks to the level of national rates, effective as of April 1, 2011. The contingent liability reported as of December 31, 2011 does not exist anymore.

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 reporting date amounts to approximately EUR 191,186.

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, 2012. 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.

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(35) Remuneration paid to the Management and Supervisory Board

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

	2012	2011
Compensation Management Board	959	936
Performance-based remuneration	780	1,095
Total	**1,739**	**2,031**
Compensation Supervisory Board	192	181

As of December 31, 2012, 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.

Since January 1, 2009, Hannes Ametsreiter has been a member of the Management Board and since April 1, 2009, the Chief Executive Officer and Chairman of the Board of Telekom Austria AG, appointed until December 31, 2013. Additionally, Hannes Ametsreiter is Chief Executive Officer and Chairman of the Board of A1 Telekom Austria AG.

Since April 1, 2007, Hans Tschuden has been as the Chief Financial Officer and since January 1, 2009, the Deputy Chairman of Telekom Austria AG, appointed until March 31, 2015.

(36) Employees

The average number of employees during the years 2012 and 2011 was 16,863 and 16,944, respectively. As of December 31, 2012 and 2011, Telekom Austria Group employed 16,446 and 17,217 employees (full-time equivalents).

(37) Subsequent Events

On February 18, 2013, 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 February 2, 2012, Telekom Austria AG and A1 Telekom Austria AG agreed to acquire assets of up to EUR 390,000 from Orange Austria Telecomunication GmbH („Orange Austria“). The acquisition includes following assets:

- 2 x 13.2 MHz frequencies in 900 MHz, 2,100 MHz and 2,600 MHz frequency ranges (by A1 Telekom Austria AG)
- a subsidiary into which the base stations are to be demerged (by Telekom Austria AG)
- collocation rights relating to base stations (by A1 Telekom Austria AG)
- the mobile phone operator YESSS! Telekommunikation GmbH ("YESSS!") (by Telekom Austria AG)
- specific intangible property rights including the brand "One" (by A1 Telekom Austria AG)

On January 3, 2013, Telekom Austria AG acquired 100% of the mobile phone operator YESSS! and A1 Telekom Austria AG acquired intangible property rights from Orange Austria. The remaining assets will be acquired gradually. An amount of EUR 351,000 of the total consideration for the acquisition has been paid in cash. Currently, no purchase price allocation is available. The acquisition enables Telekom Austria Group to enlarge its customer base and to expand its market portfolio by integrating the mobile phone operator YESSS! into the segment Austria. By acquiring base stations and frequencies, the existing geographical allotment of frequencies, especially in rural areas, can be extended and network quality can be improved.

On January 24, 2013, Telekom Austria Group issued a hybrid bond with a volume of EUR 600,000. The hybrid bond is a subordinated bond with indefinite maturity. It can be redeemed at the earliest after a period of five years. Additionally, there is an earlytermination right subject to certain conditions. The annual coupon amounts to 5.625% until the first reset date, February 1, 2018. Subsequently there will be a reset date every five years. The coupon is established two days prior to the respective reset dates.

in EUR '000 91

(38) Affiliated Companies

Name and company domicile	Share in capital as of December 31, 2012 in %	Method of consolidation*
Segment Austria		
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC
CableRunner GmbH, Vienna	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC
ÖFEG GmbH, Vienna	100.00	FC
paybox Bank AG, Vienna	100.00	FC
paybox Service GmbH, Vienna	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC
Airwin Entertainment GmbH, Vienna	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC
JetStream Hungary Kft, Budapest	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC
TA Mreža d.o.o., Ljubljana	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC
JetStream Bulgaria EOOD, Sofia	100.00	FC
JetStream Croatia Ltd., Zagreb	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC
JetStream Switzerland GmbH, Zürich	100.00	FC
JetStream Poland Spolka Z Ograniczona Odopwiezialnoscia, Warsaw	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC
JetStream Italy S.r.l, Milan	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)		FC
media.at GmbH, Vienna	25.3228	EQ
Marx Media Vienna GmbH, Vienna	25.0290	EQ
Segment Bulgaria		
Mobiltel EAD, Sofia	100.00	FC
Alabin 48 EOOD, Sofia	100.00	FC
M repair and service EAD, Sofia	100.00	FC
M Support Services EOOD, Sofia	100.00	FC
M Game EOOD, Sofia	100.00	FC
GPS Bulgaria AD, Sofia	90.00	FC
Orbitel EAD, Sofia	100.00	FC
Segment Croatia		
Vipnet d.o.o., Zagreb	100.00	FC
Vipnet usluge d.o.o., Zagreb	100.00	FC
B.net Hrvatska d.o.o., Zagreb	100.00	FC
Segment Belarus		
FE VELCOM, Minsk	100.00	FC
FE TA-Engineering, Minsk	100.00	FC
FE TA-Installation, Minsk	100.00	FC
Segment Additional Markets		
Telekom Austria Group M2M GmbH, Vienna	100.00	FC
mobilkom liechtenstein AG, Vaduz	100.00	FC
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC
Vip mobile d.o.o., Belgrade	100.00	FC
Vip operator DOOEL, Skopje-Zentar	100.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	100.00	FC

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Name and company domicile	Share in capital as of December 31, 2012 in %	Method of consolidation*
Corporate & Other		
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00	FC
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00	FC
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC

* FC – full consolidation, EQ – equity method, NC = no consolidation due to immateriality

As of December 31, 2012 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 media.at which has June 30 as its reporting date.

Vienna, February 18, 2013

Hannes Ametsreiter

Hans Tschuden

in EUR '000

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 2012 to 31 December 2012**. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2012, the consolidated statement of operations as well as 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 2012 and the notes to the consolidated financial statements.

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 2012 and of its financial performance and its cash flows for the year from 1 January to 31 December 2012 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, 18 February 2013

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

DDr. Martin Wagner	Mag. Rainer Hassler
Wirtschaftsprüfer	Wirtschaftsprüfer

(Austrian Chartered Accountants)

Declaration of the Management Board

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

The Management Board

Hannes Ametsreiter,
Member of the Management Board since January 1, 2009,
Chairman of the Management Board since April 1, 2009,
appointed until December 31, 2016

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

Telekom Austria AG Financial Statements 2012

Separate Financial Statements according to Austrian Commercial Code - UGB

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Annex I/1

Telekom Austria Aktiengesellschaft, Vienna

Statement of Financial Position as of December 31, 2012

ASSETS	December 31, 2012 EUR	December 31, 2011 TEUR
A. Fixed assets		
Financial assets		
1 Investments in affiliated companies	7,265,315,410.44	7,375,910
2 Investments	543,341.86	543
	7,265,858,752.30	7,376,453
B. Current assets		
I. Receivables		
1 Accounts receivable – trade	0.00	4
2 Receivables – affiliated companies	93,007,041.59	369,683
3 Other accounts receivable	20,835,703.92	20,415
	113,842,745.51	390,102
II. Treasury shares	**2,502,817.94**	4,028
III. Cash and cash equivalents	**436.55**	2
	116,346,000.00	394,132
C. Prepaid expenses	**11,340,620.03**	6,822
	7,393,545,372.33	7,777,407

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

Annex I/2

Telekom Austria Aktiengesellschaft, Vienna

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2012 EUR	December 31,2011 TEUR
A. Stockholders' equity		
I. Share capital	966,183,000.00	966,183
II. Additional paid-in capital		
Appropriated	1,052,317,856.33	1,052,318
III. Retained earnings		
1 Reserve for treasury shares	2,502,817.94	4,028
2 Other reserves (unrestricted reserves)	1,452,023,146.73	1,606,498
	1,454,525,964.67	1,610,526
IV.Net income	22,256,955.25	169,022
Thereof carried forward: EUR 847,537.57; previous year: TEUR 77		
	3,495,283,776.25	3,798,049
B. Provisions		
1 Provisions for severance payments	3,214,675.00	2,844
2 Tax provisions	395,446,569.64	422,696
3 Other provisions	4,604,562.03	4,959
	403,265,806.67	430,499
C. Liabilities		
1 Liabilities to banks	37.66	0
2 Accounts payable – trade	7,855,734.93	5,191
3 Liabilities due to affiliated companies	3,486,767,097.34	3,543,138
4 Other liabilities	372,919.48	530
thereof to social security: EUR 312,550.59; previous year: TEUR 314		
	3,494,995,789.41	3,548,859
	7,393,545,372.33	7,777,407
Contingent liabilities	5,150,257,632.61	5,376,838

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

Annex II

Telekom Austria Aktiengesellschaft, Vienna

Statement of Operations for Financial Year 2012

		2012		2011
	EUR	EUR	TEUR	TEUR
1 Revenues		21,171,065.31		19,955
2 Other operating income				
a) Income from reversal of provisions	6,489.00		1	
b) Other	2,420,104.86	2,426,593.86	864	865
3 Personnel expenses				
a) Salaries	(16,070,304.60)		(16,025)	
b) Expenses for severance payments and payments to staff contribution plans	(700,050.25)		(662)	
c) Pension expense	(674,898.95)		(598)	
d) Expenses for statutory social security and payroll related taxes and contributions	(3,576,501.79)		(3,194)	
e) Other social benefits	(48,208.11)	(21,069,963.70)	(71)	(20,550)
4 Other operating expenses				
a) Taxes	(301,398.87)		(229)	
b) Other	(31,179,823.70)	(31,481,222.57)	(32,757)	(32,986)
5 Subtotal from line 1 to 4 (operating result)		**(28,953,527.10)**		**(32,717)**
6 Income from investments		2,070,000.00		254,570
thereof from affiliated companies: EUR 2,000,000.00; previous year: TEUR 254,500				
7 Other interest and similar income		10,682.92		31
thereof from affiliated companies: EUR 10,674.38; previous year: TEUR 31				
8 Income from the reversal of impairment losses on long-term financial assets		112,200,000.00		63,666
9 Expenses for long-term financial assets and treasury shares		(143,127,232.73)		(330,477)
thereof: a) impairment losses : EUR 110,525,236.44; previous year: TEUR 329,310				
b) expenses from affiliated companies: EUR 141,601,996.29; previous year: TEUR 330,167				
10 Interest and similar expenses		(124,625,508.19)		(144,926)
thereof related to affiliated companies: EUR 123,701,307.76; previous year: TEUR 144,010				
11 Subtotal from line 6 to 10 (financial result)		**(153,472,058.00)**		**(157,136)**
12 Earnings before income taxes		**(182,425,585.10)**		**(189,853)**
13 Income taxes		47,835,002.78		(34,602)
14 Net loss for the year		**(134,590,582.32)**		**(224,455)**
15 Release of retained earnings into net income		156,000,000.00		393,400
16 Net income carried forward from prior year		847,537.57		77
17 Net income		**22,256,955.25**		169,022

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

Annex III

Notes to the Financial Statements for the Financial Year 2012

Table of contents

(1) Accounting Principles

1.1 General Principles

The financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (UGB), taking into account Austrian generally accepted accounting principles and in compliance with the general principle of providing a true and fair view of the net assets, financial position and result of operations of the Company.

The financial statements were prepared by adhering to the principle of completeness.

The principles of individual measurement and going concern were complied with in measuring assets and liabilities.

The principle of prudence was observed in that only profits realized as of the reporting date were recognized. All identifiable risks and contingent losses were taken into account.

The statement of operations was prepared in accordance with the total cost format. The figures presented in the financial statements are shown in thousands of Euros (TEUR). The reporting date is December 31.

1.2 Fixed Assets

Investments in affiliated companies and investments are measured at acquisition cost. Impairment losses are recognized if the fair value at the reporting date is lower than the carrying amount of the asset and is expected to be permanent. Impairment losses are reversed if the reason for the impairment no longer exists.

1.3 Current Assets

Receivables are measured at their nominal value unless the lower fair value is recognized in the event of identifiable individual risks. Specific valuation allowances are recognized to account for default risks. Receivables denominated in foreign currencies are measured at the euro reference rate of the European Central Bank at the reporting date if it is lower than the accounting rate.

Treasury shares, which are reported in current assets are measured at acquisition cost or the lower fair value in accordance with the strict lower of cost or market principle. In 2012, an impairment loss amounting to TEUR 1,525 (previous year: TEUR 310) was recognized.

1.4 Provisions

Provisions for severance payments are recognized for the legal and contractual obligations to members of the Management Board, and for employees, whose employment with Telekom Austria Group started before January 1, 2003. The calculation is based on the principles of financial mathematics using the partial value method and applying an interest rate of 3.5 % (previous year: 3.5 %) and without consideration of employee turnover.

Provisions for anniversary bonuses are similar to those for severance payments and are calculated in the same way as the provision for severance payments.

Other provisions are recognized in the amount deemed necessary. They take into account all identifiable risks and liabilities for which the amount has not yet been determined.

1.5 Liabilities

Liabilities are recognized at settlement amount taking into account the prudence principle. Liabilities denominated in foreign currencies are measured at the euro reference rate of the European Central Bank at the reporting date if it is higher than the accounting rate.

(2) Notes on Statement of Financial Position

2.1 Fixed Assets

The development of the individual fixed asset items is shown in the schedule of fixed assets (Appendix 1).

The composition of investments in affiliated companies is shown in the schedule of investments (Appendix 4).

On April 1, 2009, Telekom Austria AG, which holds 99% in Telekom Projektentwicklungs GmbH, concluded a profit and loss exclusion contract with Telekom Finanzmanagement GmbH and Telekom Projektentwicklungs GmbH, the sole shareholder of Telekom Finanzmanagement GmbH, with the consent of A1 Telekom Austria Aktiengesellschaft (A1 Telekom Austria AG), which holds 1% in Telekom Projektentwicklungs GmbH. This contract came into effect on January 1, 2009 and can be terminated in writing by either contractual party to the end of a financial year with a notice period of three months.

2.2 Receivables

The structure and maturities of receivables are shown in the receivables aging report (Appendix 2).

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

2.3 Prepaid Expenses

Prepaid expenses mainly comprise discounts for intra-company loans resulting from bond issuances as part of the 2003 and 2012 EMTN Programs and a bond issued in 2009.

2.4 Share Capital

The share capital of Telekom Austria AG amounts to TEUR 966,183 and is divided into 443,000,000 bearer shares. ÖIAG holds 28.42%, América Móvil holds 22.76%, either directly or indirectly, 48.72% of the shares are attributable to the free float and the remaining 0.10% is held as treasury shares. Treasury shares amount to TEUR 951 of the share capital, equal to 436,031 shares and were acquired in September 2007.

Pursuant to the resolution of the Annual General Meeting on May 23, 2012, the Management Board is authorized to acquire treasury shares representing up to 5% of the share capital during a period of 18 months. The Management Board is authorized to use treasury shares for the issue to employees, senior staff and members of the Management Board/management of the Company and its affiliated companies and/or to service stock options from performance share programs either in return for payment or gratuitously. The Management Board was also authorized to use treasury shares as consideration for the acquisition of companies, business operations, business units or shares in one or more companies, both at home and abroad. The Management Board was also granted authorization to sell treasury shares in accordance with Section 65 (1b) of the Austrian Stock Corporation Act (AktG) via the stock exchange at any time or by public offer for a period of five years in any other legally admissible manner, including off-market, whereby the Management Board may also decide to exclude the public from buying.

2.5 Dividends

At the Annual General Meeting on May 29, 2013, the Management Board will propose to distribute a dividend of EUR 0.05 per eligible share. The remaining net income will be carried forward to new account.

2.6 Provisions

As of December 31, 2012, tax provisions primarily related to provisions for deferred taxes in the amount of TEUR 395,443 (previous year: TEUR 422,693). In accordance with the expert opinion of the Austrian Commission for Commercial Law and Audit (Fachsenat für Handelsrecht und Revision) "Deferred Taxes in Separate Financial Statements and in Consolidated Financial Statements" (KFS/RL15, the Company recognized a provision for deferred taxes on differences between the carrying amounts of investments and their tax bases resulting from a corporate restructuring. This provision is classified as non-current.

Other provisions include provisions for:

	31 December 2012 TEUR	31 December 2012 TEUR
Long Term Incentive Program (LTI)	719	683
Personnel	3,648	3,446
Other	237	830
	4,605	4,959

2.7 Liabilities

The maturities and structure of liabilities are presented in the schedule of liabilities (Appendix 3).

As in the previous year, there have been no significant expenses from other liabilities that will only become due after the reporting date.

2.8 Contingent Liabilities

	31 December 2012 TEUR	31 December 2011 TEUR
Guarantees as part of the EMTN Programs	2,000,000	1,250,000
Guarantee as part of the 2009 bond	750,000	750,000
Bank guarantees	2,400,258	3,376,838
	5,150,258	5,376,838

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

On July 10, 2003, TFG issued a EUR 750 million Eurobond with fixed interest of 5.00% and a term of ten years under the EMTN Program. The bond was placed at a reoffer price of 99.193% and used to refinance existing liabilities.

On January 27, 2005, TFG issued two EUR 500 million Eurobonds with fixed interest of 3.375% and 4.250% and terms of five and 12 years respectively under the EMTN Program. The bonds were placed at reoffer prices of 99.598% and 98.829%. The former was repaid in January 2010 as set out in the contract.

On January 29, 2009, TFG issued a EUR 750 million bond with fixed interest of 6.375% and a term of seven years. The bond was placed at a reoffer price of 99.238% and used to refinance existing liabilities. Both Telekom Austria AG and A1 Telekom Austria AG have issued irrevocable and unconditional guarantees in favor of the bondholder.

In March 2012, Telekom Austria AG and Telekom Finanzmanagement GmbH initiated a new Euro Medium Term Note (EMTN) Program with a volume of TEUR 2,500,000. All payments from bonds issued by Telekom Finanzmanagement GmbH under this program are irrevocably and unconditionally guaranteed by Telekom Austria AG.

On April 2, 2012, TFG issued a TEUR 750,000 bond with a fixed interest of 4% and a term of ten years under the EMTN Program. The bond was placed at a reoffer price of 98.984% and used to refinance existing liabilities.

With the guarantee dated November 10, 2008, the Company warrants Telekom Austria Personalmanagement GmbH that A1 Telekom Austria AG will fulfill its obligations resulting from the profit and loss exclusion contract.

(3) Notes on the Statement of Operations

3.1 Revenues

Revenues of TEUR 21,171 (previous year: TEUR 19,955) relate to services such as public relations and communications work, coordinating product development and the technical infrastructure, legal and tax advice and investment controlling, services in conjunction with the Department of Human Resource and Civil Service Regulations (Beamtendienstrecht) together with salary and collective agreement negotiations that are predominantly charged to A1 Telekom Austria AG, MobilTel EAD, FE Velcom and VIPnet d.o.o. by Telekom Austria AG on the basis of intercompany agreements.

3.2 Other Operating Income

Other operating income mainly comprises income from the passing on of expenses to affiliated companies in the amount of TEUR 2,084 (previous year: TEUR 797).

3.3 Personnel Expenses

	2012 TEUR	2011 TEUR
Salaries	16,070	16,025
Severance expense and payments to staff contribution plans	700	662
Pension expenses	675	598
Expenses for statutory social security and payroll related taxes and contributions	3,577	3,194
Other social benefits	48	71
	21,070	20,550

An amount of TEUR 117 (previous year: TEUR 108) was paid to staff contribution plans, while severance payments amounted to TEUR 284 (previous year: TEUR 295).

Severance and pension expenses were as follows:

	2012 TEUR	2011 TEUR
Members of the Management Board	264	79
Senior staff	392	112
Other employees	719	1,068
	1,375	1,259

The average number of full-time employees was 149 (previous year: 149). The average number of full-time civil servants was ten (prior year: 11).

In 2012, the Management Board comprised two members.

3.4 Other Operating Expenses

	2012 TEUR	2011 TEUR
Other business taxes	301	229
Other	31,180	32,757
	31,481	32,986

Other operating expenses include expenses related to the services of A1 Telekom Austria AG amounting to TEUR 8,178 (previous year: TEUR 8,244).

3.5 Income from Investments

Income from investments includes dividend income from CEESEG Aktiengesellschaft amounting to TEUR 70 (previous year: TEUR 70).

It also includes dividend income from Mobilkom Beteiligungsgesellschaft mbH of TEUR 2,000 (prior year: TEUR 24,000). In the previous year, income from investments of TEUR 39,000 from mobilkom Bulgarien GeschäftsentwicklungsgmbH, TEUR 135,500 from A1 Kroatien Geschäftsentwicklungs GmbH and TEUR 56,000 from A1 Telekom Austria AG were also included.

3.6 Income from the Reversal of Impairment Losses on Long-Term Financial Assets

Based on current company valuations, the reversal of impairment losses recognized in prior periods of TEUR 112,200 (previous year: TEUR 63,666) was required pursuant to Section 208 (2) of the Austrian Commercial Code (UGB) in conjunction with Section 6 No. 13 of the Austrian Income Tax Act (EStG). The reversal of impairment losses recognized in prior periods related to mobilkom Mazedonien Geschäftsentwicklungs GmbH amounting to TEUR 2,200(previous year: TEUR 20,400) and to mobilkom Belarus Geschäftsentwicklungs GmbH amounting to TEUR 110,000. In the previous year, the reversal of impairment losses recognized in prior periods related to Telekom Projektentwicklungs GmbH in an amount of TEUR 356 and to mobilkom CEE Geschäftsentwicklungs GmbH in an amount of TEUR 42,910.

3.7 Expenses from Long-Term Financial Assets

Expenses from affiliated companies result from expenses incurred under the profit and loss exclusion contract with Telekom Projektentwicklungs GmbH in the amount of TEUR 32,602 (previous year: TEUR 1,167) and from the impairment loss recognized on A1 Telekom Austria AG of TEUR 109,000 due to a current company valuation. In the previous year, an amount of TEUR 329,000 was attributable to an impairment loss recognized on mobilkom Belarus Geschäftsentwicklungs GmbH.

3.8 Income Taxes

The Company is the head of a tax group as defined in Section 9 of the Austrian Corporation Tax Act (KStG) and has concluded a group and tax allocation agreement with 3G Mobile Telecommunications GmbH, Telekom Austria Personalmanagement GmbH, A1 Telekom Austria Aktiengesellschaft, Telekom Projektentwicklungs GmbH, Telekom Finanzmanagement GmbH, ÖFEG GmbH, World-Direct eBusiness solutions Gesellschaft m.b.H., Telekom Austria Beteiligungen GmbH, paybox Bank AG, mk Logistik GmbH and paybox Service GmbH as members of the tax group (as at December 31, 2012). Due to the earnings position of the tax group, the 2005 group and tax allocation contract was thoroughly revised with effect January 1, 2012, taking into account the regulatory framework for company law and is structured as follows:

Tax group members who transfer taxable profit to the head of the group are required to pay to the head of the group 25% of the profit transferred to the extent it results in a tax expense at the group level. The tax expense charged on the profit of the tax group member is calculated by dividing the tax base at group level by the total amount of taxable profit subject to allocation, therefore after consideration of intragroup tax loss carry forwards, but without taking into account current losses transferred from members of the tax group. For taxable profits of tax group members that do not result in a tax expense at group level, group allocation amounts to 12%. Tax group members transferring a tax loss to the head of the group receive no compensation, but can carry forward this tax loss as an intra-group tax loss carry forward and offset the entire amount with future taxable profit within the group. Therefore, tax allocation is not required for intragroup loss carry forward. Intragroup loss carry forwards not yet offset at the time the group member leaves the tax group are compensated for in the extent required by company law upon termination of the agreement.

Due to the profit and loss exclusion contract concluded by the Company with Telekom Projektentwicklungs GmbH, Telekom Projektentwicklungs GmbH and Telekom Finanzmanagement GmbH, no tax is allocated to/from these companies.

In 2012, the group allocation rate used was 12%.

Intragroup loss carry forward for which no provisions were recognized amounted to TEUR 16,556.

	2012 TEUR	2011 TEUR
Allocation tax group members*)	–21,559	8,248
Group allocation – previous periods*)	866	0
Tax expense – previous periods*)	108	0
Corporation tax – Group*)	**–20,585**	8,248
Provisions for deferred taxes*)	–27,250	26,355
Total tax expense*)	**–47,835**	34,602

*) in above table, positive amounts (+) represent tax expense and negative amounts (-) represent tax income

As in the previous year, income tax expense does not relate to the result of the head of the tax group.

(4) Other Information

4.1 Remuneration of the Management and Supervisory Boards of the Company

	2012 TEUR	2011 TEUR
Remuneration of members of the Management Board	1,739	2,031
Remuneration of members of the Supervisory Board	192	181
	1,931	2,212

No benefits were paid under the Multi-Year Stock Option Program or the Long Term Incentive Program in 2012 or 2011.

4.2 Stock Option Program 2009 (ESOP 2009+)

As part of the third tranche of the ESOP 2007-2009 Stock Option Program (ESOP 2009+), on January 14, 2009, 4,923,090 options were issued in Telekom Austria Group of which 360,000 in Telekom Austria AG. In accordance with the decision of the Company, participants are authorized to exercise their options only in the form of a cash payment. The earliest exercise date is February 23, 2012. The exercise period ends on May 31, 2013.

The exercise price of EUR 11.06 equals the average of the closing prices on the Vienna Stock Exchange on the 20 trading dates preceding the penultimate trading date before the grant date (January 14, 2009).

As the previous years' programs, ESOP 2009+ is based on the profitability of Telekom Austria Group. For the options granted in 2009 to be exercised, EPS (earnings per share) target value set by the Supervisory Board must be achieved. The EPS target values defined were not achieved for the options of the 2009+ tranche. Therefore, they have expired irrevocably.

4.3 Long Term Incentive (LTI) Program

On December 9, 2009, the Supervisory Board of Telekom Austria AG approved the LTI Program, in particular the first tranche of 2010, and announced further tranches. The second tranche was approved on February 21, 2011. The third tranche was approved on May 7, 2012. Participants are required to make a personal investment in 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. For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period. This right is not transferrable.

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 at the beginning of each tranche. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants; payment will be made in cash. If the targets are exceeded, additional shares will be allocated proportionately up to a maximum of 175% of the shares allocated based on meeting the targets. If targets are missed significantly, no shares are allocated.

On the reporting date, a liability is recognized for the share of the future anticipated expense of the LTI program already earned, which was measured at fair value. The fair value is determined by using the expected achievement of the performance criteria and the expected share price, which is based on the binominal tree process. Expected dividends were also included in the calculation. The liability is built up over the service period.

	LTI 2012	LTI 2011	LTI 2010
Program start	January 1, 2012	January 1, 2011	January 1, 2010
Grant date	August 1, 2012	June 1, 2011	September 1, 2010
End of vesting period	December 31, 2014	December 31, 2013	December 31, 2012
Vesting date	August 1, 2015	June 1, 2014	September 1, 2013

Personal investment in shares as of December 31, 2012	LTI 2012	LTI 2011	LTI 2010
Members of Management Board			
Dr. Hannes Ametsreiter	25,674	25,674	25,674
Mag. Johann Tschuden	34,000	25,674	25,674
Senior staff	38,066	22,966	16,600
Other employees	36,965	41,754	29,226
Total	**134,705**	**116,068**	**97,174**
Members of Management and Supervisory Boards and entitled employees of subsidiaries	365,000	368,446	336,552

LTI 2010	2012	2011	2010
Expected bonus shares	58,784	78,097	89,499
Maximum bonus shares	170,055	176,869	177,499
Fair value in TEUR	309	690	847

LTI 2011	2012	2011
Expected bonus shares	66,957	80,673
Maximum bonus shares	203,118	217,091
Fair value in TEUR	381	670

LTI 2012	2012
Expected bonus shares	83,692
Maximum bonus shares	235,734
Fair value in TEUR	459

4.4 Other Information

The Company is a parent company required to prepare consolidated financial statements in accordance with Section 244 Austrian Commercial Code (UGB). The consolidated financial statements are filed with the commercial register at the Commercial Court in Vienna.

In accordance with Section 237 No. 8b last sentence UGB, the Company exercises the right not to disclose information about related party transactions. In the financial year, related party transactions were effected at arm's-length conditions only.

In accordance with Section 237 No. 14 UGB, the Company exercises the right not to disclose information on expenses for the auditor.

The Company is a large corporation in accordance with Section 221 UGB.

(5) Members of the Management Board and Supervisory Board

Management Board
Chairman Dr. Hannes Ametsreiter
Deputy Chairman Mag. Johann Tschuden

Supervisory Board	
Ing. Rudolf Kemler	Chairman of the Supervisory Board since November 1, 2012
Mag. Markus Beyrer	Chairman of the Supervisory Board until October 31,2012
Ronny Pecik	First Deputy Chairman since May 23,2012
Dr. Edith Hlawati	Second Deputy Chairman
	First Deputy Chairman until May 23, 2012
Silvia Bauer	since July 26, 2012
Dr. Henrietta Egerth-Stadlhuber	
Ing. Franz Geiger	
Ing. Walter Hotz	
Werner Luksch	
MMag. Peter J. Oswald	
Mag. Dr. Wolfgang Ruttenstorfer	
Mag. (FH) Alexander Sollak	
Dr. Wilfried Stadler	
DI Harald Stöber	
Oscar Von Hauske Solis	since October 23, 2012
Ing. Gottfried Zehetleitner	

Vienna, February 18, 2013

The Management Board

Chairman Dr. Hannes Ametsreiter

Deputy Chairman Mag. Johann Tschuden

Exhibit 1

Telekom Austria Aktiengesellschaft, Vienna

Development of Fixed Assets for the 2012 Financial Year

Values in TEUR	Acquisition/production costs As of January1, 2012	Additions	Disposals	As of December 31, 2012	Cumulative impairment losses	Carrying amount as of December 31, 2012	Carrying amount as of December 31, 2011	Reversals of impairment losses 2012	Impairment losses 2012
Financial assets									
1. Investments in affiliated companies									
Telekom Projektentwicklungs GmbH	3,305	851	0	4,157	2,766	1,391	539	0	0
mobilkom Bulgarien Geschäftsentwicklungsgmbh	1,111,532	0	122,850	988,682	0	988,682	1,111,532	0	0
mobilkom Mazedonien Geschäftsentwicklungs GmbH	124,540	0	0	124,540	48,400	76,140	73,940	2,200	0
Mobilkom Beteiligungsgesellschaft mbH	357,229	3,500	0	360,729	0	360,729	357,229	0	0
mobilkom CEE Geschäftsentwicklungs GmbH	386,953	4,696	0	391,649	0	391,649	386,953	0	0
mobilkom Belarus Geschäftsentwicklungs GmbH	974,700	0	0	974,700	365,500	609,200	499,200	110,000	0
A1 Kroatien Geschäftsentwicklungs GmbH	698,790	0	0	698,790	0	698,790	698,790	0	0
A1 Telekom Austria Aktiengesellschaft	4,249,947	9	0	4,249,956	111,221	4,138,735	4,247,725	0	109,000
	7,906,997	9,056	122,850	7,793,204	527,887	7,265,316	7,375,910	112,200	109,000
2. Investments									
CEESEG Aktiengesellschaft	543	0	0	543	0	543	543	0	0
	7,907,540	9,056	122,850	7,793,747	527,887	7,265,859	7,376,453	112,200	109,000

Exhibit 2

Telekom Austria Aktiengesellschaft, Vienna

Receivables Aging Report as of December 31, 2012

Amounts in TEUR	Carrying value	Remaining maturity up to one year	Remaining maturity more than one year
1. Accounts receivable – trade	0	0	0
2. Receivables – affiliated companies			
– Trade	4,582	4,582	0
– Financial receivables	0	0	0
– Other receivables	88,425	88,425	0
	93,007	**93,007**	**0**
3. Other receivables	20,836	20,836	0
Receivables	**113,843**	**113,843**	**0**

Receivables Aging Report as at December 31, 2011

Amounts in TEUR	Carrying value	Remaining maturity up to one year	Remaining maturity more than one year
1. Accounts receivable – trade	4	4	0
2. Receivables – affiliated companies			
– Trade	5,322	5,322	0
– Financial receivables	37,125	37,125	0
– Other receivables	327,236	327,236	0
	369,683	**369,683**	**0**
3. Other receivables	20,415	20,415	0
Receivables	**390,102**	**390,102**	**0**

Exhibit 3

Telekom Austria Aktiengesellschaft, Vienna

Schedule of Liabilities as of December 31, 2012

Values in TEUR	Carrying value	Remaining maturity up to one year	from one to five years	more than five years
1. Liabilities to banks	0	0	0	0
2. Accounts payable – trade	7,856	7,856	0	0
3. Liabilities to affiliated companies				
– Trade	1,249	1,249	0	0
– Debt	3,452,818	1,172,740	1,530,078	750,000
– Other liabilities	32,700	32,700	0	0
	3,486,767	**1,206,689**	**1,530,078**	**750,000**
4. Other liabilities	373	373	0	0
Liabilities	**3,494,996**	**1,214,918**	**1,530,078**	**750,000**

Maturity Structure of Liabilities as at December 31, 2011

Values in TEUR	Carrying value	Remaining maturity up to one year	from one to five years	more than five years
1. Liabilities to banks	0	0	0	0
2. Accounts payable – trade	5,191	5,191	0	0
3. Liabilities to affiliated companies				
– Trade	1,578	1,578	0	0
– Debt	3,529,019	1,138,941	1,890,078	500,000
– Other liabilities	12,541	12,541	0	0
	3,543,138	1,153,060	1,890,078	500,000
4. Other liabilities	530	530	0	0
Liabilities	3,548,859	1,158,781	1,890,078	500,000

Exhibit 4

Telekom Austria Aktiengesellschaft, Vienna

Schedule of Shares in Affiliated Companies as of December 31, 2012

	Investment	Currency	Shareholders' equity	Net income/ loss for the year
Investments in affiliated companies				
A1 Telekom Austria Aktiengesellschaft	100.0%	TEUR	951,297	232,752
Telekom Projektentwicklungs GmbH	99.0%	TEUR	1,399	–32,602
A1 Kroatien Geschäftsentwicklungs GmbH	100.0%	TEUR	809,281	109,998
Mobilkom Beteiligungsgesellschaft mbH	100.0%	TEUR	247,510	32,965
mobilkom CEE Geschäftsentwicklungs GmbH	100.0%	TEUR	459,131	34,397
mobilkom Belarus Geschäftsentwicklungs GmbH	100.0%	TEUR	609,263	109,997
mobilkom Mazedonien Geschäftsentwicklungs GmbH	100.0%	TEUR	76,123	2,197
mobilkom Bulgarien GeschäftsentwicklungsgmbH	100.0%	TEUR	1,012,210	38,499

Annex IV

Management Report

of Telekom Austria Aktiengesellschaft for the period January 1, to December 31, 2012

Sovereign Debt Crisis and Subdued Economic Activity Worldwide

Following the aggravation of the global financial and economic crisis in 2011, worldwide economy weakened further in 2012. The recession in the Euro zone and persisting weak demand in the US depressed global trade and consequently led to falling exports in the emerging economies. There were even signs of an economic slowdown in China, for example. The urgent budget consolidation of several countries, and, in some cases, high unemployment suggest that the global economy will only improve slowly in subsequent years.

In Austria, economic output was still posting moderate growth in the first few months of 2012, but stagnated in the second half of the year due to weaker demand for exports and a further deterioration of domestic consumption. For the year as a whole, the International Monetary Fund anticipates that GDP will grow by 0.9% compared with 2.7% in the previous year. In 2012, the unemployment rate is likely to rise from 4.2% in the previous year to 4.3%, which means that it remains among the lowest in the EU. Inflation is expected to fall from 3.6% to 2.3%.

The continuing crisis in the Euro zone also has an impact on neighboring economies in Central and Eastern Europe, depressing their growth to differing degrees. According to the International Monetary Fund, real GDP in Bulgaria grew by a subdued 1.0% (2011: 1.7%), as was the case in the Republic of Macedonia (2011: 3.1%). In Belarus, growth in GDP weakened from 5.3% to 4.3%. Following stagnation in the previous year, Croatia slid into recession in 2012 with a fall in economic output of 1.1%. GDP also fell in the Republic of Serbia, at minus 0.5% (2011: +1.6%) and in Slovenia, at minus 2.2% (2011: +0.6%).

The downturn in the global economy and the renewed intensification in the sovereign debt crisis in the Euro zone affected activities in the international financial markets from spring 2012. The European Central Bank (ECB) reduced the benchmark interest rate to 0.75% in July 2012, which is its lowest level since the introduction of the monetary union. In September, the ECB decided on the option of making unlimited government bond purchases as part of outright monetary transactions (OMT), to reduce interest rates for government bonds on the secondary market. The aim of these unrestricted OMTs is to temporarily boost confidence in the Euro as a stable currency and to reduce the extent of capital flight, most notably from Southern Europe.

In September 2012, the US central bank, the Federal Reserve (Fed) again confirmed its intention of keeping the target for the federal funds rate at 0.0% to 0.25% and announced that it would keep the benchmark rate at a low level until mid-2015 at least. The ATX, the benchmark index of the Vienna Stock Exchange, increased by 26.9% in 2012, after a plunge of approximately 34.9% in 2011. The DAX, the benchmark index of the Frankfurt Stock Exchange, rose by 29.1% (2011: -14.7%).

Market Environment of the Subsidiaries of Telekom Austria AG

Both in the fixed line and the mobile communications markets, Telekom Austria Group's market environment is extremely competitive with negative pricing trends visible in most of its markets. Business development is also negatively impacted by regulatory intervention both nationally and internationally. This mainly applies to mobile termination rates and roaming tariffs. Telekom Austria Group seeks to counteract these negative factors by the successful implementation of its convergence strategy, a clear focus on high-value customer segments as well as innovative products and services.

In Austria, A1 Telekom Austria AG offers a comprehensive and convergent product portfolio comprising both fixed line and mobile communication solutions under the "A1" brand. However, intensive competition and the ongoing fixed-to-mobile substitution are also continuing to have a negative impact on business development.

In 2012, a further increase in the level of competition on the Austrian mobile communications market was apparent. This resulted in a marked decline in pricing levels for package as well as data tariffs. The most recent report on the market issued by the regulatory authority, which takes market data up to the second quarter of 2012 into account, revenues generated by an average customer fell by more than 10% year-on-year. However, at the same time, data consumption increased by more than 64%, while voice minutes and SMS use remained virtually stable. In the Austrian fixed line market, the fixed-to-mobile substitution and the associated decline in fixed line voice minutes continues to constitute one of the greatest challenges. In 2012, fixed line voice minutes fell by 11% compared to the previous year. At the same time, a decrease in average revenues for voice telephony per fixed access line in the Austrian fixed line network of 3.9% was recorded for the domestic market as a whole. Sustained strong demand for bandwidth and for convergent product solutions offset this decrease and led to fixed line revenues stabilizing in 2012. At the same time, the number of mobile broadband customers in Austria was also increased by over 4%. Demand for smart phones remains strong.

According to the Austrian Office for Statistics, the proportion of Austrian households with any kind of internet access rose from 75.4% in 2011 to 79.3% in 2012. All the previously mentioned indicators imply increased use of telecommunications solutions. However, at the same time, telecom spending as a percentage of users' average income is generally declining. This is confirmed by the regular information and communication technology (ICT) price basket published on a regular basis by the International Telecommunication Union (ITU). It 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 2011 the index value for Austria decreased from 1.1% to 0.7%.

In CEE, strong macro-economic and regulatory headwinds as well as intense competition continue to impact business development in Bulgaria as well as in Croatia and increasingly also affect the markets of Slovenia, the Republic of Serbia and the Republic of Macedonia. Particularly in Bulgaria and Croatia, intense competition has a significant impact on the pricing of mobile communications services as well as convergent product bundles. The new glide path, which was introduced with effect from July 1, 2012 and more than halved domestic and international mobile termination rates, is of key significance for business development in Bulgaria.

In the Republic of Serbia, the catch-up process in mobile broadband, starting from a far lower level than in Telekom Austria Group's other markets, continued in 2012. This development was helped by further upgrading the network infrastructure. The ICT market in the Republic of Macedonia is approaching western European standards in terms of customer usage.

Uncertainties on foreign currency markets continued to affect business development in Belarus and in the Republic of Serbia in 2012. However, the exchange rate between the Euro and the Belarusian Ruble stabilized following the volatile trend of the previous year up to the middle of the year and at the end of 2012 fell slightly below the exchange rate at the beginning of the year. In contrast, the Serbian dinar lost more than 8% compared with the Euro in the year under review.

The national and international developments described above reflect the diverse and far-reaching challenges 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.

Financial Key Performance Indicators

Total assets amounted to EUR 7,393.5 million as of December 31, 2012, representing a decrease of 4.9% compared to the previous year's level of EUR 7,777.4 million.

Fixed assets declined by 1.5% from EUR 7,376.5 million to EUR 7,265.9 million. In long-term financial assets, current company valuations resulted in the reversal of impairment losses recognized in prior periods on investments in affiliated companies totaling EUR 112.2 million and in an impairment loss recognized on A1 Telekom Austria AG amounting to EUR 109.0 million. The decrease in current assets from EUR 394.1 million to EUR 116.3 million as of December 31, 2012 results from a reduction in dividend receivables from affiliated companies.

As of December 31, 2012, shareholders' equity amounted to EUR 3,495.3 million (December 31, 2011: EUR 3,798.0 million). Provisions decreased to EUR 403.3 million (31 December 2011: EUR 430.5 million) predominantly due to provisions for deferred taxes. The decline in liabilities by EUR 53.9 million to EUR 3,495.0 million results from lower liabilities due to affiliated companies.

The services rendered by the management holding company in 2012 led to an increase in revenues from EUR 20.0 million in 2011 to EUR 21.2 million in 2012.

Personnel expenses increased from EUR 20.5 million in the previous year to EUR 21.1 million in 2012. The decline in other operating expenses from EUR 33.0 million to EUR 31.5 million was primarily driven by lower marketing costs.

As a result of the developments described above, the operating loss improved from EUR -32.7 million in 2011 to EUR -29.0 million in 2012.

Income from investments decreased from EUR 254.6 million in 2011 to EUR 2.1 million in 2012, above all due to the deferred distribution of dividends within the Group in the same period.

Income from the reversal of impairment losses recognized in prior periods on long-term financial assets amounting to EUR 112.2 million (2011: EUR 63.7 million) mainly relates to the investment in mobilkom Belarus Geschäftsentwicklungs GmbH.

In 2012, expenses from long-term financial assets primarily related to the impairment loss recognized on A1 Telekom Austria AG in the amount of EUR 109.0 million, while in the previous year, this item related to an impairment loss on mobilkom Belarus Geschäftsentwicklungs GmbH amounting
to EUR 329.0 million. At the same time, expenses from the profit and loss transfer of Telekom Projektentwicklungs GmbH increased from EUR 1.2 million to EUR 32.6 million.

Interest expense, predominantly attributable to affiliated companies, decreased from EUR 144.9 million in the previous year to EUR 124.6 million in 2012. Due to the factors described above, a loss before income taxes was EUR 182.4 million following a loss of EUR 189.9 million in 2011.

Income tax benefits for 2012 are EUR 47.8 million (2011: expenses of EUR 34.6 million), partly due to group tax allocations of EUR 21.3 million for 2012 and partly resulting from the reversal of provisions for deferred taxes of EUR 27.3 million.

Overall, these developments result in a net loss for the 2012 financial year of EUR 134.6 million (2011: EUR 224.5 million).

To enable the intended distribution of dividends, retained earnings of EUR 156.0 million were released into net income (2011: EUR 393.4 million).

At the Annual General Meeting, the Management Board will propose a dividend of EUR 0.05 per eligible share. The remaining net income will be carried forward to new account.

The following section briefly explains the equity ratio, notional debt repayment period and total return on invested capital of Telekom Austria AG and how they are calculated:

In accordance with Section 23 of the Company Reorganisation Act (URG), the equity ratio amounted to 47.3% as of December 31, 2012 (December 31, 2011: 48.8%). This ratio is calculated by dividing equity by total assets.

The notional debt repayment period as set out in Section 24 URG cannot be calculated as of December 31, 2012 due to the net cash outflow (2011: 58.8 years). The change is due to lower dividend income from affiliated companies.

The return on investment (ROI) deteriorated from -0.5% in 2011 to -0.8% in 2012. This ratio indicates interest gained on equity employed and debt and is calculated by dividing earnings before interest and taxes by the average total capital.

Equity Investments

In addition to Austria, Telekom Austria Group is successfully positioned in another seven European countries. At the end of 2012, the Group provided mobile communication services to around 20.9 million customers (2011: 20.3 million); fixed access lines amounted to more than 2.6 million, representing a decrease of 0.3% compare to the previous year.

In 2012, A1 Telekom Austria AG increased its overall customer base for mobile communication by 2.1% to reach 5.4 million customers. Its market share for mobile communication was 38.8%, compared with 40.0% in the previous year. Mobile penetration hit 164.2% (2011: 156.6%). Average revenues per mobile communication customer fell by 9.0% to EUR 18.2 (2011: EUR 20.0). Fixed access lines declined by 54,000 in 2012, the previous year having seen an increase of 21,300 lines. Average revenues per fixed access line amounted to EUR 32.1 (2011: EUR 32.2).

In 2012, Mobiltel increased the number of mobile customers by 1.3% to almost 5.6 million. Mobiltel, Bulgaria's leading mobile communication provider saw its market share fall from 48.6% to 46.9% in 2012. The mobile penetration rate reached 159.9% in Bulgaria (2011: 151.4%).

At Vipnet, Croatia's second largest mobile communication provider, the number of mobile customers declined by 4.8% in 2012 to 1.9 million. At the end of 2012, Vipnet held a market share of 38.3% (2011: 39.2%). The mobile penetration rate in Croatia at the end of the year was 116.8% (2011: 119.9%).

In 2012, Velcom, the second largest mobile communication provider in Belarus, increased its mobile customers by 3.9% from 4.6 million to 4.8 million. As at the end of December 2012, Velcom held a market share of 43.5% (2011: 41.1%). The mobile penetration rate in Belarus was 116.6% (2011: 118.8%).

As of the end of 2012, Si.mobil, Slovenia's second largest mobile communication provider had gained 3.6% more customers, raising the total to 662,600 and thus increasing its market share from 29.7% to 30.3%. At the end of 2012, the mobile penetration rate in Slovenia was 107.1%, compared with 105.6% at the end of 2011.

Vip mobile, the third largest mobile communication provider in the Republic of Serbia, increased its mobile customer base by 13.2% to 1.86 million customers, holding a market share of 17.6% at the end of 2012 (2011: 15.7%). By the end of 2012, the mobile penetration rate in the Republic of Serbia had reached 147.2% (2011: 141.3%).

At the end of 2012, Vip operator, the second largest mobile communication provider in the Republic of Macedonia, had 632,000 customers compared with 566,600 at the end of 2011, representing an increase of 11.5%. Vip operator's market share therefore increased from 24.9% at the end of 2011 to 27.3% at the end of 2012. As of December 31, 2012, the mobile penetration rate in the Republic of Macedonia was 113.1% (2011: 111.0%).

Mobilkom Liechtenstein posted a 0.3% decrease in customers from 6,180 to 6,160 in 2012. Its market share was 15.9% (2011: 16.5%).

Changes to the Management and Supervisory Boards

In 2012, the following changes in the members of the Supervisory Board delegated by the Works Council occurred: Silvia Bauer was delegated as a member of the Supervisory Board on July 26, 2012. The Extraordinary General Meeting on October 23, 2012 elected Rudolf Kemler (with effect from November 1, 2012) and Oscar von Hauske Solis (with effect from October 23, 2012) to the Supervisory Board. Markus Beyrer left the Supervisory Board on November 1, 2012. Rudolf Kemler was then elected as Chairman of the Supervisory Board with effect from November 1, 2012. The role of Deputy Chairman of the Supervisory Board was held by Edith Hlawati until May 23, 2012. On May 23, 2012, the Supervisory Board elected Ronny Pecik as 1st Deputy Chairman; Edith Hlawati has acted as 2nd Deputy Chairman since then.

Innovation and Technology

The numerous research and development activities of Telekom Austria Group are focused on the market-oriented development of products and services as well as on the further technological development of network infrastructures. In order to ensure synergies and economies of scale, these activities are subject to Group-wide coordination and knowledge sharing.

The focus on the product side was placed on innovative applications for Machine-to-Machine (M2M) and the development of a uniform strategy for all cloud computing activities, which allow customers to reliably store all programs and files on a central server. In 2012, considerable investments were made in all markets to maintain the excellent quality of the network. In Austria, for instance, the expansion of the fiber-optic network continued in selected areas and the mobile network was upgraded with additional base stations for HSPA+ (evolved high-speed packet access) as well as LTE (long term evolution), the ultra-fast mobile broadband system of the future. As the world's first network operator, A1 Telekom Austria also accelerated fixed line data transmission through the use of vectoring, an innovative process for the optimized use of copper wire pairs. LTE was tested successfully in Croatia and Bulgaria. In Croatia, Vipnet achieved a new world record for high-performance data transfer. As part of a live demonstration, transmission rates of up to 4.3 Gb/s were achieved on the basis of the latest standard in hybrid-fiber-coax (HFC) network. In addition to an upgrade to HSPA+, the mobile network was also upgraded to UMTS900 technology in Slovenia and the Republic of Macedonia. In Belarus, not only HSPA+ but also the latest dual carrier HSPA (DC-HSPA) were implemented successfully.

Through partnerships in national and international forums as well as application-focused research partnerships with members of the scientific and industrial communities, Telekom Austria integrates different approaches to future information and communication technologies to develop market and customer-oriented communication solutions. Telekom Austria Group currently has research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the University of Vienna and with the Technical University Sofia. Beyond its own sphere, A1 Telekom Austria AG also encourages new companies in their innovations by providing expertise and infrastructure though the start-up initiative it established in 2012.

Sustainable Corporate Governance

The corporate strategy of Telekom Austria Group aims to achieve a sustainable increase in corporate value, while taking into account all relevant economic, ecological and social aspects. Commitment to compliance with the Austrian Corporate Governance Code and application of the Internal Control System, the Code of Conduct and of compliance guidelines support this objective. An integrated CSR management system, specific 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.

Modern information and communication technologies help to replace CO_2-intensive products and services and consequently play a key role in dealing with climate change. The infrastructure of Telekom Austria Group also represents a key foundation for electromobility and the development of intelligent power networks, so-called "Smart Grids". However, through the efficient use of resources such as electricity, fuel and heating and the recycling of waste, Telekom Austria Group is also reducing its own CO_2 emissions; it also participates in various national and international initiatives to lower CO_2 emissions. A1 Telekom Austria AG's energy management system has been certified in accordance with EN ISO 50001 since 2009 and was the first company in Austria to achieve this.

The Company's social responsibility focuses on enabling each individual to participate in the knowledge-based society. The Austrian-wide "A1 Internet for All" initiative was started for this purpose in 2012, for instance. This initiative, which comprises free internet access for special stakeholder groups as well as customized training programs, will enable people who were previously excluded from the knowledge-based society to participate equally and without barriers.

Shareholder Structure and Disclosures on Share Capital

On December 31, 2012, 48.81% or 216.2 million Telekom Austria AG shares were classified as free-float compared to 56.56% or 250.6 million shares in the previous year. As in 2011, 0.10% or 0.4 million shares were held by the Company. The remaining stake amounting to 51.18% or 226.8 million shares was held by the Republic of Austria through ÖIAG (28.42%) and América Móvil (22.76%).

The most important changes in the shareholder structure were as follows:

- On January 16, 2012, RPR Privatstiftung, Vienna, reported that it held a direct and indirect stake totaling 15.02% of the shares of Telekom Austria AG. RPR Privatstiftung also held call options for 5.10% of the share capital of Telekom Austria AG indirectly via its venture capital organisation Marathon Zwei Beteiligungs GmbH, Vienna. Consequently, 20.12% of the shares in Telekom Austria AG were attributable directly and indirectly to RPR Privatstiftung.

- On June 15, 2012, América Móvil S.A.B. de C.V., Mexico ("América Móvil"), reported a direct and indirect stake totaling 6.75% of the share capital of Telekom Austria AG. This direct and indirect stake was consisted of the following: América Móvil held 7,935,700 shares or 1.79% of Telekom Austria AG's share capital directly. Moreover, América Móvil acquired 21,977,284 shares or 4.96% of the share capital of Telekom Austria AG indirectly via its 100% subsidiary AMOV Europe B.V. ("AMOV"), Netherlands on June 15, 2012. AMOV is a 100% subsidiary of Sercotel S.A. ("Sercotel"), Mexico, which is wholly owned by América Móvil.

- On September 25, 2012, América Móvil Europa B.V., Netherlands, reported that it had purchased 16.01% of the shares in Telekom Austria AG from a venture capital organization owned by RPR Privatstiftung, Vienna. On completion of this share purchase agreement, América Móvil held a total of 100,836,874 shares or 22.76% of the share capital of Telekom Austria AG directly and indirectly. As Telekom Austria AG was informed on June 15, 2012, RPR Privatstiftung continued to hold 64,721 Telekom Austria AG shares, which equals 0.015% of the share capital, directly following completion of this share purchase agreement. There have been no further reports of changes concerning this transaction since then.

Several financing agreements contain "change-of-control" clauses, which can ultimately lead to the termination of the contract and involve about half of the funds raised. None of these clauses applied in the financial year 2012. Apart from these, the Company has not entered into any significant agreements that will become effective, change or be terminated as a result of a takeover bid or of a change of control in the Company as a result of a takeover bid. The volume financial funds subject to such clauses has slightly increased compared with the previous year.

The voting rights attached to shares held by employees, which are held in a collective custody account, are exercised by a notary public.

Risk Management

Risk management at Telekom Austria Group focuses on market and competitive risks, interventions by regulators and uncertain legal situations, which could influence the Company's success as well as maintaining a high level of availability and reliability for the services and products offered. 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. Telekom Austria Group's overall risk situation is derived from the sum of all individual risks.

In addition to the Austrian fixed line and mobile communication markets, Telekom Austria Group also holds a leading position in seven other international telecommunication markets, which ensures both sectoral and broad geographical diversity. As the individual markets of 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 combined in a risk report, on the basis of which measures are drawn up and implemented to reduce and avoid risk exposure. The effectiveness of such measures is then monitored in a second step. Proper risk control is achieved by interlocking business planning and risk management.

Risk management at 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 mitigate them determined 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 position and financial performance Telekom Austria Group are explained below. In 2011, Telekom Austria Group also appointed a Compliance Officer to eliminate the relevant risks.

Market and Competitive Risks

A high level of competition, which is increasingly noticeable in the Group's foreign markets, results in sharp price cuts in both mobile communication and data traffic. There is a risk that growth in traffic volumes will not be able to offset these price cuts. Decreasing prices for mobile communication also accelerate fixed-to-mobile substitution. The Group successfully addresses this risk with attractive product bundles, a focus on the high-quality customer segment and by expanding its convergent corporate strategy to include foreign markets.

The economic and financial crisis created a volatile macroeconomic environment on Telekom Austria Group's operating markets. Monitoring the key macroeconomic 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, Telekom Austria Group is considered to fall into this category in several sub-markets, and 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 products and product bundles. There is also the obligation to open up access to infrastructure and to fixed line services for alternative providers. Additional regulatory decisions and a possible reduction in mobile and fixed termination rates could negatively impact the earnings performance of Telekom Austria AG and its subsidiaries.

In 2011, the European Union decided to introduce additional comprehensive regulatory measures for intra-community roaming tariffs as part of its third Roaming Regulation, which came into effect on July 1, 2012. The new Regulation provides for a structural solution, allowing customers to choose a provider for roaming services independently from the national operator. This measure aims to enhance additional competition between operators in Europe from 2014. Price regulation is also continued for voice, SMS and data services. These regulations affect Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria, and Croatia, as soon as the country joins the EU.

Telekom Austria AG and its subsidiaries are party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the Company, enable the Group to identify problems early on and develop measures to counteract them. For the purpose of clearing up compliance violations from the past, an independent panel of experts has been commissioned to carry out forensic investigations. The results of these investigations will be taken into due consideration within the framework of the Company's compliance risk management.

Financial and Economic Risks

Telekom Austria Group is exposed to liquidity, credit, currency, transfer and interest-rate risks. Medium and long-term financing instruments in a variety of currencies and with different legal frameworks can only limit these risks. A liquidity reserve is therefore held in the form of lines of credit and cash in order to safeguard solvency and financial flexibility. Telekom Austria Group's financing company, Telekom Finanzmanagement GmbH (TFG), employs derivative financial instruments to manage sustained fluctuations in interest rates and minimize the risk of currency translation effects. For this purpose a control environment has been created, which includes guidelines and procedures for the assessment of risks, the approval, reporting and monitoring of the applied derivative financial instruments. The guidelines in question prohibit the holding or issue of financial instruments for speculative purposes. The value-at-risk models used serve to quantify the market risk of long-term debt and derivative instruments. In 2003 and 2011, Telekom Finanzmanagement GmbH entered into interest rate swaps. Business activities in Belarus, which has been classified as a hyperinflationary economy since 2011, as well as business activities in Bulgaria, Croatia, the Republic of Serbia and the Republic of Macedonia imply that foreign currency losses cannot be eliminated in the future either.

Credit Risks

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, Telekom Austria Group tests assets, in particular equity investments 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.

Technical and Geographical Risks

Maintaining a high level of availability and reliability for the services and products offered is a key aspect of risk management, as a host of threats, 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. In December 2012, the Management Board issued a directive, which ensures a uniform methodology is used in recognizing and managing the most important risks to which operating processes are exposed.

Employees

On December 31, 2012, Telekom Austria AG and its subsidiaries employed 16,446 staff, representing a decrease of 4.5% compared to the end of the previous year (December 31, 2011: 17,217). On 31 December 2012, Telekom Austria AG had a workforce of 164 employees (December 31, 2011: 164).

With a view to maintaining its competitiveness and innovative strength, Telekom Austria Group continuously invests in further education and professional training for its staff. In autumn 2010, the Telekom Austria Group Business School was set up as a centralized in-house training and educational institution. To date, some 1,850 employees have made use of this institute. In addition to the training offered by this centralized training and educational institution, the individual subsidiaries have also developed their own further education and training programs that are tailored to the needs of their respective markets.

Internal Control System for Financial Reporting

Even after delisting from the New York Stock Exchange in 2007, Telekom Austria Group has retained its Internal Control System for financial reporting (ICS) and thus complies with relevant legal requirements. The ICS should ensure adequate assurance regarding the reliability and accuracy of external financial reporting in accordance with international and national standards. Regular internal reporting to management and audits of the Internal Control System by Internal Audit also ensure that weaknesses are identified promptly and in real time and communicated appropriately. The most important contents and principles apply to all of Telekom Austria AG's subsidiaries. Each important financial transaction has a risk and control matrix behind it to ensure that financial reporting is accurate and complete. The effectiveness of this system is surveyed, analyzed and evaluated at regular intervals. At the end of the year, management evaluates the relevant companies 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, 2012.

Subsequent Events

On February 2, 2012, Telekom Austria AG and A1 Telekom Austria AG agreed to acquire assets of up to EUR 390.0 million from Orange Austria Telecommunication GmbH ("Orange Austria"). The acquisition includes the following assets:

- 2 x 13.2-MHz frequencies in the 900-MHz, 2,100-MHz and 2,600-MHz frequency range by A1 Telekom Austria AG
- a company into which the base stations will be merged into, by Telekom Austria AG,
- collocation rights to base stations by A1 Telekom Austria AG
- the mobile phone operator YESSS! Telekommunikation GmbH ("YESSS!") by Telekom Austria AG
- certain intangible property rights, including the "One" brand, by A1 Telekom Austria AG

On January 3, 2013, Telekom Austria AG completed the acquisition of "YESSS!" and A1 Telekom Austria AG acquired intangible property rights from "Orange Austria". The remaining assets will be acquired gradually.

On February 1, 2013, Telekom Austria AG issued a subordinate hybrid bond with a volume of EUR 600 million and an indefinite maturity. Apart from certain conditions being met, redemption can occur only after a period of five years during which the annual coupon will amount to 5.625%. Coupon payments can be deferred.

Outlook

The activities and earnings of Telekom Austria AG and its subsidiaries are affected by a series of external factors. Fierce competition is the main factor influencing the Group's main markets Austria, Bulgaria and Croatia, and this will persist for the foreseeable future. In the home market, Austria, the deterioration of mobile pricing continues to spur the ongoing fixed-to-mobile voice substitution and hampers fixed line data tariff initiatives. Regulatory burdens, such as the reduction in roaming tariffs and in national and international mobile termination rates, continue to have a negative impact in all major markets.

It is assumed that the economic headwind will remain strong in all of Telekom Austria Group's important Central and Eastern European markets. This will continue to affect customer demand and pricing levels. Markets such as Belarus and the Republic of Serbia are also expected to exhibit continued foreign exchange volatility.

Telekom Austria Group's management will counter these challenges by continuing the successful convergence strategy and focusing clearly on the high-quality customer segment in the Group's developed markets. In pure mobile communication markets, Telekom Austria Group will also continue to concentrate on achieving its targets for growth.

Vienna, 18 February 2013

The Management Board

Chairman Dr. Hannes Ametsreiter

Deputy Chairman Mag. Johann Tschuden

Report on the Financial Statements

We have audited the accompanying financial statements, including the accounting system, of

Telekom Austria Aktiengesellschaft,
Vienna,

for the fiscal year from **1 January 2012 to 31 December 2012**. These financial statements comprise the balance sheet as of 31 December 2012, the income statement for the fiscal year ended 31 December 2012, and the notes.

Management's responsibility for the financial statements and for the accounting system

The Company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance for the year from 1 January 2012 to 31 December 2012 in accordance with Austrian Generally Accepted Accounting Principles.

Report on other legal requirements (Management Report)

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

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

Vienna, 18 February 2013

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

DDr. Martin Wagner	Mag. Rainer Hassler
Wirtschaftsprüfer	Wirtschaftsprüfer

(Austrian Chartered Accountants)

Report by the Supervisory Board

Ladies and Gentlemen,

In the 2012 financial year the Telekom Austria Group was again faced with major challenges, analogous to the entire telecommunications industry. Intense competition across all markets, radical regulatory provisions and the strained macroeconomic situation impacted the course of business. Despite this strong headwind the Group enjoyed significant success from an operational perspective. The strategy of promoting convergent communication solutions was successfully implemented in the markets of Austria, Bulgaria and Croatia, while substantial mobile customer growth was recorded in Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. In addition, effective measures were realised to improve operational excellence and company-wide cost savings, and to thus curb the influence of negative external factors.

However, activities in the 2012 financial year also focused on the resolution of past misconduct. The Group compliance management system was reinforced and complemented with effective instruments. Major developments included an update of the Code of Conduct and the introduction of a platform for whistleblowing which allows information on potential misconduct to be reported anonymously. The Control Committee of the Supervisory Board, which was set up in 2011 with the aim of investigating and preventing fraudulent activities at Telekom Austria Group, came together three times in 2012 to analyse in depth past allegations of corruption and misconduct. It concluded its activities in September 2012, having completed its investigation.

Furthermore, América Móvil's acquisition of a stake in Telekom Austria AG in 2012 led to a significant change in the shareholder structure.

In 2012 the Supervisory Board also held extensive discussions on the strategic orientation, the most important fields of innovation and the business development of the Telekom Austria Group and its subsidiaries at nine meetings and one strategy workshop.

Together with the Management Board, the Supervisory Board prepared resolutions to be put forward to the Annual General Meeting on 23 May 2012. The shareholders attending this Annual General Meeting were also given a report on the forensic investigations initiated in 2011 in order to clarify past cases of misconduct and suggest improvements to the existing compliance system. In addition, Ronny Pecik was elected to the Supervisory Board; he was subsequently elected by the Supervisory Board to serve as Deputy Chairman.

The staff association nominated Silvia Bauer to the Supervisory Board with effect from 26 July 2012.

The Extraordinary General Meeting held in October 2012 elected Oscar Von Hauske Solís to the Supervisory Board with effect from 23 October 2012. I was also elected to the Supervisory Board at this meeting and succeeded Markus Beyrer as Chairman of the Supervisory Board with effect from 1 November 2012. I would like to take this opportunity to thank Markus Beyrer for his outstanding commitment to the Telekom Austria Group.

At its meetings in September and October 2012 the Supervisory Board discussed the market situation in Austria in detail. The strategy workshop was used to discuss the conditions, strategic opportunities and challenges facing the company, as well as the options for action with regard to optimising its financial structure. The main objectives of the corporate strategy include stabilising the earnings situation in saturated markets and leveraging growth potential in Telekom Austria Group's growth markets. Convergence is a central pillar of the overall strategy. A further aim is to secure the Group's earnings strength through further improvements in efficiency.

The budget for 2013, the business plan for the period 2014 to 2016 and a discussion of the financial strategy and dividend policy were the main topics of discussion at the Supervisory Board meeting in December 2012.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ÖCGK) and to responsible corporate management and control aimed at generating sustainable enterprise value. The Supervisory Board has laid down extensive criteria for determining the independence of its members. All of the shareholder representatives have declared their independence in accordance with Rule 53 of the ÖCGK, while nine of the ten members of the Supervisory Board have declared their independence in accordance with Rule 54 of the ÖCGK. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ÖCGK.

In accordance with Rule 62 of the ÖCGK, Telekom Austria Group's compliance with the provisions of the ÖCGK and the accuracy of its reporting are evaluated externally every three years. The most recent evaluation, which was carried out by KPMG in early 2011, identified no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2010 financial year concerning observance and compliance with the "Comply or Explain" rules or the recommendations of the ÖCGK.

In 2012 the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the annual financial statements and the quarterly reports as well as performing 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 single-entity and consolidated financial statements for 2012, the Audit Committee also received regular reports on the findings of the audit procedure for both reports. Auditors and audit committee were also able to interact without Management Board members being present. As part of its reporting, KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee in accordance with section 270 (1a) of the Austrian Commercial Code. The outcome of the meetings of the Audit Committee was communicated to the Supervisory Board on a regular basis.

The annual financial statements of Telekom Austria AG and the consolidated financial statements for the year ended 31 December 2012 were issued with unqualified audit opinions by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Management Report and the Group Management Report are consistent with the annual financial statements and the consolidated financial statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the annual financial statements for 2012, which have therefore been adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act. After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the consolidated financial statements prepared in accordance with the IFRSs as prescribed by section 245a of the Austrian Commercial Code, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal that net profit be appropriated to distribute a dividend of 5 Eurocent per eligible share for the 2012 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the members of the Management Board and all our employees for the commitment they have shown in a challenging 2012 financial year. I would also like to assure Telekom Austria AG's shareholders that the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group in future.

Rudolf Kemler
Chairman of the Supervisory Board

Vienna, February 2013

MEMBERS OF THE SUPERVISORY BOARD

Name (year of birth)	Other Supervisory Board positions and comparable functions	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
Markus Beyrer, Chairman (1965)		19.5.2011	31.10.2012	Independent pursuant to Rule 53 but not Rule 54
Henrietta Egerth-Stadlhuber (1971)		20.5.2008	2013*	Yes
Franz Geiger (1950)		19.5.2011	2013*	Yes
Edith Hlawati, Second Vice Chair (1957)	Österreichische Post AG	28.6.2001	2013*	Yes
Rudolf Kemler, Chairman (1956)	Österreichische Post AG (Chairman), OMV AG (Chairman), Société Horologère Reconvilier AG, Webster University Vienna	1.11.2012	2013*	Independent pursuant to Rule 53 but not Rule 54
Peter J. Oswald (1962)		20.5.2008	2013*	Yes
Ronny Pecik, First Vice Chair (1962)		23.5.2012	2013*	Yes
Wolfgang Ruttenstorfer (1950)	Vienna Insurance Group AG, Wiener Versicherung Group (Chairman), Flughafen Wien AG, CA Immobilien Anlagen AG (Chairman), RHI AG, NIS a.d. Novi Sad	27.5.2010	2013*	Yes
Wilfried Stadler (1951)	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	15.7.2005	2013*	Yes
Harald Stöber (1952)	Sirrix AG (Chairman), Vodafone D2 GmbH, Vodafone Holding GmbH, Medfort Sarl, Lux, Perseus SA	4.6.2003	2013*	Yes
Oscar Von Hauske Solís (1957)	América Móvil S.A.B. de C.V., Teléfonos de México S.A.B. de C.V., Participações S.A, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA, Hildebrando Software	23.10.2012	2013*	Independent pursuant to Rule 53 but not Rule 54

Members of the Supervisory Board delegated by the Works Council

Silvia Bauer (1968)		26.7.2012		
Walter Hotz (1959)	Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Tele-Post, Privatstiftung, APK Pensionskasse AG	Reappointed on 6.5.2011		
Werner Luksch (1967)	Österreichische Industrieholding AG	3.8.2007 to 20.10.2010, reappointed on 11.1.2011		
Alexander Sollak (1978)		3.11.2010		
Gottfried Zehetleitner (1962)		27.10.2010		

* The term of office ends at the Annual General Meeting on 29 May 2013, which deals with the 2012 financial year.

Declaration of the Management Board

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

The Management Board

Hannes Ametsreiter,
Member of the Management Board since January 1, 2009,
Chairman of the Management Board since April 1, 2009,
appointed until December 31, 2016

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